



**SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL**

# Cabinet

21st January 2020

**Report of:** Councillor Adam Stokes

Cabinet Member for Finance



## Budget Proposals for 2020/21 and indicative budgets for 2021/22 and 2022/23

This report presents to Cabinet the draft Budget estimates for 2020/21, revenue and capital, for both the General Fund and the Housing Revenue Account and provides the details that have been included in the budget proposals.

### 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 Finance	20 December 2019
<b>Approved by:</b>	Paul Thomas, Interim Chief Executive	20 December 2019
<b>Signed off by:</b>	Councillor Adam Stokes, Cabinet Member for Finance	23 December 2019

### Recommendation (s) to the decision maker (s)

Cabinet is asked to

1. Consider the budget proposals for 2020/21 in respect of:

- General Fund – Revenue and Capital
- Housing Revenue Account – Revenue and Capital

2. Approve consultation in respect of proposed Council Tax levels for 2020/21 for the period 22nd January – 14 February 2020 (inclusive).

## **1 The Background to the Report**

- 1.1 The purpose of this report is to present the draft proposals for the 2020/21 prior to stakeholder consultation being launched. The Budget Joint Overview and Scrutiny Committee meeting took place on 14<sup>th</sup> January 2020 to consider the draft proposals, as set out in this report. A summary of the key points from the meeting, along with any amendments that were requested will be presented to the Cabinet meeting on the day.
- 1.2 Council has a stated ambition in the Corporate Strategy to be financially self-sustainable by 2025 and the budget strategy is underpinned by this ambition. As with previous budgets, the 2020/21 budget does not rely on General balances, reserves or New Homes Bonus receipts to fund the delivery of services. This approach places the Council in a positive place in order to deal with the funding challenges that lie ahead.
- 1.3 However the scale of the financial challenges ahead are significant as the anticipated national funding review which is due to be implemented in 2021/22, could have a detrimental impact on the funding levels in the medium term. In order to prepare for this reduction, this budget is seeking to realign resources and reduce operating costs without having a detrimental impact on service delivery. Details of the proposals are set out later in the report.
- 1.4 The budget setting process commenced in August 2019, and the proposals have been formulated by the Cabinet, working closely with senior officers, through a number of budget workshops. The workshops focussed on the spending ambitions of the Council to drive forward the Corporate Strategy within the financial parameters. Clearly the timetable of the budget preparations has been challenging primarily due to the snap General Election and the subsequent pause on provisional financial settlement information. However on 20<sup>th</sup> December the funding levels for 2020/21 were provisionally confirmed and these are outlined at section 2. Within this context the primary objective of the budget proposals has been to ensure resources and spending plans are aligned to the delivery of key services without a detrimental impact on service quality.
- 1.5 This report covers a number of areas:
- The funding position for the General Fund (section 2)
  - The draft General Fund budget proposals (section 3)
  - The Housing Revenue Account (HRA) position (section 4)
  - The Capital Programmes 2020/21 to 2022/23 (section 5)
  - The Capital Financing Statement (section 6)
  - Reserves and Balances (section 7)
  - Fees and Charges (section 8)

## **2. THE FUNDING POSITION FOR THE GENERAL FUND**

### **2.1 Provisional Finance Settlement 2020/21**

On 20<sup>th</sup> December 2019 the Government published technical consultation on the 2020/21 Local Government Finance Settlement. The main headlines from the settlement are:

- Funding will continue at 2019-20 levels for the rural services delivery grant which has been announced at £81m. The Council is expected to receive £295k for 2020/21 only.
- New Homes Bonus Funding for 2020/21 has been announced at £907m. This will be paid with the legacy payments due from previous years (2017/18 to 2019/20). As previously announced, there will be no legacy payments for the 2020-21 in-year allocations. The deadweight of 0.4% is maintained. For the Council the amount for 2020/21 is confirmed at £1.8m.
- The Council Tax referendum limits, as set out in the one-year spending round announcement remain unchanged i.e. a core council tax referendum principle of up to 2% (or £5, if greater for

districts); an adult social care precept of 2% on top of the core principle; and no referendum principles for parish councils and mayoral combined authorities;

- There will be a multi-year Spending Review in 2020;
- The deferral to 2021-22 of the Fair Funding Review and Full Business Rates Reset;

In summary, the anticipated changes to the local government funding that could adversely affect some Councils as a result of the finance distribution, has been deferred a year thereby giving a relatively stable financial year (2020/21) before the April 2021 implementation. This has provided the Council will a further year to realign its resources in the context of reduced funding. The following table shows the potential reduction in funding based on current assumptions.

