



**SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL**

# Cabinet

7 February 2019

**Report of:** Councillor Adam Stokes, Cabinet Member for Finance, and Councillor Nick Nielson, Cabinet Member for Housing



## Budget Proposals 2019/20

The Council is required to set a balanced budget and agree the level of Council Tax for 2019/20 and this report contains a summary of the proposals that have been considered for inclusion. The proposals were considered and scrutinised in detail by the Budget Joint Overview and Scrutiny Committee on 10 January 2019. The draft proposals were considered at Cabinet on 17 January 2019 and consultation for the options for Council Tax setting was approved.

### Report Author

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Corporate Priority:	Decision type:	Wards:
<b>Administrative</b>	<b>Budget and Policy Framework</b>	<b>All Wards</b>

<b>Reviewed by:</b>	Alison Hall-Wright, Head of Financial Services	29 January 2019
<b>Approved by:</b>	Debbie Muddimer, Strategic Director - Resources	29 January 2019
<b>Signed off by:</b>	Councillor Adam Stokes, Cabinet Member for Finance	29 January 2019

## Recommendations to the decision makers

### Recommendations to Council

1. To set a General Fund budget requirement of £14.632m for 2019/20 detailed at section 3 of this report and shown in detail at Appendix A (inclusive of special expenses).
2. To propose a Council Tax level for 2019/20 (Band D property)
3. To note the indicative base estimates for 2020/21 and 2021/22 as detailed in the summary at Appendix A.
4. To approve dwelling rent decreases of 1% in accordance with Government guideline rent providing an average rent of £77.62 (an average rental decrease of £0.81 per a week)
5. To approve an increase in garage rents of 2.5%
6. To approve an average increase of 2.5% in service charges for communal facilities and communal rooms
7. To approve an increase in shared ownership rents by CPI +1% (4%)
8. To approve the Housing Revenue Account for the year 2019/20 and indicative years 2020/21 and 2021/22 detailed at section 5 of this report and shown at Appendix A
9. Approve the General Fund Capital programme for 2019/20 to 2021/22 detailed at section 6 of this report and shown at Appendix D
10. Approve the Capital Financing statement detailed at Appendix D
11. Approve the Housing Investment programme for 2019/20 to 2021/22 detailed at section 6 of this report and as shown at Appendix D
12. Approve the Capital Financing statement detailed at Appendix D
13. To approve the movements in Revenue and Capital reserves and balances detailed at section 8 of this report and shown at Appendix E.
14. To approve the movements in HRA revenue and Capital reserves and balances detailed at section 8 of this report and shown at Appendix E.
15. To approve the fees and charges detailed at section 4 of this report and shown at Appendix F.
16. To approve the Treasury Management Strategy detailed at section 7 of this report and provided at Appendix G
17. To approve the Capital Strategy detailed at section 6 of this report and provided at Appendix H
18. To approve the Property Investment Policy detailed at section 6 of this report and provided at Appendix I

# **1 The Background to the Report**

- 1.1 The Council is required to set a balanced budget and agree the level of Council Tax for 2019/20 and this report contains a summary of the proposals that have been considered for inclusion. The proposals were considered and scrutinised in detail by the Budget Joint Overview and Scrutiny Committee on 10 January 2019. The draft proposals were considered at Cabinet on 17 January 2019 and consultation for the options for Council Tax setting was approved.
- 1.2 Cabinet requested one amendment to the budget proposals and requested that budgetary provision be included for the post of a scrutiny officer to support the Overview and Scrutiny committees in fulfilling their scrutiny function and support the delivery of the respective work plans.
- 1.3 This report is the final presentation to Cabinet of the budget proposals for 2019/20 and therefore contains a summary of the information that was included in the report presented to Cabinet on 17 January 2019. This report covers the following sections:
- The funding position for the General Fund (paragraph 4.1)
  - The General Fund Budget Estimates (paragraph 4.2)
  - Fees and Charges (paragraph 4.10)
  - The Housing Revenue Account (HRA) position (paragraph 4.11)
  - The Capital Proposals 2019/20 to 2021/22 (paragraph 4.14)
  - Treasury Management Strategy (paragraph 4.21)
  - Reserves and Balances (paragraph 4.24)

