



BOSTON BOROUGH COUNCIL

CABINET: 20 FEBRUARY 2019

**REPORT OF AARON SPENCER, FINANCE PORTFOLIO HOLDER
(Author: Chief Finance Officer)**

**BUDGET SETTING REPORT AND MEDIUM TERM FINANCIAL STRATEGY (MTFS)
2019/20 – 2023/24**

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FOREWORD TO THE BUDGET FROM COUNCILLOR AARON SPENCER – FINANCE PORTFOLIO HOLDER

Times are still extremely tough for Councils across the country, as they play their part in assisting the national spending situation as the Government continues to reduce the national budget deficit. Using the Government's figures, the real change in Boston's Core Spending Power across the four years to 2019/20 is -20%, with grant reductions well in excess of this. Since 2016 this Council has used the refresh of its Transformation Programme to manage the local impact of reducing resources, and will have reduced its annual net revenue budget by over £2million in the period to 2020 as Government Grant is withdrawn. In 2019/20, further savings of £312,000 have been identified, ensuring a balanced budget is proposed. The Transformation Programme has ensured that the Council continues to provide the services it is required to by law, whilst also supporting the Borough's most vulnerable residents and investing in the local economy. It will continue to strive to be as efficient as possible in all its work, building on partnership working where possible, whilst ensuring it maximises the income it receives.

Having taken advantage of the Government's four-year Settlement announcement, the final year of which is 2019/20, the Council is entering the period beyond that, with a new financial regime from 2020/21 following the upcoming Fairer Funding review, the proposed introduction of 75% localisation of business rates and the revised funding formula, in a reasonable position, although the recent closure of one of the largest local businesses highlights the difficulties that the economy faces. Whilst the recent Budget set out the Government's overall public sector spending figures for the coming years, the 2019 Spending Review will allocate resources between government departments, giving councils a better understanding of the likely resources available in the medium term. These changes mean that there are additional risks to future funding levels which will require careful management. Therefore, the financial position for the Council, whilst modelled in this report on an as-is basis, may well turn out to be rather different by the end of the forecast period. The new Council to be elected in May will have to be clear about its priorities and make resource allocation decisions accordingly.

There continue to be a number of significant areas of uncertainty for the Council's finances in the coming years, including the impacts of the Brexit process, local government funding changes, and the 2020 Business Rate revaluation outcomes locally. The Council's risk management processes are robust, and alongside the annual budget the quarterly performance reporting process will provide updates on the impacts experienced as things become clearer.

Major local announcements during 2018/19 include the commencement of work on the £100m Boston Barrier which is expected to be complete by the end of 2020; progress with the Quadrant development; work towards adoption of the South East Lincolnshire Local Plan; the relocation of the Department for Works and Pensions, Lincolnshire Community and Voluntary Services and the Citizens' Advice Bureau to the municipal buildings; and the approval by the Council of borrowing for the first time in a number of years as it looks towards the medium to longer term and how it might meet its capital spending priorities without further pressure being placed on already squeezed revenue budgets.

In developing the Council's budget proposals for 2019/20, it has managed inflationary pressures on its operational costs and pressures on some areas of income collection. Areas where net budget reductions have been delivered to produce a balanced budget include Leisure Services and Planning.

In order to deliver its statutory budgetary duty from 2020/21 and develop proposals for a financially secure medium term, the Council will continue to seek innovative opportunities to achieve the budget reductions necessary to deliver balanced budgets annually without adversely affecting service delivery and compromising on its priorities, and reports will be presented for deliberation and approval as projects are worked up. This will mean a refresh of the Transformation Programme once the future funding position becomes clearer.

In line with the Government's referendum principles, the budget for 2019/20 proposes an increase in Boston Borough Council's Council Tax of 2.99%. This will give an average band D Council Tax increase of just under 10 pence per week, with nearly 90% of households paying less than this. This budget is designed to meet the Council's challenges and responsibilities, and ensure that the best possible services continue to be provided to Boston's residents, businesses and visitors.

EXECUTIVE SUMMARY:

	2018/19	2019/20
Boston Borough Council Precept	£3,435,810	£3,618,029
Council Tax Increase	2.98%	2.99%
Council Tax Band D	£183.60	£189.09
Government Funding (RSG, Specific Grants and NHB)	£1,725,020	£1,973,550
Boston Town Area Committee Special Expense Account *	£654,694	£680,303
Earmarked Reserves (at 1 April)	£8.741m	£9.820m

* The 2019/20 figure for Boston Town Area Committee (BTAC) is the one recommended at its meeting on 9 January.

SAVINGS REQUIREMENTS:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Budget Savings Requirement (£'000) – cumulative	-	538	548	634	887
Budget Savings Requirement (£'000) – annual	-	538	10	86	253