**Table 1 – Indicative Funding Levels for South Kesteven DC**

Funding Heading	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Business Rates (SFA)	6.2	5.0	3.8	3.8	3.9
Change to Baseline Need	0	0	0.2	0.2	0.2
New Homes Bonus	2.0	1.8	0.8	0.5	-
Rural services delivery grant	0.3	0.3	0.3	0.3	0.3
Council Tax	7.5	7.8	8.2	8.6	8.9
<b>Total Resources</b>	<b>16.0</b>	<b>14.9</b>	<b>13.3</b>	<b>13.4</b>	<b>13.3</b>
Annual % change		-6.9%	-10.7%	0.8%	-0.8%

2.2 The Settlement Funding Assessment (SFA) referred to above is the Government's baseline funding assessment using the current funding formula that determines the amount the Council requires to deliver local services (including section 31 grants and assumed growth). The SFA does not take into consideration any local growth in business rates and therefore the actual amount the Council includes in the budget framework can vary to the Government's baseline figure.

- The amount received in respect of New Homes Bonus is transferred to the Local Priorities Reserve each year and is a primary source of funding for one off projects or seed funding for both capital and revenue.
- The rural services delivery grant is recognition of the additional financial burden that rural authorities incur in delivering local services to residents living in remote areas.
- **Council Tax** – the table below shows the tax base growth assumptions for the district and the potential income based on projected Band D charge

**Table 2 – Proposed Council Tax Band D Charge Increase**

	2019/20	2020/21	2021/22	2022/23
Proposed Band D Charge Increase	N/a	£5.00	3%	3%
Tax Base (Projected)	47,125.70	47,918.4	48,636.4	49,365.9
Band D charge (SKDC only incl. Special Expense Areas)	£158.62	£163.62	£168.52	£173.57
Assumed Council Tax Income	£7.475m	£7.840m	£8.196m	£8.568m

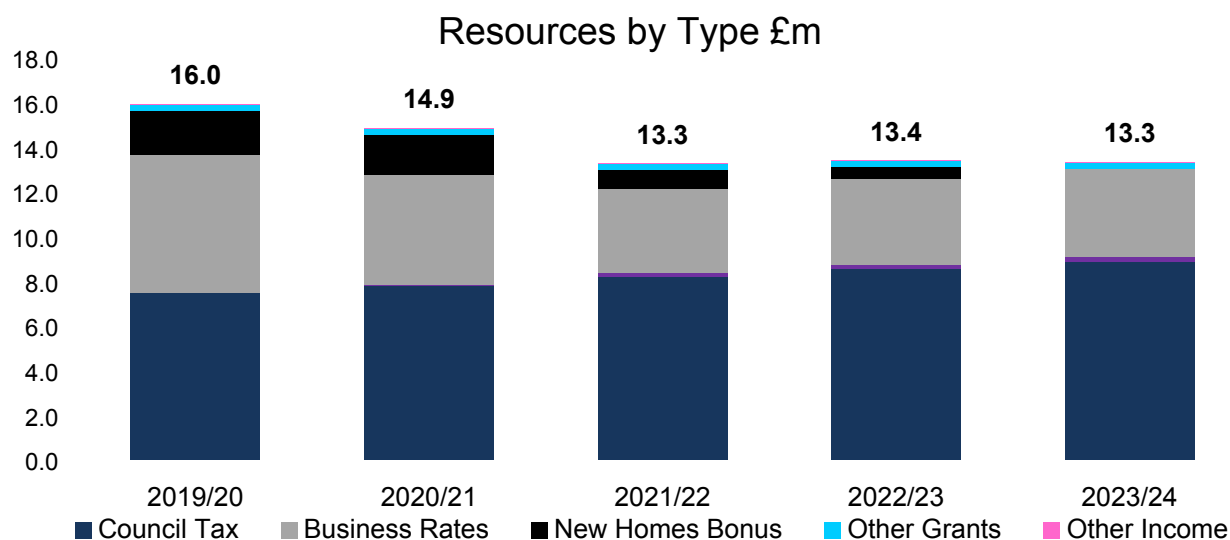
- **New Homes Bonus** - the table below shows the current and projected NHB receipts compared with previous projections. It is clear that the decline of the income is greater than previously anticipated which will create financial challenges as the Council has been able to utilise the

receipts (via the Local Priorities Reserve) to fund in year changes to the budget framework and also to fund capital schemes in lieu of external borrowing costs. This strategy will need to be realigned in response to the reduction in NHB receipt going forward.

**Table 3 – New Homes Bonus Receipts**

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Original Projection	£1.957m	£1.534m	£1.277m	£1.191m	£0.889m	£0.553m
Updated Projection	£1.957m	£1.814m	£0.832m	£0.524m	£0m	£0m

- **Business Rates Pool** – the Lincolnshire authorities have once again applied for pool status for 2020/21 which has proven to be financially beneficial for all tiers of Lincolnshire Councils. At the time of compiling the report, confirmation has been received that the Council’s position in the pool will remain for the full 2020/21 financial year.
- **Rural Services Delivery Grant** – in response to successful lobbying by authorities that provide services in sparse rural areas the Government has acknowledged the existence of the current deficiencies in the funding mechanism and has provided a one-off funding to rural authorities. Therefore, the funding for the Council for 2020/21 has been provisionally set at £295k. It is widely anticipated the issues of rurality and the additional costs associated with providing local services to a largely rural population will be considered as part of the fair funding review which is due for completion in 2020.