# **2 Consultation and Feedback Received, Including Overview and Scrutiny Budget Joint Overview and Scrutiny Committee**

- 2.1 At the meeting on 10 January 2019 the Budget Joint OSC undertook a robust scrutiny of the budget proposals put forward by Cabinet and considered all aspects of the revenue and capital proposals for both General Fund and Housing Revenue Account. A summary of the areas they considered and debated are identified below:
- It was confirmed that Growth OSC undertakes budget monitoring during the financial year
  - The proposal for a £5 increase to the Council's element of the Council Tax is the preferred option.
  - It was noted that reserve balances are being reduced to support the funding of the growth ambitions and it was noted that the reduced level of reserves held by SKDC was still significantly more than reserves held by other local authorities. Projects such as the cinema were creating assets and would provide the Council with an income in the future.
  - More information with respect to budgetary risks both from an internal and external perspective would be helpful to assess the volatility of the budget proposals.
  - Further information with respect to previously budgeted savings built in for 2018/19 and the levels of budgeted savings for 2019/20.
  - Discussion ensued on the proposals to include an allocation of £15m capital expenditure in the draft HRA capital programme or identifying and procuring appropriate strategic sites across the District for housing development. Some sites

could potentially be adjacent to existing sites which could enhance the delivery of housing.

- Consideration of the financing options with respect to the £25m maturity loan for the HRA.
- A request that Growth OSC would receive details of options in respect of any proposals to re-finance the £25m maturity loan at the appropriate time.
- Discussion took place on the Pension Fund, the current use of an earmarked reserve in respect of employer contributions for members of the Local Government Pension Scheme and the proposal to revert back to budgeting the costs at service level from 2020/21.
- Discussion also took place on the review of the scrutiny process that was currently being undertaken, and a request was made for funding provision to be included in the Budget Proposals 2019/20 for a Scrutiny Officer.

### **3 Available Options Considered**

- 3.1 The feedback received at 2 above has been considered and are included in this report as appropriate.

### **4 Preferred Option**

#### **Provisional Finance Settlement 2019/20**

- 4.1 The Council remains within the Government's four-year funding deal after it had successfully submitted an Efficiency Plan. 2019/20 is the last year of the four-year deal and the period after this remains uncertain as the Government has yet to conclude the findings of the fair funding review, which was launched last year. This review is intended to fundamentally challenge the current complex formula driven funding allocation to Councils and replace it with a simplified, more transparent formula. At the time of writing this report no further information is known so the latter two financial years of the indicative budgets are currently compiled on a series of assumptions regarding funding levels. As further information is known during the year the Council will be asked to consider a revised Medium Term Financial Strategy that provides a medium term financial framework incorporating the three themes of the newly approved Corporate Strategy.

#### **Budget Estimates 2019/20**

- 4.2 The overall General Fund position for 2019/20 is shown at table 1 below. The total budget requirement for 2019/20 is estimated at £14.632m.