1. INTRODUCTION

- 1.1 This report outlines the 2019/20 revenue and capital position for the General Fund and proposals for the setting of discretionary fees and charges. The purpose of the report is to ask Members to recommend the 2019/20 estimates (along with associated Policies and Strategies) and council tax level to the Council for formal approval, and for Members to be advised on the projected financial position through to 2023/24. The final settlement figures were published on 29 January 2019, with no changes from those provisionally announced in December for Boston.
- 1.2 The Local Government Act 2003 introduced a requirement for the Chief Financial Officer to report on the robustness of the budget. The estimates have been prepared in a prudent manner, although it should be recognised that there are a number of elements outside of the Council's control. Assessing the projected 2018/19 outturn position informs the reliance we can place on the baseline we use for setting the 2019/20 estimates. Officers believe the outturn for 2018/19 will be broadly in line with the budget. Key risks have been identified in section 10 of this report and will be mitigated through the regular budget monitoring and risk management processes in place at the Council.
- 1.3 This year's Medium Term Financial Strategy is set at a time of continuing significant uncertainty, change and financial challenges for local government, with issues such as welfare reform, responding to reductions in Central Government funding (with a greater emphasis on business and housing growth), the 2019 Spending Review, and the commitment to a new funding regime from 2020/21 all contributing to the scale of the challenges the Council faces.
- 1.4 There are also significant changes affecting business rates. Some have already been introduced (the part-localisation of the regime from April 2013 and the 2017 revaluation exercise) and others (the proposal to further devolve business rate incomes to councils and a reset of the baseline position) are yet to come into full effect. Their impacts include the positive financial effect of growth in the local rateable value on the Council's resource base, but this comes at a price, with increased uncertainties surrounding the extent of appeals and the ability to accurately forecast income into the future.
- 1.5 All of these changes create both opportunities and downside risks to the Council, and are reflected in the Strategy.

2. BUDGET ASSUMPTIONS

Table 1 – Assumptions which influence the five year financial strategy

Assumption	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Budgeted inflation ¹	0%	0%	0%	0%	0%	0%
Pay costs increase ²	2% from scp 12	2% from scp 12	2%	2%	2%	2%
Full Time Equivalent Employees ³	271.1	262.9	261.1	258.1	258.1	258.1
Pension contribution rate ⁴	26.2%	27.2%	28.2%	29.2%	30.2%	31.2%
NI contribution rate ⁵	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%
Return on cash investments	0.7%	0.9%	1.20%	1.35%	1.35%	1.50%
Return on property funds	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%
Staffing levels	99%	99%	99%	99%	99%	99%
Tax base ⁶	18,713.60	19,133.90	19,325.2	19,518.5	19,713.7	19,910.8
Fuel cost rises ¹	8%	3%	3%	3%	3%	3%

1. 0% used except for utilities/fuel where 8% has been used for 2018/19 due to revised contract prices and then 3% per annum thereafter reflecting the price risk for these areas and also taking into account any gains from both climate change and transformational activity by the Council which are likely to lead to reduced consumption.
2. The pay increase for 2019/20 is based on the National Employers' offer made to trade unions covering the period 1 April 2018 to 31 March 2020. Lower pay points are set at £8.50 per hour in order to continue to close the gap with the National Living Wage. A flat-rate increase of 2% is included for higher pay points for 2018/19 and 2019/20. A flat 2% has been included for 2020/21 onwards.
3. It is recognised that some projects within the Transformation programme could potentially further affect staffing numbers in future years. Until business cases are worked-up it is not possible to make further assumptions on any changes.
4. The pension contribution rate is based on an employer's contribution rate of 16.6% for 2019/20 and 16.9% from 1 April 2020, plus an annual monetary contribution. Table 1 shows the equivalent % contribution rates, with a further 1.0% p.a. increase projected from 2021/22 as detailed in the pension triennial valuation report for April 2017.
5. The National insurance contribution is included at 13.8%; however this may change over the five years.

6. The tax base used for Council Tax setting is calculated as prescribed by statute, with responsibility for the setting of the tax base delegated to the Council's Section 151 Officer. The tax base for 2019/20 is 19,133.9 and for estimation purposes has been increased by 1% per annum thereafter. This may increase if the recent number of planning applications deliver additional Band D equivalent properties above the assumption, and will be reflected in the annual budget figures as appropriate.

3. RESOURCES

Business Rates Retention

- 3.1 Table 2 details the Council's retained business rates for 2019/20, based on the final local government settlement, the final year of the four-year settlement period.
- 3.2 Under the current part localisation regime, where the Council collects more business rates than the baseline set by Central Government, a levy of 50% is applied and paid to Central government. A way to avoid this levy to Central Government is to pool business rates with a County Council, and, as in 2016/17 and 2017/18, Boston has entered into a voluntary pooling arrangement for 2019/20 with Lincolnshire County Council and some of the District Councils in the area (in 2018/19, the Council was part of a successful bid across the county to be a pilot for 100% localisation, but unfortunately was not chosen to be a 2019/20 pilot).
- 3.3 The Government has announced that business rates will become 75% retained by councils by 2020, with proposals for a new funding system for local authorities due to be in place from 2020/21. Consultation papers on the localisation and Fairer Funding proposals were published with the provisional settlement (**Appendix 10**), and impacts will be reported as the regime is developed. Three yearly revaluation periods are set to be introduced from 2020.
- 3.4 In addition to the 2017 national revaluation, a new procedure for appeals has been introduced. Information on its impact continues to be limited to date, and there is a possibility that the actual situation will be significantly different from that included in the forward estimates which may require the Council to adjust its forecasts in light of the outcome.
- 3.5 The Council's appointed auditors reported in their Report to Those Charged with Governance (presented to the Audit and Governance Committee in July 2018) that they considered the Council's approach to be very cautious, and this was taken into account as part of the annual review of the likely sum needed to be provided. The outcome is that part of the amount previously held in the Collection Fund will be released to the General Fund as a one-off, and placed in Reserves to provide the Council with resource to enable it to help manage future risks. Table 11 in section 7 of this report sets out the revised position.
- 3.6 As a consequence of the part localisation of the business rate regime the Council recruited a Business Rates Assurance Manager to ensure that the list is complete and accurate. The cost of the officer is funded from additional business rate income to the Council, and outcomes from that area of work are reported as part of the quarterly monitoring process, with significant positive impacts to the Council to date during a time when there were numerous challenges to the list.