2.3 The above graph shows the various funding sources in a bar chart and demonstrates the shifts in funding sources over the medium term as the reliance on Council tax income increases, business rates baseline funding decreases (following the reset) and New Homes Bonus monies is removed from funding from 2023/24. The development of the budget proposals has been undertaken within the context of this funding forecast in order to begin the alignment of spending projections. This review will continue into 2020/21 when it is expected that greater clarity of funding levels will be available.

### 3 GENERAL FUND BUDGET PROPOSALS

#### Draft Budget Proposals

3.1 The overall General Fund position for 2020/21 is shown at table 4 below and Appendix A(i). The net budget requirement for 2020/21 is estimated at £14.264m.

**Table 4 – Summary of General Fund Estimates**

Description	2019/20	2020/21	2021/22	2022/23
	Current Budget	Original Budget	Indicative Budget	Indicative Budget
	£'000	£'000	£'000	£'000
Commercial & Operations directorate	7,250	7,545	7,842	7,960
Finance, Legal & Democratic directorate	4,770	4,159	4,355	4,584
Growth directorate	6,595	5,223	5,257	5,247
Transformation & Change directorate	3,701	3,871	3,671	3,717
HRA recharge	(2,470)	(2,558)	(2,601)	(2,678)
<b>Net Cost of Services</b>	<b>19,846</b>	<b>18,240</b>	<b>18,524</b>	<b>18,830</b>
Interest Payable & Investment Income	100	(236)	(252)	(236)
Minimum Revenue Provision	308	302	296	291
Revenue Contribution to Capital	0	72	189	231
Depreciation	(3,619)	(4,114)	(4,586)	(4,722)
<b>Net Budget Requirement</b>	<b>16,635</b>	<b>14,264</b>	<b>14,171</b>	<b>14,394</b>
<b>Funding &amp; Resources:</b>				
Council Tax (Excluding Parishes)	(7,475)	(7,840)	(8,199)	(8,569)
Government Grants	(413)	(295)	(563)	(204)
Retained Business Rates	(5,154)	(4,954)	(3,757)	(3,831)
New Homes Bonus	(1,957)	(1,814)	(832)	(524)
Collection Fund Deficit	(1,390)	0	0	0
<b>Total Funding</b>	<b>(16,389)</b>	<b>(14,903)</b>	<b>(13,351)</b>	<b>(13,128)</b>
Transfers to/(from) earmarked reserves	(246)	639	189	36
<b>NET BUDGET DEFICIT</b>	<b>0</b>	<b>0</b>	<b>1,009</b>	<b>1,302</b>

3.2 The table confirms that a balanced position has been achieved for 2020/21 but the forecast for the following years shows the Council will be facing a significant deficit position based on current budget proposals. This is primarily a result of anticipated funding changes that will arise following the business rates reset and the predicted changes to the local government funding formula (this review is called the Fair Funding Review). It is important that members are kept updated as the financial landscape becomes clearer. However, in order to meet the financial changes that are predicted, a corporate review of aligning resources to the Council priorities is underway to ensure there is a managed and smooth transition as the Council adjusts to new reduced funding levels from 2021/22. This comprehensive review programme will also incorporate other initiatives including:

- Redefining the operating model of the Council
- Commercialism opportunities
- Transformation of services
- Exploring other operating models for service delivery
- Rationalisation of assets and operating costs

These programmes will be further developed into specific projects in order to meet the challenges of the predicted funding challenges.

### 3.3 Key Budgetary Proposals

The budgetary proposals for 2020/21 contain a number of service changes that have been incorporated in order to ensure there is a balanced budget for next year without the need to utilise reserves to support the financial framework. Each of the proposals will be required to be implemented with effect from 1 April 2020 in order to ensure the full financial saving is captured.

- Through the development of the emerging Customer Experience Strategy to create a modernised service fit for the future, the Council is reviewing its customer service provision; rationalising our face to face delivery and developing a range of other channels. Creating a modernised customer experience offering aims to provide choice and convenience to all customers, businesses and visitors in a cost-efficient value for money way. Therefore, budgets have been prepared to support the delivery of these objectives with specific emphasis on the Market Deeping and Stamford offer. The service must maximise the use of all channels available to improve our hours of accessibility by promoting self-service for all transactions and making it easy to do business with the Council, whilst supporting those most vulnerable. The budgeted saving is £81k and will be met from the delivery of the Customer Experience Strategy actions.
- Reduction in the grounds maintenance costs following a review of the specification – Following transfer of the grounds maintenance service to an arm’s length company (Environment SK), the first year has been focused on reviewing the service specification and introducing amendments to the specification that will deliver service efficiencies to the following areas:
  - General Fund £20k
  - Housing Revenue Account £50k
- The above review and subsequent reductions in operating costs has provided the opportunity for the Council to undertake the additional responsibility of verge grass cutting in and around Grantham. This is in response to the recent reduction in grass cutting undertaken by Lincolnshire County Council which has led to a rise in complaints regarding the untidy appearance of the town. Should the Council take on this responsibility then the annual charge will be met by the Grantham taxpayer through the Special Expense Area.