**Table 1 – Summary of Proposed General Fund Estimates**

<b>Description</b>	<b>2018/19 Adjusted Budget £000</b>	<b>2019/20 Original Budget £000</b>	<b>2020/21 Indicative Budget £000</b>	<b>2021/22 Indicative Budget £000</b>
Commercial	6,359	<b>5,457</b>	5,567	6,014
Growth	6,940	<b>7,108</b>	6,466	6,493
Resources	6,054	<b>7,807</b>	7,098	7,399
HRA Recharge	0	<b>(2,470)</b>	(2,513)	(2,556)
<b>Net Cost of Service</b>	19,353	<b>17,902</b>	16,618	17,350
Interest Payable and Receivable	(198)	<b>100</b>	123	120
Minimum Revenue Provision	247	<b>308</b>	502	496
Depreciation	(3,400)	<b>(3,619)</b>	(3,766)	(4,170)
Parish Grant allocation - LCTSS	22	<b>0</b>	0	0
<b>Net Budget Requirement</b>	16,024	<b>14,691</b>	13,477	13,796
Funding and Resources:				
Council Tax	(7,146)	<b>(7,475)</b>	(7,815)	(8,170)
S31 Grants	0	<b>(118)</b>	0	0
Revenue Support Grant	0	<b>0</b>	98	0
Retained Business Rates, s31 Grant & Pooling Gain	(5,109)	<b>(5,154)</b>	(4,132)	(3,974)
New Homes Bonus	(2,086)	<b>(1,957)</b>	(1,576)	(1,490)
Rural Grant	0	<b>(295)</b>	0	0
Collection Fund (Surplus)/Deficit	321	<b>(1,390)</b>	0	0
<b>Total Funding</b>	(14,020)	<b>(16,389)</b>	(13,425)	(13,634)
Transfers to/(from) earmarked reserves	(2,004)	<b>1,698</b>	863	1,016
<b>Net Budget (Surplus)/Deficit</b>	0	<b>0</b>	915	1,178

- 4.3 The table above shows the forecast increase in business rates income and the Collection Fund surplus is anticipated to be received following the reduction of the appeals provision from 4.7% to 2%. This reduction has been applied following careful analysis of the actual appeals received and upheld to date and the trajectory anticipated for 2019/20. This surplus has been applied to the volatility reserve (£1.336m) and the invest to save reserve (£500k). This allocation is to provide further financial resilience to the anticipated fluctuations in funding arising from the national fair funding and business rates review. In respect to the invest to save reserve, this is increased to provide funding to pump prime initiatives that will deliver longer term savings.
- 4.4 The service costs shown above include the capacity and savings proposals that are shown in further detail at Appendix B & C. Table 1 currently shows a deficit from 2020/21 cumulatively increasing to £2.093m in 2021/22. This deficit is partly due to the absence of any accurate funding predictions due to the uncertainty of the national funding review and consequently no growth assumptions have been shown in funding projections. However, it is anticipated that during 2019 funding information will be available to enable the Council to model more accurately funding projections. In response to these challenges the Council has developed commercial and transformation programmes as set out in the Corporate Strategy and is implementing these initiatives in order to reduce operating costs and increase income streams over the medium term. The principle objective being to

ensure that the Council will be financially autonomous by 2025 as set out in the Corporate Strategy.

### Council Tax Setting Proposals

- 4.5 The provisional settlement announcements made on 13 December 2018 confirmed that for 2019/20 Council Tax increases for district councils were permissible for up to 3% or £5 (whichever is higher) above the authority’s relevant basic amount of council tax for 2018/19 without triggering a referendum. It is currently understood that this increase limit will be the final year under the Council’s 4-year deal that has been in place since 2016/17. The Medium Term Financial Plan has been modelled based on the assumption that the Council would take the opportunity to increase by the maximum level. The financial implication of setting a lower increase has been previously provided in the Cabinet report presented at the meeting on 17 January 2019 and also to the Budget – Joint Overview and Scrutiny Committee on 10 January 2019.
- 4.6 At the meeting held on 17 January 2019, Cabinet considered the options available and approved a consultation launch in order to receive feedback from the community with respect to the options outlined above. The consultation ran for the period 21 January – 3 February 2019 and was promoted via the Council’s website, local media and business community groups. An analysis of the consultation findings will be presented to Cabinet at the meeting.
- 4.7 The draft budget proposals are based on a working assumption that Council Tax levels will be increased by £5 for 2019/20 for the district element. Should Cabinet make a recommendation that varies to this assumption then an adjustment will be required in order to maintain a balanced position.