Table 2 – Business Rates

	2018/19 £'000	Draft 2019/20 £'000	Draft 2020/21 £'000	Draft 2021/22 £'000	Draft 2022/23 £'000	Draft 2023/24 £'000
Retained Business Rates	11,714	7,904	8,364	8,534	8,628	8,628
Tariff	(7,959)	(5,055)	(5,156)	(5,259)	(5,364)	(5,364)
Pre Levy Income	3,755	2,849	3,208	3,275	3,264	3,264
Renewable Energy (100% retained by Boston BC)	205	111	141	144	146	149
Less net levy payment to Lincolnshire Pool	-	(257)	-	-	-	-
Levy Account Surplus – Settlement Data	-	41	-	-	-	-
Estimated Business Rates (Deficit) / Surplus	(395)	1,569	-	-	-	-
Equals Net Retained Business Rates Income	3,565	4,313	3,349	3,419	3,410	3,413

- 3.7 The estimated business rates surplus for 2019/20 in Table 2 above is largely due to the reduction in the sum held in the Collection Fund's appeal provision at the end of 2018/19, following a review of the likely sum required.
- 3.8 In the 2018 Budget, the Chancellor announced support for retail businesses that reduces the amount of business rates shown in the table above for 2019/20 and 2020/21; compensating Section 31 grant money will be received by the Council to offset this.
- 3.9 The future business rate projections are in line with the inflation indices used by the Government. To illustrate the potential impact should these rates not materialise, uplifts of 2% p.a. would reduce the Council's retained business rates by approximately £120,000 by 2023/24. The annual MTFS refresh will provide updates on the projections, but they are included here to indicate some of the extent of uncertainties in the Council's future resource base inherent in the localisation regime. Also, in the November 2017 Budget the Chancellor announced a change to the method of indexation for business rates, to CPI, the cost of which will be reimbursed to councils through section 31 grant.

3.10 From 2020, the three-yearly revaluation basis could present risks to the Council's future funding position, depending on its growth in relation to the rest of the country between revaluations and the details of how the regime will operate.

Council Tax

3.11 Since 2013/14, the Council has revised its exemptions and discounts for Council Tax to recover the reduced funding as part of the Council Tax Support (CTS) scheme, and on 21 January 2019 the Council approved its CTS scheme for 2019/20.

3.12 The Council Tax element of the Collection Fund has been calculated based on the 2018/19 scheme, leaving a budget neutral position. This will be reviewed throughout the year, and collection rates assessed. The MTF5 assumes an increase in the Borough's council tax of 2.99% for 2019/20, then circa 2% p.a. thereafter. The surplus in 2019/20 is as a result of additional properties being built during 2018/19 above the estimated figure.

Table 3 – Council Tax

	2018/19	2019/20	2020/21	2021/21	2022/23	2023/24
	No. Of properties	No. Of properties	No. Of properties	No. Of properties	No. Of properties	No. Of properties
Council Tax base (Band D equivalents)	18,713.60	19,133.90	19,325.2	19,518.5	19,713.7	19,910.8
	£	£	£	£	£	£
Council Tax Band D	183.60	189.09	192.78	196.56	200.43	204.39
Annual Increase £	5.31	5.49	3.69	3.78	3.87	3.96
Annual Increase %	2.98	2.99	1.95	1.96	1.97	1.98
Gross Council Tax collected	3,435,817	3,618,029	3,725,512	3,836,557	3,951,217	4,069,568
In year Surplus / (deficit)	110,710	29,610	-	-	-	
TOTAL	3,546,527	3,647,639	3,725,512	3,836,557	3,951,217	4,069,568

Revenue Support Grant (RSG) and Section 31 Grants

Table 4 – RSG and Section 31 Grants

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue Support Grant	-	342	-	-	-	-
Rural Services Grant	-	85	-	-	-	-
Brexit Preparation Grant	-	17	17	-	-	-
S31 NNDR reliefs including SBRR	1,113	808	715	729	744	750
Total Received	1,113	1,252	732	729	744	750

- 3.13 Following the announcement of four year figures in 2016/17, significant reductions of Revenue Support Grant (RSG) have occurred in recent years, and from 2020/21 it has been phased out as a result of the extension of the localisation of business rates regime.
- 3.14 As part of the plans for further local retention of business rates, Revenue Support Grant has been removed from 2020/21 as have all other support grants from Government. Business rates reliefs have been left in for illustrative purposes until more detail is known.
- 3.15 In March 2016, the Government announced it would make the exempting of small businesses from business rates permanent, and the table above reflects the estimated reimbursement from government for Boston's share of this cost.
- 3.16 As part of the 2016/17 four year settlement, the Government gave some recognition to the additional costs of providing services in rural areas, with affected councils receiving amounts of Rural Services Grant over the period to 2019/20; Boston's element is shown in the table above (in 2018/19 this was incorporated into the pilot localisation figures).
- 3.17 The Government announced in late January 2019 that £56.5m was being made available to councils nationally to help them deal with Brexit, with Boston's share being £17,500 for each of the 2018/19 and 2019/20 years. Further announcements are expected as the process progresses.