**Table 5 – Environment SK**

<b>Core Funding</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>
General Fund	302	289	289	289
Housing Revenue Account	328	278	278	278
Special Expense Areas	318	338	338	338
<b>Total</b>	<b>948</b>	<b>905</b>	<b>905</b>	<b>905</b>

- Included in the proposed 2020/21 budget proposals is a corporate staffing saving of £300k linked to management savings. This target saving continues the managerial review that started in 2017 with the senior management structural changes.
- During 2019/20 a corporate initiative supported by external partners, Ernst and Young, launched a process automation programme by creating a virtual worker to undertake routine tasks and processes in order to expediate processing times and enable staff to focus their time on front line

service delivery. It is anticipated that a full year saving of £200k will be achieved against this work programme.

- Procurement savings will continue to be identified during 2020/21 by working collaboratively with other authorities and by introducing commercial principles into contracts, specifications and ongoing effective contract management. This work is corporately supported by dedicated resources. The target saving for next year is £350k and is a recurring saving.
- Over recent years the Council has introduced a wide range of community focussed grants and financial support in the form of the Community Fund, Member ward scheme, LotterySK and CrowdFund SK. The value of these is in excess of £250k and it is considered that these separate funds can be consolidated and coordinated to ensure maximum impact. Therefore, it is proposed to reduce the Ward Member scheme to £500 per member and reduce the Community Fund by £50k to a new budget level of £100k. Based on current spending profiles it is anticipated that the reduced levels will meet the existing demand.
- Following a review of the current level of grant being allocated to InvestSK, and to ensure the Council can propose a balanced budget for next year, it is proposed to reduce the funding to the core funding level of £800k; focusing the work of InvestSK on economic development, inward investment and visitor economy in the District. To support the delivery of these outcomes InvestSK will also procure professional support directly from the Council.

**Table 6a - Invest SK - Current financial year funding**

<b>Funding</b>	<b>2019/20 £'000</b>
Core	800
Arts & Heritage	350
Skills (capacity bid)	110
Economic Development	108
<b>Total</b>	<b>1,368</b>

**Table 6b - Proposed funding levels from 2020/21**

<b>Funding</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>
InvestSK (focus on Economic Development, Inward Investment and Visitor Economy)	800	700	600
<b>Total</b>	<b>800</b>	<b>700</b>	<b>600</b>

- A number of revenue budget bids were presented as part of the budget setting process. These have been reviewed and are supported for inclusion into the budget proposals and therefore included in the proposed budgets detailed in table 4 and at Appendix B.
- The budget preparatory work has also incorporated a review of fees and charges in line with the principles set out in the draft Fees and Charges Policy. The full details of the proposed fees and charges are set out at Appendix E.

### **Budget Estimates – 2020/21**

- 3.4 The budget has been compiled to deliver the outcomes and aspirations of the Council. There are a number of budget assumptions that have been considered and incorporated into the budget estimates and these are listed below:

**Table 7 – General Fund Budget Increases**

<b>Cost Heading</b>	<b>2020/21 Budget Increases (%)</b>	<b>Financial impact £000</b>
National Business Rate	3.0	17
Utility Costs	3.0	13
Drainage Board Levies	3.0	17
Fuel Costs	5.0	29
Pay Award and incorporation of national living wage	2.0	393
Apprenticeship levy	0.5	57
Vacancy Allowance	0.5	70
Pension employer contributions (net increase)		
Primary	1.0	96
Secondary	1.0	159

- 3.5 These are budget assumptions that the Council annually anticipates and therefore they had been incorporated into the indicative 2020/21 budgets last year. Upon review there have been two changes to the assumptions built into the indicative budgets; these are the vacancy allowance which has been reduced from 3.5% to 3% resulting in a budget increase of £70k and the pension employer rates which have increased by 1% from 2020/21 onwards following the triennial review resulting in an overall budget increase of £255k.
- 3.6 Treasury Investment Income - the financial forecasts in respect of investment income over the next three years have been modelled on the following anticipated levels of interest rates (provided by the investment advisors). However, it must be noted that the forecasts remain volatile and therefore are liable to change over the budget period.