### Council Owned Companies

- 4.8 The 2019/20 financial year is the first full financial year that includes the first full trading year of the Council companies:
- Invest SK
  - Environment SK
- 4.9 The budget proposals include the funding allocations to enable the companies to deliver the outcomes that Council has set out. The proposed funding levels are:

**Table 2 – Invest SK**

	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>
Core Funding*	800	800	800
Arts & Heritage	350	350	350
Skills (capacity bid)	110	105	75
Economic Development	108	108	107
<b>Total</b>	<b>1,368</b>	<b>1,363</b>	<b>1,332</b>

\* core funding includes the general running costs such as staffing, premises plus the funding of the visitor economy programme.

**Table 3 – Environment SK**

	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>
Core Funding – General Fund	302	307	307
Core Funding – Housing Revenue Account	328	328	328
Core Funding – Special Expense Areas	318	328	328
<b>Total</b>	<b>948</b>	<b>963</b>	<b>963</b>

**Fees and Charges**

- 4.10 The draft fees and charges proposals for 2019/20, which are set out in Appendix F, have been compiled with inflationary increases being applied where appropriate. A summary of these are provided in the table below:

**Table 4 – Fees and Charges**

<b>HEADING</b>	<b>PROPOSED 19/20 FEE</b>	<b>EFFECTIVE DATE CHANGE (OR LAST INCREASE DATE)</b>
Car parking charges	No increase	01/04/2010
Car parking penalty charge notices	No increase	01/04/2013
Bus stations	No increase	01/04/2014
Building control charges	No increase	01/02/2017
Markets	No increase	01/04/2016
Arts Centres	Mainly inflation increase	01/04/2019
Green waste	No increase	01/04/2018
Supply of new or replacement bins	No increase	01/04/2016
Domestic refuse collection e.g. bulky waste	No increase	01/04/2015
MOT Fees	No increase	01/04/2010
Fees for Scrap Metal dealers, tattooing, acupuncture, control of dogs, caravan parks etc	Inflation increase	01/04/2019
Houses of Multiple occupancy, Immigration inspections, contaminated land enquiries & Sampling of water supplies	Inflation increase	01/04/2019
Smoke free fixed penalty notices and smoke and carbon monoxide alarms for landlords	No increase	01/04/2016
Letting Agents Redress Scheme	No increase	01/04/2017
Hygiene food safety, packs and energy efficiency standards	Inflation increase	01/04/2019
Air Quality	No increase	01/04/2017
Hackney Carriage, Animal licenses and sex establishments etc	Inflation increase	01/04/2019
Alcohol licensing	No increase	24/11/2005
Bingo premises, betting premises etc	Inflation increase	01/04/2019
Gambling Licensing- Gaming machines and lottery licenses	No increase	31/01/2007

HEADING	PROPOSED 19/20 FEE	EFFECTIVE DATE CHANGE (OR LAST INCREASE DATE)
Fixed Penalty Notices- Nuisance parking/ Waste Transfer Offence etc	Maximum penalty as per regulations – no increase	01/04/2017 & 01/04/2018
Fixed Penalty Notices – Littering/Fly posting	Default penalty as per regulations – no increase	01/04/2018
Outdoor recreation	Inflation increase	01/04/2019
Cemetery charges	Inflation increase	01/04/2019
Leisure Centres	set by leisure provider	01/04/2019
Local Land Charge fees	Inflation increase on land charges, CON29R increased to match other local authorities	01/04/2019
Planning fees set by Government	No increase	17/01/2018
Planning and pre-planning charges set locally	Inflation increase	01/04/2019
Community rooms & guest rooms	Inflation increase	01/04/2019

### Housing Revenue Account

4.11 The HRA revenue summary is shown at Appendix A and incorporates the proposals that are detailed in the report presented to Cabinet and Growth OSC in January. As part of the budget formation there are a number of additional items of expenditure and these are detailed as;

- The post of Assistant Chief Executive for Housing Delivery as approved by the Employment Committee on 13 November 2018. This new post is identified as being pivotal to supporting the delivery of the Council's housing growth ambitions by utilising its' role as a major social landlord and by also engaging with other housing providers to develop strategic partnering opportunities. To support this ambition a proposed annual budget of £500K is incorporated into base budgets from 2019/20.
- An increase in the HRA proportionate share of central support and democratic costs of £300k to reflect increased activity in respect of communications and public relations, transformation and innovation and customer facing services.