New Homes Bonus

- 3.18 The New Homes Bonus (NHB) was introduced in order to provide a clear incentive to local authorities to encourage housing growth in their areas. The Government then published a consultation paper in December 2015 “New Homes Bonus: Sharpening the Incentive” in order to make changes to the scheme from a system with no controls to one that is cash-limited each year. Key changes introduced in 2017/18 were:
- A move to four-year payments for both existing and future NHB allocations from 2018/19.
 - Introduction of a national baseline of 0.4%, for 2017/18 and 2018/19, below which allocations will not be made.
 - Government will also retain the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth.
 - Allocations will continue to be un-ring fenced.
- 3.19 For 2019/20, the Government has retained the 0.4% baseline, and announced that New Homes Bonus is planned to be phased out over the next four years.

Table 5 – New Homes Bonus estimates

Boston BC share	2018/19	Draft 2019/20	Draft 2020/21	Draft 2021/22	Draft 2022/23	Draft 2023/24
	£000	£000	£000	£000	£000	£000
TOTAL	613	721	572	482	289	0

- 3.20 It is expected that the Government will introduce a revised future incentive for councils to promote local growth, although no details have been published yet.
- 3.21 In line with the Council’s existing policy, the MTF5 assumes that 50% of NHB will be transferred into the Capital reserve each year, with the remaining 50% used to support the Council’s revenue budget until 2023/24 where a nil receipt of New Homes Bonus is assumed.

Fees and Charges

- 3.22 Income from fees and charges is an important source of revenue for the Council, representing over 12% of the gross income budgeted in 2019/20. Charges have a central role to play in service delivery, raising income, controlling access, responding to competition, funding investment and affecting behaviour.
- 3.23 For 2019/20, there are no significant fee increases from 1 April 2019. The fees and charges charged in 2018/19 are shown at <http://modern.gov.boston.gov.uk/documents/s4278/Appendix%204%20-%20Fees%20and%20Charges.pdf>
- 3.24 As part of the annual review, and following the installation of new gym equipment at the Geoff Moulder Leisure Centre, budgeted income levels have been increased to reflect expected volumes.
- 3.25 The Planning fee income budget has been revised upwards following the recent increase in the number of applications received, and expected to be received in the coming year, along with a new charge for the issuing of a certificate of lawful use.
- 3.26 Fees and charges are set within the framework of the Corporate Charging Policy, which is attached at **Appendix 3**.
- 3.27 As part of the broader moves to commercialisation across the Council, in line with many other authorities as they respond to the increasing challenges of diminishing resources, it is recognised that, in accordance with the Corporate Charging Policy, in-year variances to the approved fees and charges on a trial basis, within the approved budget framework, can be made. Any such changes will then be reported in the next quarterly monitoring report.
- 3.28 **Appendix 4** shows the proposed fees and charges to be charged from 1 April 2019. Once these changes have been approved the full list of Council fees and charges applicable for 2019/20 will be published on the Council's website.
- 3.29 The following table shows the main income budgets from fees and charges for Boston, before any consideration of possible increases beyond 2019/20 as part of balancing net budget and resources in those years. At this time assumptions for the majority of these areas are that income levels will not increase within the period of the MTFs, and this will be revisited as part of the annual Budget and Strategy refresh. Given the scale of Transformation savings required in the coming years, it is likely that future years will see rises in some fee areas.

Table 6 – Fees and charges income budgets

Budget Area	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
Leisure income	826	961	996	996	996	996
Building control	184	183	183	183	183	183
Licensing	121	122	122	125	125	125
Land charges	99	99	99	99	99	99
Bereavement	803	828	852	876	900	925
Garden Waste	400	408	409	409	409	409
Trade waste	188	251	259	266	274	282
Planning fees	465	515	465	465	465	465
Parking	987	990	993	995	995	995
Markets	180	160	160	160	160	160
Other small areas	206	169	208	211	241	243
TOTAL FEE INCOME	4,459	4,686	4,746	4,785	4,847	4,882

Other Income

3.30 The Council also receives a number of other forms of income, and these are shown in the following table:

Table 7 – Other Income

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Housing benefit subsidy	17,989	17,847	17,847	17,847	17,847	17,847
Council tax and Housing benefit administration grant	338	323	323	323	323	323
Specific government grants	134	119	7	6	5	4
Housing benefit overpayments	80	80	80	80	80	80
Court income	197	197	197	197	197	197
Rental income	572	617	618	619	620	621
NNDR admin grant	91	92	92	92	92	92
Other Contributions (from external bodies for sharing of services and posts)	689	868	883	902	917	933
Other Income	867	915	978	978	1,038	898
Total Other Income	20,957	21,058	21,025	21,044	21,119	20,995

External Funding opportunities

3.31 With the continuing reduction in resources available to the Council it will be important to seek and secure funds from external sources wherever possible, in accordance with the Council's priorities. For example, the announcement during 2018/19 of the Council's successful bid, in conjunction with partners, in relation to the Controlling Migration Fund. The Council's revenue element is shown within specific government grants for 2019/20.