**Table 8 – Treasury Investment Financial Forecasts**

<b>Financial Year</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
Base Rate	0.75%	1.00%	1.00%
Investment Interest Rate	0.75%	1.00%	1.25%

- 3.7 This information has been utilised to anticipate the potential levels of interest income the Council will receive for its investment of the reserve balances. This income will be shared between the General Fund and the Housing Revenue Account (HRA). Forecast interest rates available to the Council are shown in the table above and expected to generate an income of £236k to the General Fund and £253k to the HRA. However, it should be noted that the forecast income can only be an estimate as it will be determined by the level of balances and the achievable interest rates over the financial year.

**Council Tax Proposals**

- 3.8 The proposed draft budget proposals for 2020/21 is calculated based on the options available for Council tax setting:

**Table 9 – Council Tax options**

	<b>2020/21 options</b>		
	£5 increase (3.15%) £163.62 Band D	3% increase £163.38 Band D	No increase £158.62 Band D
Council Tax level x 47,918.4** (inc. SEA*)	£7.840m	£7.829m	£7.60m



2020/21 options			
£m annual difference to a £5 increase	£0	(£11k)	(£240k)
SKDC only Band D Charge	150.11		
SKDC Including SEA	£163.62		

\*SEA – Special expense area

\*\* Council Tax base

3.9 The budget proposals for 2020/21 have been compiled on the assumption that the Cabinet would wish to recommend a £5 increase for 2020/21 in order to take advantage of the limited availability of the higher level (without the need for a referendum). This assumption has been included in the Medium Term Financial Plan. However, should a lesser amount be proposed then the following options would require consideration:

- Removal of growth built into the budget proposals proportionate to the financial difference
- Increase in savings, efficiencies and/or income to offset the reduction in Council tax income.
- Any new proposals under this heading would require careful consideration to ensure they are resilient, and can be delivered
- A one-off reserve movement to offset the financial difference. This would be a one-off solution only to avoid an ongoing dependency of reserve needed to fund budget proposals

Consultation in respect of Council Tax options for 2020/21 will be launched in January following the Cabinet meeting and the results will be fed back to Cabinet at their February meeting.

#### **4. HOUSING REVENUE ACCOUNT (HRA)**

4.1 The Council has refreshed its Housing Strategy to ensure it reflects current needs and priorities.

The key themes underpinning the strategy are:

- Help meet the housing needs of residents
- Facilitate the delivery of new housing across a range of tenures
- Enable those whose independence may be at risk to access housing (including their current home) that meets their needs
- Encourage, support and regulate the private rental sector to provide well managed, safe homes.

One of the areas that has been further enhanced in the refresh is developing new housing across tenure to prioritise a balanced housing market. To help deliver some of the challenging housing targets in the Local Plan, the strategy recommends the council exploring all mechanisms and/or vehicles to help deliver the scale and extent of new housing in the district.

In addition, new priorities have been added to capture best practice in housing delivery and make best use of its housing assets.

- Supporting Housing Independence for Older People and other Vulnerable Groups - remodelling & technology
- Provide the conditions for Tenant Involvement
- Improve Housing Services & Options
- Regenerate our Priority Neighbourhoods
- Energy Efficiency- Tackling Fuel Poverty/Climate Change in new developments and current Housing.

The overall Housing Revenue Account Revenue position for 2020/21 is shown at Appendix A(ii). The net surplus for 2020/21 before reserve movements is estimated at £5.493m.

### Housing Revenue Account 2020/2021 – Rent Proposals

- 4.2 The main element of policy relating to the HRA for 2020/21 is the setting of rents. The Government's 4-year social rent reduction policy has come to an end and in October 2017 the Government announced its intention to set a long term rent deal to permit annual rent increases on both social and affordable rent properties of up to CPI plus 1% from 2020, for a period of at least five years.
- 4.3 This increase in rent will see the annual budgeted rental income increasing from £24.408m in 2019/20 to £24.557m in 2020/21. For 2020/21 the average weekly rental increase for individual property will be £2.09. The average rent in 2020/21 will be £79.64 with a minimum of £52.87 and a maximum of £123.00. Garage rents are proposed to increase in line with inflation (3%) and service charges are proposed to increase in accordance with the fees and charges shown at Appendix E. Further analysis of rent details is provided below:

**Table 10 - Impact – 2.7% increase**

Bedrooms	% of Dwelling Stock	Average Weekly Rent 2019/20	Average Weekly Rent 2020/21	Average Increase	% Increase
Bedsit	0.57%	£54.79	£56.27	£1.48	2.7%
1 Bedroom	12.70%	£66.80	£68.60	£1.80	2.7%
2 Bedrooms	42.44%	£75.19	£77.22	£2.03	2.7%
3 Bedrooms	42.25%	£82.92	£85.16	£2.24	2.7%
4 Bedrooms	1.97%	£87.78	£90.15	£2.37	2.7%
6 Bedrooms	0.07%	£111.87	£114.89	£3.02	2.7%

**Table 11 - Increases for Individuals**

Bracket	Number of Properties	% Of Properties
Under £1.75	314	5.25%
£1.75 - £2.24	4,144	69.32%
£2.25 - £2.74	1,511	25.28%
£2.75 - £3.24	9	0.15%
<b>Total</b>	<b>5,978</b>	<b>100.00%</b>

- 4.4 In addition to using the 2.7% rent increase in setting the budget for rental income for future years further assumptions have been made. Void rent assumptions will be budgeted at 1.5% in line with last year's actual rate. Right to buy assumptions are set at 50 and this is in line with the current year projection.