### Housing Revenue Account 2019/2020 – Rent Proposals

4.12 The main element of policy relating to the HRA for 2019/20 is the setting of rents. The Council's policy prior to the Chancellor's announcements in the summer 2015 was to keep in line with the Government's guidance on rent restructuring seeing annual increases of CPI+1% following rent convergence being achieved. Government has required all social landlords to reduce their rents by 1% every year starting in 2016/17 for four years rather than previous policy of CPI +1%. Therefore, the 2019/20 budgets have been compiled on this premise with rental budgets reverting back to previous rent setting guidance from 2020/21 onwards.

4.13 This decrease in rent will see the annual budgeted rental income reducing from £24.439M in 2018/19 to £24.408M in 2019/20. For 2019/20 the average weekly rental decrease for individual property will be £0.81. The average rent in 2019/20 will be £77.62 with a

minimum of £51.48 and a maximum of £119.77. Garage rents are proposed to increase in line with inflation (2.5%) and service charges are proposed to increase in accordance with the fees and charges. The summary position of the HRA revenue is shown in full detail at Appendix A.

### **Capital Investment Proposals 2019/20 – 2021/22**

- 4.14 The capital focus over the medium term will be on delivery through the acquisition, facilitation and development of strategic sites and buildings to stimulate inward investment and regeneration. This will lead to the creation of jobs and economic growth. Different opportunities will bring a different range of risks and types of return. There are potential local economic and social returns as well as capital and income returns. The strategic aim will be to create a balanced portfolio with clear investment or regeneration objectives. The supporting business case will develop these criteria in more detail to enable an informed decision to be taken.
- 4.15 To deliver this ambition the draft capital programme includes an allocation of £10m for 2019/20. The associated borrowing will be financed in the short term from the Regeneration Reserve on the basis that the asset will be sold within a defined period (ordinarily no more than 3 years but with flexibility depending on the business case) in order to repay the borrowing and re-invest any profit gain into future acquisitions. As an approximation based on current borrowing costs, for every £1m borrowed, there is a £20k Minimum Revenue Provision cost (over a 50-year period) and a £30k interest cost (over a 30-year period).
- 4.16 The governing framework for delivering this ambition is detailed in the Property Investment Policy at Appendix I which sets out a framework for investing in property assets, via direct ownership, joint ventures and to make investments for the benefit, improvement or development of the area, through a balanced investment of acquisition, retention and management of good quality investments.
- 4.17 The capital proposals also include the priorities of the Council by providing the resources to support the delivery of the Grantham cinema project, investment in the Council's assets and continuing to invest in fleet to support key services including Street Scene.
- 4.18 It is important to ensure that there is a robust framework that supports the development and delivery of the capital programme and ensure that capital investment decisions are taken in line with the Council's corporate strategy and strategic growth ambitions. Therefore, a capital strategy has been developed and is provided at Appendix H which provides a robust framework which will be adhered to when formulating the capital programme over the medium term.
- 4.19 Both the Capital Strategy and the Property Investment Policy will be presented to Growth OSC at their meeting on 13 February 2019 in order for the Committee to review the documents ahead of Council on 1 March 2019.
- 4.20 A summarised capital programme is shown below and a detailed capital programme included in Appendix D (General Fund & HRA).