Summary

Table 8 – All sources of income

Budget Area	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
Business rates	3,565	4,313	3,349	3,419	3,410	3,413
Revenue Support Grant	-	342	-	-	-	-
Other Grants	1,113	910	732	729	744	750
New Homes Bonus	613	721	572	482	289	-
Total Government Resources	5,291	6,286	4,653	4,630	4,443	4,163
Council tax – Boston BC precept, including Collection Fund adjustment	3,547	3,648	3,726	3,837	3,951	4,070
BTAC Special Area Expense	655	680	706	727	749	772
Fees & charges	4,459	4,686	4,746	4,785	4,847	4,882
Other income	20,957	21,058	21,025	21,044	21,119	20,995
Interest Receivable on Investments	117	711	761	800	822	869
Contribution from Reserves	332	2,623	406	210	80	20
Gross budgeted income	35,358	39,692	36,023	36,033	36,011	35,771

4. 2019/20 SPENDING PLANS

- 4.1 The following table shows the estimates by type of expenditure/income split over the CIPFA standard classification for the next five years. The paragraphs below the table provide information on budget variances between years. Details of the overall position are shown at **Appendices 1 and 2**.

Table 9 – Estimates by expenditure/income

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Employees	9,186	9,555	9,721	9,871	10,041	10,202
Premises	1,254	1,360	1,408	1,426	1,461	1,487
Transport	512	552	565	580	597	614
Supplies and Services	2,485	2,801	2,628	2,684	2,723	2,715
Third Party Payments	129	201	152	154	155	155
Drainage Board Levies	1,884	1,899	1,918	1,937	1,956	1,976
Transfer Payments	17,989	17,847	17,847	17,847	17,847	17,847
Direct Revenue Financing of Capital	798	1,999	392	199	80	20
Interest on Borrowing	111	500	500	500	500	500
Contribution to Reserves	1,010	2,978	1,430	1,383	1,285	1,142
Savings Target	-	-	(538)	(548)	(634)	(887)
Gross Expenditure	35,358	39,692	36,023	36,033	36,011	35,771

- 4.2 All staffing costs have been prepared in accordance with the Council's Pay Policy as detailed in **Appendix 9**. Pension cost estimates have been prepared on the basis of whether current post holders were in the scheme or not as at 31 August 2018. The pension costs reflect the revised contribution rates and lump sum payable as detailed in the triennial pension valuation results that took effect from 1 April 2017. The rise in staff costs in 2019/20 is due to an increase of 2% from spinal column points 12 and 19 respectively. For points lower than this, a minimum rate per hour of £9 for 2019/20 has been used to reflect the offer to the Trade Unions from the National Employers and to close the gap between bottom pay points and the National Living Wage proposal of £9 per hour by 2020.

- 4.3 Post 2019/20, Internal Drainage Board increases have been estimated at this time, with an increase of 1% p.a. assumed. At a time of significant cuts and having to find significant savings annually, the Council is liaising with the local Internal Drainage Boards to work towards limiting future increases where possible.
- 4.4 Capital financing and direct revenue financing is mainly for capital expenditure funded from reserve contributions.
- 4.5 The contribution to reserves is for contributions to the capital reserve from New Homes Bonus funding, and the revenue contribution to the capital programme (£400,000 in 2019/20). The overall contribution is set to reduce significantly from 2020 due to the New Homes Bonus scheme ending.

5. COUNCIL TAX REQUIREMENT

- 5.1 Outline estimates through to 2023/24 are shown at **Appendices 1 and 2**. In compiling these figures we have used the assumptions set out in Section 2 of this report and made specific adjustments to service budgets as and where Service Managers have advised of changes over the medium term. These forward estimates allow for a 3% increase in 2019/20 and then annual 2% increases from 2020/21 onwards for Council Tax, but are subject to risks surrounding the Secretary of State's annual referendum limits. These assumptions are for planning purposes only and are likely to change.

Table 10 – Council Tax Requirement

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Net Expenditure	9,085	9,194	9,143	9,004
Retained Business Rates	(3,349)	(3,419)	(3,410)	(3,413)
New Homes Bonus	(572)	(482)	(289)	-
Other Grants	(733)	(729)	(744)	(750)
Special Expenses	(706)	(727)	(749)	(772)
Boston BC Council Tax Requirement	3,725	3,837	3,951	4,069

- 5.2 The forward estimates demonstrate that achieving a balanced position annually will require significant ongoing savings, and the intention is that this will be delivered through the implementation of a refreshed Transformation Programme. Further information on efficiencies and economies is provided in section 9 of this report.

6. OTHER BUDGET ISSUES

- 6.1 In order to meet its obligations, equality impact assessments will be carried out when the nature of proposed changes to services and the potential mitigation (if any) is clear, so that the implications of decisions are fully understood as they affect specific groups and communities. These have been, and will continue to be, regularly undertaken and considered as part of the decision making process.
- 6.2 The consultation paper on the future Business Rate regime looks to progress the shape of the new system, with questions on sharing risk and reward, managing volatility and the setting up of the system. The consultation runs until 21 February 2019, and the Government's intention is that it is implemented from 2020/21. Further reports will be presented to members as information, and more specifically the impact on Boston, becomes available.
- 6.3 The consultation paper on the future Relative Needs and Resources framework, looking at Relative Needs, Relative Resources and Transitional Arrangements, also runs until 21 February 2019. Again, the intention is that implementation will commence from 2020/21, alongside the local government finance settlement, the revised business rate retention regime and full business rate baseline reset, and the 2019 Spending Review. The Government has stated that it is aiming to publish indicative allocations through a further formal consultation stage before the 2020/21 provisional finance settlement, to assist councils' financial planning processes.
- 6.4 The Government recently released 'Our waste, our resources, a strategy for England', which sets out how England will minimise waste, promote resource efficiency and move towards a circular economy. The Strategy is wide ranging and sets out actions to be taken now with longer term policy commitments in line with the Government's '25 Year Environment Plan'. The headline proposals include Extended Producer Responsibility, Deposit Return Schemes and Collection of a consistent set of dry recyclable materials. Operational implementation is proposed in 2023, following a period of consultation and approval of necessary legislation.