### **5. CAPITAL PROGRAMME 2020/21 – 2022/23**

- 5.1 The capital programme has been formulated to deliver the Council ambitions of growth and investment in its assets to support the delivery of quality services. As the Council has a stated ambition to provide quality leisure services there is an anticipated capital investment programme requirement in the short to medium term. At the time of compiling the capital programme the financial scale of the investment is not yet approved as the business cases are being prepared. However, in anticipation of this and in response to the requirement to provide a new all-weather pitch facility for the Deepings area, a capital budget has been included so that this facility can be delivered once the feasibility study has been completed. In order to ensure that the investment programme is affordable it is recommended that the

£10m investment fund that was approved by Council at the last Budget meeting is deferred for the present time.

- 5.2 The £10m investment fund was to be funded entirely from external borrowing so therefore the associated revenue costs have now been removed from the 2020/21 – 2022/23 revenue budgets. The revenue costs associated with the financing of any borrowing linked to the leisure programme will need to be assessed for affordability based on the business cases. A summarised capital programme is shown below and a detailed capital programme included in Appendix C.

**Table 12 – General Fund Capital Programme Summary**

<b>Directorate</b>	<b>2020/21 Indicative Budget £'000</b>	<b>2021/22 Indicative Budget £'000</b>	<b>2022/23 Indicative Budget £'000</b>
Commercial and Operations	1,770	933	1,445
Finance, Legal and Democratic	50	0	0
Growth	1,590*	260	220
<b>Total Budget</b>	<b>3,410</b>	<b>1,193</b>	<b>1,665</b>
Financing:			
Capital Receipts	(1,090)	(729)	(525)
Grants	(1,022)	(189)	(231)
Reserves	(1,298)	(275)	(909)
<b>Total Financing</b>	<b>(3,410)</b>	<b>(1,193)</b>	<b>(1,665)</b>

\*includes £50k slippage from 2019/20 for tourism signage

- 5.3 The Council is committed to helping grow the local economy for the benefit of all residents in the district, both by supporting private sector activity and, where necessary, intervening more directly. The Council has various routes to do this, including Gravitas, the Council's housing-focussed company and via direct investment.
- 5.4 The capital strategy over the medium term will be focussed on supporting the delivery of the Growth ambition as set out in the Corporate Strategy and to support the delivery of the enhanced Leisure offer across the district. Cabinet will be presented with business cases to support the investment which will be underpinned by affordability and value for money appraisals at that time to ensure the scale of the investment is affordable in the context of competing investment opportunities.
- 5.5 Alongside this ambition, the capital programme includes investment in infrastructure that is vital to maintaining the delivery of quality services such as replacement of vehicles, maintenance of assets and ICT investment.

#### **Housing Investment Programme (HIP)**

- 5.6 The formation of the capital programme for the period 2020/21 – 2022/23 is based on an ambitious social housing building programme of £52.6m over a 3-year period. focussed on the continuation of the new build and stock acquisition programme and the objectives of the HRA Business Plan. This will continue to deliver investment into the housing stock through a range of programmes including kitchen and bathroom, re-roofing and external wall insulation.

**Table 13 – HRA Capital Programme Summary**

	<b>2020/21 Indicative Budget £000</b>	<b>2021/22 Indicative Budget £000</b>	<b>2022/23 Indicative Budget £000</b>
Decent Homes	<b>5,420</b>	5,880	5,848
Housing Growth	<b>21,500</b>	17,135	14,000
ICT	<b>430</b>	0	0
Repairs Vehicles	<b>140</b>	133	186
<b>HRA Budget</b>	<b>27,490</b>	<b>23,148</b>	<b>20,034</b>
Financing:			
Borrowing	<b>0</b>	(2,000)	(7,000)
Capital Receipts	<b>(4,000)</b>	(4,532)	(3,000)
Grants	<b>(5,650)</b>	(1,650)	0
Reserves	<b>(17,840)</b>	(14,966)	(10,034)
<b>Total Financing</b>	<b>(27,490)</b>	<b>(23,148)</b>	<b>(20,034)</b>

5.7 In order to accelerate the ambitions of the HRA and to deliver a stepped increase in the new build programme, it is proposed to include in the programme a significant allocation of £15m capital expenditure over the period of the programme in order for the HRA to procure strategic sites across the district where there is an identified need for housing development. In order to finance this ambition, it is necessary to divert resources away from the loan repayment reserve which is budgeted to have a balance of £16.35m as at 31 March 2019. This proposal will therefore require the Council to re-finance the £25m maturity loan by 27 March 2020.