**Table 5 – General Fund**

Directorate	2018/19 Slippage £000	2019/20 Updated Base £000	<b>2019/20 Original Budget £000</b>	2020/21 Indicative Budget £000	2021/22 Indicative Budget £000
Commercial		1,973	<b>1,973</b>	1633	1841
Growth	1,479	10,462	<b>11,941</b>	50	0
Resources	65	235	<b>300</b>	0	0
<b>Total Budget</b>	<b>1,544</b>	<b>12,670</b>	<b>14,214</b>	<b>1,683</b>	<b>1,841</b>
Financing:					
Borrowing			<b>(10,000)</b>		
Capital Receipts			<b>(500)</b>	(400)	(100)
Grants			<b>(862)</b>	(797)	(797)
Reserves			<b>(2,852)</b>	(486)	(944)
<b>Total Financing</b>			<b>(14,214)</b>	<b>(1,683)</b>	<b>(1,841)</b>

**Table 6 – HRA**

Heading	2018/19 Slippage £000	2019/20 Updated Base £000	<b>2019/20 Original Budget £000</b>	2020/21 Indicative Budget £000	2021/22 Indicative Budget £000
HRA	2,225	14,264	<b>16,489</b>	15,113	13,796
Financing:					
Borrowing					(2,775)
Capital Receipts			<b>(5,270)</b>	(1,200)	(500)
Reserve			<b>(11,219)</b>	(13,913)	(10,521)
<b>Total Financing</b>			<b>(16,489)</b>	<b>(15,113)</b>	<b>(13,796)</b>

**Treasury Management Strategy**

- 4.21 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 4.22 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.
- 4.23 It has been detailed in section 6 above that the Council will be embarking on external borrowing during 2019/20 in order to provide funding for the capital investment ambitions. The Treasury Management Strategy (TMS) shown at Appendix G provides the necessary borrowing levels and these are shown in the recommended prudential indicators. It is clear that significant levels of borrowing carry a level of financial risk and affordability, sustainability and prudence need to be considered in order to ensure the Council can maintain the level of debt repayment. The methodology and governance of this is detailed in the Capital Strategy and the Property Investment Policy. The proposals for 2019/20

also include the Council exploring the opportunities provided by the removal of the HRA borrowing cap and the proposals include a £15m new build programme for the HRA (from reserves) for social and affordable housing and the framework for further external borrowing if necessary.

### **Reserves and Balances**

- 4.24 Reserves are held for three main purposes:
- To ensure the Council has sufficient funds available to meet its cash flow requirements and avoid unnecessary temporary borrowing – this forms part of the working balance
  - To protect services against unforeseen events that have a financial consequence and are not included in the budget framework – this forms part of the working balance
  - A means of building up funds to meet known or predicted liabilities –these are known as earmarked reserves
- 4.25 The appropriate levels of the reserves are entirely for the Council to determine and based on the risk appetite and other considerations including the level of long term revenue ambitions and consideration of the affordability of its capital plans. In order to assess the adequacy of unallocated general reserves when setting the budget, the Council should take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks, such as economic uncertainty, as well as internal risks, for example, the ability to deliver planned efficiency savings.
- 4.26 Based on a high level analysis of all district councils, it has been confirmed that the coverage ratio of average net spend to reserves is 0.86 compared with 1.44 for South Kesteven District Council. This highlights that the Council is above the family average for reserve levels.

### **Working balance – the minimum level required**

- 4.27 The Council maintains a working balance in order to meet unforeseen expenditure that may arise during the year that is not included in the annual budget framework. The proposed minimum balance is set at a level that reflects the financial risk the Council is currently exposed to. In previous years the target has been £1m, but a higher actual balance is being maintained and it is proposed to retain the working balance at £2.5m due to the anticipated financial volatility over the medium term including the uncertainty of future funding from Government. The current balance is £2.8m, so the target is marginally exceeded. This will be reviewed again as part of the year end work at 31 March 2019.