Separate Food Waste, and Garden Waste, collection proposals will be consulted on, with the Government's expectation that 'New duties will be assessed to account for new burdens, and funded appropriately'.

Whilst it is apparent that there are likely to be changes to the future years' figures projected for both revenue and capital spending, the specific impact on the Council's resources cannot be quantified at this time. Future years' MTFS updates will amend projections in light of information available at the time of preparing reports. The Head of Environmental Operations and Portfolio Holder for Environment will continue to work to influence Government policy and local implementation via the Lincolnshire Waste Partnership and the recently approved Joint Municipal Waste Management Strategy.

7. RESERVES

7.1 To comply with the requirements of the Local Government Act 2003, the Council must undertake a review of the level of reserves as part of its annual budget preparation. A review of the current projection for reserves has been undertaken, including a review of current and future risks the Council might face. This has included an assessment of risk registers, pressures upon services, inflation and interest rates and any underwriting arrangements. The proposed budget has been developed on the basis of not requiring any long term support from reserves.

General Balances

7.2 The General Fund balance is estimated to stand at £2.0m for the next five years, which the Council's Section 151 Officer believes to be prudent for the Council at this time.

Specific Reserves

7.3 Specific reserves are set up to provide funds for known future commitments or provide resources for unexpected events. The projected closing balance on specific reserves over the next five years is given below in table 11. Given the risks and uncertainties facing both the local and national economy the Council is committed to retaining robust levels of reserves, whilst ensuring resources are available to enable efficient service delivery.

7.4 The projected increase in the Capital Reserve is as a direct consequence of the expectation that the Council's capital resources will diminish in the coming years, and if it is to protect services and the value of its assets, the Council will need to ensure that funds are available to support core service priorities, as well as seeking external sources wherever possible.

7.5 The setting up and holding of £1m in the Mitigation Reserve is as a consequence of the approval of capital spend on Property Fund holdings, with the recognition that the Council needs to ensure that potential future revenue budgets are protected, if necessary, and as a result of the review of the business rate appeal provision.

7.6 The Tax Reserve is maintained to offset the impacts of unexpected negative events.

Table 11 – Specific Reserves

Reserve	Balance 31.03.19 £'000	Balance 31.03.20 £'000	Balance 31.03.21 £'000	Balance 31.03.22 £'000	Balance 31.03.23 £'000	Balance 31.03.24 £'000
Capital Funding	4,187	3,755	4,867	6,061	7,310	8,417
Transformation	985	946	934	923	923	923
ICT	367	322	222	177	97	77
Repairs and Renewals	715	599	625	660	696	731
Housing	1,070	791	789	789	789	789
Controlling Migration Fund	530	-	-	-	-	-
Tax	1,427	2,472	2,472	2,472	2,472	2,472
Insurance	290	290	290	290	290	290
Mitigation Reserve	249	1,000	1,000	1,000	1,000	1,000
Total	9,820	10,175	11,199	12,372	13,577	14,699

- 7.7 **Appendix 5** and table 11 above outline the projected position on reserves over the next five years. This shows the name of each specific reserve, the balance as at the 1 April for each year of the financial strategy, and the movements in capital and revenue.
- 7.8 As part of the projection, a review of reserves was undertaken and the Community Cohesion and Climate Change reserves have been transferred to the Transformation reserve, due to the relatively low levels held and the likelihood of schemes coming forward on those themes.
- 7.9 The main increase in reserves relates to the Capital Reserve. There are a number of potential capital commitments and risks such as ongoing investment in our assets and energy efficiency measures, the majority of which have not been included in the capital programme at this point. Proposals will be brought forward annually as schemes are worked up.
- 7.10 The Government has been critical of Councils across the country and their levels of reserves. However, given strategic risks, such as business rate appeals and flooding, and reducing resources to meet future spending plans, we believe that Boston Borough Council's proposed level of reserves is appropriate.

8. CONSULTATION

- 8.1 Under the Gunning Principles, the following points are the golden rules of consultation:
- Proposals being consulted upon must be at a formative stage;
 - Proposals must contain enough information for the respondent to provide intelligent consideration;
 - Must give adequate time for a response;
 - Responses must be conscientiously taken into account.
- 8.2 Using these principles, the budget consultation process for the 2019/20 budget comprised a number of elements. It was published on the Council's website for consultation by all stakeholders, including the local business community.
- 8.3 In addition to this we consulted through a number of Member forums including Cabinet and the Overview and Scrutiny – Corporate and Community Committee; and on the governance aspects of its preparation through the Audit and Governance Committee.
- 8.4 Comments received through the Member forums included the need to ensure that Internal Drainage Board funding, and its impact on district council budgets, is included in representations regarding the future funding regime.
- 8.5 The public exercise elicited 45 responses, as set out in Appendix 11.