## **6. Capital Financing**

6.1 The General Fund Capital Programme is detailed at Appendix C(i), the proposed schemes have been funded by a combination of external grants and Council reserves so for the duration of the proposed capital programme no external borrowing is currently required. The HRA Capital Programme is included at Appendix C(ii), the proposed schemes have been partly funded by borrowing due to the ambitious Housing Growth Scheme.

### **General Fund**

6.2 The General Fund capital programme for 2020/21 will be financed from the following

- £1.090m capital receipts reserve
- £1.022m specific grants (to be confirmed)
- £1.286m reserves

At the time of compiling the report, the specific grants referred to have not been confirmed and therefore the financing or level of the 2020/21 investment may require amending once the confirmed grant funding is known to the Council.

### **Housing Revenue Account**

6.3 The HRA capital programme for 2020/21 will be financed from the following:

- £4m capital receipts reserve
- £5.650m specific grants (to be confirmed)
- £17.840m revenue reserves

At the time of compiling the report, the specific grants referred to have not been confirmed and therefore the financing or level of the 2020/21 investment may require amending once the confirmed grant funding is known to the Council.

## **7. RESERVES AND BALANCES**

7.1 In line with good practice, the Council maintains a number of reserves which can be categorised as meeting the following requirements:

- To ensure the Council has sufficient funds available to meet its cash flow requirements and avoid unnecessary temporary borrowing and to protect services against unforeseen financial events – this is known as the working balance.
- A means of building up funds to meet known or predicted liabilities –these are known shown as discretionary and governance reserves

7.2 Through prudent financial management, the Council is in a position to be able to establish a number of specific general reserves that are set up to provide funding for an approved purpose usually in respect of specific services or corporate ambitions. The proposed changes to the reserves for the next financial year are:

- In line with good practice it is proposed to retain the General Fund working balance to circa. 10% of net cost of services. This will enable the Council to respond to any unforeseen financial pressures or demands not anticipated at the start of the financial year.
- Due to the increased fleet stock the Council now operates and manages particularly for Street Scene and Housing services, it is necessary to consider establishing a specific reserve to be able to respond to financial fluctuations arising from consumables. The reserve can also be utilised to fund other financial pressures within the Street Scene area such as fuel price increases. It is proposed to set this reserve at £200k.
- The Council holds and maintains a number of assets from which it either provides direct deliver services to customers or it receives an income through third party letting. In order to maintain and ensure the buildings are kept in good condition. Members will be presented with an updated Asset Management Strategy in 2020 and to support the aims of the Strategy it is proposed to increase the balance on the maintenance reserve which was established in 19/20 to fund one-off asset maintenance and improvements to £500k.
- It is proposed to maintain and replenish the ICT reserve which is used to provide in-year funding for both capital and revenue proposals that will support replacement or additional ICT provision and that align with the ICT Strategy. The reserve is increased to £400k to fund future commitments.
- In order to maintain and protect services and to ensure there is sufficient financial support, it is proposed to replace the existing Volatility Reserve with a new Budget Stabilisation Reserve. The primary purpose of the reserve is to absorb in year underspends and overspends when comparing actual expenditure and income to budget levels. In instances where there are underspends, these will be used to replenish the reserve and in instances where there are overspends, the reserve will be utilised to absorb the overspends to avoid detrimental impact on the service itself. The reserve will be set at £2.8m. In the event of any unforeseen costs resulting from the UK's departure from the European Union, the Council will be able to utilise this reserve for funding any short term detrimental impact on service delivery or adverse resident impact.

- The Council has recently declared a Climate Change emergency and has approved a dedicated resource to drive forward the necessary policy changes and to support the actions arising from the Climate Change Action Group which has been meeting over recent weeks. Therefore, a reserve of £20k is proposed to support the necessary work programme although it is also recommended that the reserve level is reviewed later in the year.
- In order to accelerate commercial opportunities that may arise during the financial year and that require a level of seed funding, it is proposed that a specific Commercial Reserve of £500k be established that can be utilised to provide initial in-year funding. It is further proposed that a business case (and supporting business plan) be presented to Companies Committee (in accordance with their terms of reference) for due consideration and then subsequently considered by Cabinet for release of these funds. Should the commercial proposal be approved then that necessary funding can be accessed from the reserve. The reserve level will be reviewed on an annual basis.