### **Earmarked reserves**

- 4.28 Earmarked reserves are used as a means of building up funds to meet known or predicted liabilities. The proposed movements built into the budget proposals are shown below:

**Table 7 – Reserves Summary**

<b>Reserve Heading</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>Reason</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
				Revenue Financing
Festivals	93			Gravity & Georgian
Invest to Save	168	101	101	Transformation & Innovation
Pension Reserves	933	192	60	Pension Costs
Local Priorities Reserve	500	0	0	Deliver SK
ICT	112	22	22	PSN Compliance
Regeneration	418	160	160	Barnack Road
Various projects < £50K	53	0	0	
<b>TOTAL REVENUE BUDGET FUNDING</b>	<b>2,277</b>	<b>475</b>	<b>343</b>	
				Capital Financing
General Fund Capital	700	0	0	Vehicle Replacement
Useable Capital Receipts	315	350	100	Vehicle Replacement
Useable Capital Receipts	15	0	0	Guildhall Arts Centre lighting
Useable Capital Receipts	50	50	0	Tourism signage
Useable Capital Receipts	65	0	0	Meres Leisure Centre Boilers
Useable Capital Receipts	103	0	0	LED Screen
SEA Reserve	99	0	0	Xmas Lights and Park Improvements
Local Priorities Reserve	300	0	0	Public Realm
Local Priorities Reserve	1,400	0	0	Gravitas Housing scheme
Local Priorities Reserve	14	0	0	Pool Car Keyless Entry system
Local Priorities Reserve	80	0	0	ICT infrastructure
Local Priorities Reserve	24	24	24	Trade Waste bins
Local Priorities Reserve	100	100	100	Wheelie Bins
Local Priorities Reserve	65	0	0	ICT infrastructure
Local Priorities Reserve	115	0	0	ICT infrastructure
Local Priorities Reserve	40	0	0	ICT infrastructure
Local Priorities Reserve	29	0	0	Market Stall Covers
Local Priorities Reserve	50	0	0	Car Park Barriers
Local Priorities Reserve		362	820	Vehicle Replacement

<b>Reserve Heading</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>Reason</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
				Revenue Financing
Working Balance	65	0	0	Shop Front Scheme
<b>TOTAL CAPITAL PROGRAMME FUNDING</b>	<b>3,629</b>	<b>886</b>	<b>1,044</b>	
GRANT & CONTRIBUTIONS FUNDING	2,560	960	459	
RESERVE MOVEMENTS	(2,122)	(1,619)	(1,431)	
CONTRIBUTION TO RESERVES FROM BUSINESS RATES INCREASE	(1,836)			Allocated to Invest to Save (500) and volatility reserve (1,336)
<b>TOTAL NET MOVEMENT</b>	<b>2,231</b>	<b>227</b>	<b>72</b>	

4.29 In respect of the HRA, there are a number of specific reserves to assist in the delivery of the HRA Strategy and are used to fund both revenue and capital expenditure. In addition the HRA has a specific working balance which provides financial support to the HRA should any significant unforeseen costs arise during the financial year. Full details of the proposed reserve movements are shown at Appendix E and a summary is provided below.

**Table 8 – HRA reserves summary**

<b>Reserve Heading</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>Reason</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
Pension Reserve	262	199	-	Employer contributions
Improvement Reserve	250	250	-	Revenue contribution towards housing delivery ambition
Property Development Reserve	5,000	5,000	2,225	Funding of new build capital programme
Capital Receipts Reserve	3,902	(380)	(1,257)	Balancing of HRA receipts to fund capital programme as necessary
Major Repairs Reserve	(661)			Balancing of HRA receipts to fund capital programme as necessary

## **5 Reasons for the Recommendations(s)**

5.1 It is a statutory requirement to set a balanced budget for each financial year. The procedure for doing so is set out in the Local Government Finance Act 1992 (as amended).

## **6 Next Steps – Communication and Implementation of the Decision**

- 6.1 The budget proposals are currently being consulted upon with the community and stakeholders. The final decision will be made by the Council on 1 March 2019.