9. SAVINGS TARGETS/TRANSFORMATION PROGRAMME

- 9.1 The projected budgets recognise an increasingly challenging and uncertain position through the five year period of our financial strategy. A key factor is that the Local Government Finance Act 2012 and future finance reviews demand a significant transformation in the way public services are both paid for and provided, with an emphasis on business and housing growth to both improve economic development and maximise funding to the Council to help offset ongoing reductions in overall resources. The upcoming 2019 Spending Review and the outcome of the Fairer Funding review will impact on the Council's future resources.
- 9.2 In response to the challenges facing it, the Council refreshed its Transformation Programme which was formally approved in July 2016 (the report is available at <http://moderngov.boston.gov.uk/documents/s1720/Transformation%20Programme.pdf>). It seeks to ensure that annual balanced budgets can be set across the MTFS period to 2020 without the need to cease the provision of any services, although some are being delivered differently as a result of implementing changes to reduce costs or improve income.
- 9.3 The table below shows the savings that have been included in the 2019/20 budget that have enabled the draft proposals to produce a balanced position for next year.

Table 12 – Transformation Programme savings in 2019/20

Transformation Theme Title	2019/20 £'000
TP 4 Insurance reserve	30
TP 7 Leisure, Cultural & Heritage	238
TP 9 Voluntary Sector	44
TOTAL	312

- 9.4 Beyond 2019/20, there is a need to close the projected budget gap by almost another £1m by 2023/24. Members will be reviewing and revising the Transformation Programme during 2019/20 to ensure that the Council can set effective balanced budgets each year.
- 9.5 Based upon our current budget assumptions we believe the value of cashable savings required by the Transformation Programme to set a balanced budget for the next five years are as follows:

Table 13 – Savings Targets

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Budget Savings Requirement (£'000) – cumulative	-	538	548	634	887
Budget Savings Requirement (£'000) – annual	-	538	10	86	253

- 9.6 Given the scale of savings made in recent years, the near £1m gap by 2023/24 is significant, and the Council will need to maintain its focus and commitment if it is to achieve its aspirations. Work needs to commence early in 2019/20 to ensure that the required level of savings is delivered from 2020/21.
- 9.7 In addition, there have been some events and actions during 2018/19 that have impacted on the MTFS assumptions for next year, which are incorporated into the draft budget figures. The main areas are:
- A larger than projected increase in the Council Tax base, delivering £71,000;
 - A smoothing of the cost of elections across years, rather than all in the year that the election takes place;
 - Higher than estimated receipt of New Homes Bonus monies, and the proposed phasing out over four years;
 - Planning income increases due to numbers of applications, rising by £100,000 in 2019/20, then dropping to £50,000 p.a. for the remainder of the MTFS.
- 9.8 The ongoing delivery of a significant level of savings is recognised as a key challenge to the Council that will require both political direction and cultural change to ensure it is met.

10. RISK AND SENSITIVITY

- 10.1 The Council is required to set a budget, which is a realistic statement of its estimated Income and Expenditure for the coming year based upon information currently available to it. It has a duty to take into account the demand for its services, and the effect upon council taxpayers of meeting those demands at varying levels of service. I have examined the budget proposals contained in this report, and believe that whilst the spending and service delivery proposals contained within are tighter than we have previously set, they are nevertheless achievable and deliverable given good management practices and sound financial and performance monitoring. I am satisfied that the requisite management processes exist within the Council to deliver this budget, and to identify and deal with any problems which may unexpectedly arise throughout the year. We fully expect there to be a need to review these budgets throughout the coming financial year in order that we can respond to as yet undefined financial risks. As an organisation we recognise a period of budgetary turbulence and we will use our financial management processes to identify options that will allow us to adjust our budgetary position as and when required. Formal quarterly budget monitoring updates are presented to members throughout the year.
- 10.2 The following table shows the key risks and how we intend to treat them through our risk management practices. Members receive updates through the quarterly performance monitoring process as information becomes available.

Table 14 – Key Risks

Risk	Likelihood	Impact	Action
Fluctuation in business rates	High	High	Growth plans and accurate monitoring
Lack of funding from partners	High	High	Engagement and realism
Inadequate capital resources	High	High	Proportionate spending, sale of surplus assets, capital property fund spend
Central Government policy changes	High	High	Engagement in consultation and policy creation
Reductions in Government Funding	High	High	Lobbying and service transformation
A poor settlement for rural councils	Medium	High	Lobbying as a special interest group
Fee income volatility	Medium	Medium	Early monitoring of deviations
Increased demand for services	Medium	Medium	A robust performance management framework
Failure to deliver the required transformation programme	Low	High	Effective programme and project management