## **7 Financial Implications**

- 7.1 These are considered throughout the report.

**Financial Implications reviewed by: Debbie Muddimer, Strategic Director - Resources**

## **8 Legal and Governance Implications**

- 8.1 Where a council is making a calculation of budget requirement in accordance with s.32 of the Local Government Finance Act 1992, Members should have regard to the comments of the Strategic Director – Resources as the Council’s Chief Financial Officer. These comments are set out in section 17 above and are made in accordance with the Local Government Act 2003.

**Legal Implications reviewed by: Ben Bix, Head of Governance**

## **9 Equality and Safeguarding Implications**

- 9.1 An Equality Impact Assessment has been undertaken and is provided at Appendix J. No specific issues are arising from the assessment.

## **10 Risk and Mitigation**

- 10.1 Financial Risk - The Budget proposals contained in the report have been compiled using the latest forecasting and external sources of information. There are a number of factors that are outside of the Council’s control or influence that can have a detrimental impact on the budgets including changes in inflation rates, interest rates, user demand, business and trading volatility, collection rates, supply chains and market unpredictability. It has been stated in the report that the Council’s working balance is proposed to be increased in order to provide a financial cushion against significant levels of financial instability. The Council will be undertaking more frequent forecasting and modelling during the financial year to assess, anticipate and respond to volatility and inform members accordingly. A risk commentary from the Chief Finance Officer is provided below.

**Risk Commentary – Chief Finance Officer**

- 10.2 Section 25 of the Local Government Act 2003 requires me to report on the adequacy of reserves and the robustness of estimates. Additionally, it is best practice that I identify risks associated with the budget.
- 10.3 Given the national financial context for the public sector, and more specifically Local Government, it is inevitable that the budget carries significant risk. This is particularly so in the medium term.
- 10.4 The 2019/20 budget proposals incorporate ambitious but achievable transformation savings within the budget framework that will need to be delivered in order to maintain a balanced financial position. Robust planning and project management will be undertaken in order to ensure this is delivered.

The longer terms risks to the budget are:

- The outcomes and implications of the fair funding review will need to be carefully considered and modelled to assess the impact and the strategic response. In readiness for this the Corporate Strategy sets out the framework in which the Council is working to ensure financial autonomy.
- Resources have been incorporated into the budget to ensure there is sufficient capacity to drive forward the changes and initiatives to deliver significant savings over the medium term
- The Council has discretionary earmarked reserves in place that can be called upon if necessary.
- a minimum balance of circa £2.5m reserves (working balance) will be maintained. This is an increase compared to previous years to reflect the uncertainty around future years funding.

10.5 Subject to the above comments, I am of the opinion that the Council's general and earmarked reserves are adequate. I am also of the opinion that the estimates made in preparing the budget are robust based on information available.

## **11 Community Safety Implications**

11.1 There are none.

## **12 Other Implications (where significant)**

12.1 There are no other significant implications.

## **13 Background Papers**

13.1 Budget – Joint OSC

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=640&MId=3727&Ver=4>

13.2 Cabinet

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=164&MId=3629&Ver=4>

## **14 Appendices**

- Appendix A– Revenue summary – General Fund (GF) & Housing Revenue Account (HRA)
- Appendix B – Capacity Bids – GF
- Appendix C – Saving proposals - GF
- Appendix D – Capital Programme and financing – GF and HRA
- Appendix E – Reserves – GF and HRA
- Appendix F – Fees & Charges
- Appendix G - Treasury Management Strategy
- Appendix H – Capital Strategy
- Appendix I – Property Investment Policy (to follow)
- Appendix J - Equality Impact Analysis

<b>Report Timeline:</b>	Date of Publication on Forward Plan (if required)	26 July 2018
	Previously Considered by: Cabinet	17 January 2019
	Final Decision date	1 March 2019