11. CAPITAL PROGRAMME

- 11.1 In drawing together the proposed capital programme we have taken a five year view from 2019/20 to 2023/24, to run alongside our revenue plans. This is sensible and encourages a link between revenue and capital spending decisions.
- 11.2 It is important to emphasise that no scheme will appear on the Capital Programme until the criteria set out in the capital strategy have been met and agreed. Members may well be aware of several potential projects which are not included in the proposed five year capital programme. This is not to say that they will not happen but that they will not be included until an affordable business case is approved and more information is available. We will have a programme which is likely to have further schemes added once aspirations are turned into robust projects. The decisions that are taken ultimately have to be affordable, prudent and sustainable for the local community.
- 11.3 The future for capital investment, funded from both the Council's resources and external resources, will be dependent on decisions taken as part of each year's budget process. Our capital resources have been substantially eroded over time and we aim to take money from revenue to ensure that statutory commitments can continue to be met. This will demand a greater role for the Council's Asset Management Plan to ensure that future liabilities are reduced and that capital receipts are maximised. Commentary on the plan is provided at **Appendix 6**.
- 11.4 The suggested capital programme (including details of anticipated slippage in the 2018/19 capital programme) for 2019/20 to 2023/24 is shown in Table 15 along with how the programme will be financed. Additionally Table 16 details future investment aspirations identified that need affordable business cases to be developed before they can proceed. It should be noted that some risk exists with capping the finance available for Disabled Facilities Grants (DFG) works as this is a statutory provision dictated by law based on need rather than the ability of the Council to provide the funds to carry out the works, and as such it is subject to ongoing review.
- 11.5 Following the publication of CIPFA's review and MHCLG guidance on the Prudential System (which guides and regulates councils' capital and investment strategies), during 2018/19 the Council made use of external borrowing to support the Council's long term Capital Strategy, by purchasing capital Property Fund units. The intention is to bring a number of benefits to the Council over the medium to long term, including yield, growth in future capital resources, statutory service resilience and historically low interest rate finance. This is subject to regular monitoring and is primarily overseen by the Audit and Governance Committee.

- 11.6 The Capital Working Group met to review the capital bids submitted for the next five years. The group agreed to recommend the following schemes for 2019/20:
- £150,000 Housing Strategy Costs in relation to a contribution to Waterloo Housing for 80 new affordable homes.
 - Revised Information Technology Refresh programme for the next 5 years following a detailed review of the IT estate by the IT Manager in conjunction with the Corporate Management Team.
 - CCTV system upgrade of £43,000.
 - GMLC refurbishment including new flooring and changing lockers totalling £57,000.
- 11.7 Given the resource constraints with regard to funding the Council's future capital commitments it is proposed that the contribution from revenue budgets to the capital reserve is set at £0.4m in 2019/20, and then subject to annual review thereafter. This contribution is considered necessary given the absence of capital receipts and the future reductions in New Homes Bonus from 2020.
- 11.8 The proposed capital programme is affordable, meets the Council's obligations and provides a basis for growth. An update to the capital strategy, which underpins the capital programme proposed from 2019/20 to 2023/24, is attached at **Appendix 7**.

Table 15 – Capital Programme

Capital Programme £'000	Expected Slippage 2018/19	Revised 2019/20 with Slippage	2020/21	2021/22	2022/23	2023/24
1.Disabled Facilities Grant	-	280	280	280	280	280
2.Housing Strategy	-	272	-	-	-	-
3.Marginal Viability Fund	3,500	3,500	-	-	-	-
4.Municipal Buildings Alterations	5	5	-	-	-	-
5.Housing Scheme – Julian’s Yard	25	25	-	-	-	-
6.CCTV Open Architecture System Upgrade	-	43	-	-	-	-
7.Noise Equipment Monitoring	-	-	-	10	-	-
8.Resurfacing and Footpath Improvements	8	23	11	14	-	-
9.Public Conveniences Refurbishment	-	15	-	-	-	-
10.Estate Works	10	10	-	-	-	-
11.Guildhall Refurbishment	-	-	-	14	-	-
12.Town Centre Heritage Scheme (PSICA 2)	200	400	200	200	-	-
13.Multi Use Games Area (CMF)	269	269	-	-	-	-
14.Investment in Replacement Flooring and Pool Changing Lockers	-	57	-	-	-	-
15.Information Technology Replacement	-	45	100	45	80	20
16. Vehicle Replacement – Street Cleaning	22	22	240	75	-	-
17.Vehicle Replacement – Refuse Fleet	-	1,225	-	-	-	-
18.Vehicle Replacement – Grounds Tractor	-	60	-	-	-	-
19. Crematorium – Provision of Parking and Re-Surfacing Works	65	65	-	-	-	-
20.Crematorium – Weatherproof Canopy for Floral Tribute Display Area	-	25	-	-	-	-
21.Crematorium – Install Air Conditioning	-	25	-	-	-	-
Totals	4,104	6,366	831	638	360	300

Capital Financing £'000	Revised 2019/20 with Slippage	2020/21	2021/22	2022/23	2023/24
1.Capital Grants and Contributions	4,367	439	439	280	280
2.Capital Reserve	1,531	283	154	-	-
3.IT Reserve	45	100	45	80	20
4.Repairs and Renewals Reserves	151	9	-	-	-
5.Housing Reserve	272	-	-	-	-
Totals	6,366	831	638	360	300

12. OPTIONS

- 12.1 There are no alternative options presented, and Cabinet are requested to recommend the budget and council tax level to Council for formal approval. Given the likely outlook for future resource levels, the Council needs to focus strategically over the next five years, and consider to what extent they wish to maintain existing services, how services might be prioritised, and to develop proposals on how future budgetary shortfalls might be addressed. As in previous years, the Cabinet are encouraged to work with all Members (and stakeholders generally) as critical friends to assist in the development of future years' budgets and the proposed refresh of the Transformation Programme.

13. REASONS FOR RECOMMENDATIONS

- 13.1 To comply with the budgetary and policy framework.

14. RECOMMENDATIONS

- 14.1 To recommend the budget and associated documents to Council for formal approval, specifically:
- The budget setting report and associated policies and strategies 2019/20 – 2023/24, and
 - The Borough Council Tax for a Band D property in 2019/20 is set at £189.09.