**Table 14 – Budgeted General Fund Revenue Reserve Movements**

<b>Reserve Heading</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>2022/23 £000</b>
Government Specific Grants	1	20	20
ICT reserve	(137)	(70)	(212)
Invest to Save	(213)	(150)	0
New Homes Bonus income allocated to Local Priorities Reserve	1,814	832	524
Pensions	(116)	(56)	(56)
Property Maintenance	(125)	(77)	(77)
Regeneration Reserve	(580)	(310)	(160)
Special Expense	17	29	29
Street Scene	(24)	(29)	(32)

7.3 The main proposed movements over the next three-year period are summarised above and include the following:

- In 2020/21 it is proposed that Government Specific Grants are used to part fund the local plan and costs incurred in electoral registration. The council receives £40k Neighbourhood Planning Grant each year, £20k of this grant will be used to fund a post each year and the balance will be transferred to reserves to be used when expenditure is identified. The provisional finance settlement details that the council will receive an additional £62k of Homelessness Grant, this will be transferred to reserves to be used when expenditure is identified.
- The ICT Reserve will be used to continue the funding of the agile rollout of devices to staff, rollout of Microsoft 365 software and the procurement of equipment hardware.
- The Invest to Save Reserve will be used to fund the remaining two years of the Intelligent Automation project with Ernst and Young (£150k per annum) and to fund specific salaries that are deployed in the transformation service area.
- New Homes Bonus totalling £3.170m is budgeted to be transferred to the Local Priorities Reserve over the period of the 3-year budget. It is proposed that £1.445m of this reserve is used to finance the capital programme which includes £150k match funding for the Heritage Action Zone grant and £1.09m funding for capital improvements to the Councils existing assets.

- The balance on the current pension reserves will be used to part fund the annual pension costs and the former employee reserve will be utilised to fund the pension costs associated with employees previously employed by the council.
- The Property Maintenance Reserve will be utilised over the budget period to provide the financing of essential property related works such as leisure centres and other public buildings. Following the approval of the revised Asset Management Strategy, the reserve will be focussed on investing in the approved strategic assets.
- The Regeneration Reserve will be utilised over the period of the budget to finance the borrowing costs associated with the St Martin's Park acquisition, feasibility works and the associated revenue costs.
- Both Grantham and Langtoft Special Expense Reserves will be utilised over the period of the budget proposals. In respect of Grantham this will be to support the expenditure costs of future capital projects and Langtoft reserve will be reduced over the next 3 years to contribute towards the operational costs of the SEA resulting in a reduced cost to those residents over the same period.
- The Council's fleet has increased by 58 vehicles since 2014 and the number of years that the RCV's (refuse collection vehicle) are retained for has increased which have both impacted on the cost of the workshop parts. It is therefore proposed that the Street Scene reserve is utilised to fund these additional costs.

7.4 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. The Major Repairs Reserve is the primary source of funding for the HRA capital programme and is proposed to be utilised to fund the investment in the housing stock over the next 5 years. As previously referenced, it is proposed to re-direct funds from the loan repayment reserve in order to provide financial support to an ambitious acquisition programme to support new build and stock growth. Further detail of the HRA reserves can be found in Appendix D.

**Table 15 - Budgeted HRA Reserve Movements**

<b>Reserve Heading</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>2022/23 £000</b>
Service Specific Reserve	(172)	0	0
Capital Receipts Reserve	(30)	(30)	(30)
Major Repairs Reserve	3,194	2,781	2,631

- The balance on the Service Specific Reserve will be utilised to part fund the pension costs in 2020/21.
- The legal fees incurred in the disposal of council dwellings are charged to the revenue budget and are then funded from the Capital Receipts Reserve.
- There is an annual requirement for a revenue contribution to the Major Repairs Reserves which is utilised for capital investment in the council's housing stock.
- There is an annual transfer of £3.222m from the HRA surplus to the working balance which is used to fund the principal repayment of the EIP loan taken out under the HRA self-financing in 2012.

## 8. FEES AND CHARGES

- 8.1 Fees and charges are becoming a key element of the Council funding which raise approximately £6m towards the costs of delivery for specific services. In order to ensure a consistent and transparent approach to fee setting, a fees and charges policy has been developed and this is shown at Appendix D. The policy introduces a set of principles which will be applied to fees and charges setting going forward. Due to the requirement to review all charges, the policy will be applied over the next 3 financial years in order that over the time period a consistent approach has been fully implemented.
- 8.2 The Council provides a wide range of services for which it is able to make a charge – either under statutory powers (set by the Government) or discretionary (set by the Council). Further definitions of the two main categories of charge are detailed below:

**Regulatory** – the majority of charges are set nationally and local authorities have little or no opportunity to control them. The income received from these charges is important as it contributes to the overall financial position of the Authority. However, income cannot be assumed to increase in line with other fees and charges set by the Council. Also included under this heading are a few areas where the service is statutory or established by local by-law but the charges have a discretionary element.

**Discretionary Charges** – By definition, these are for discretionary services where local authorities can make their own decisions on setting the level of charges. Accordingly, when setting these fees and charges, the Council's approach should be clear and in line with the corporate priorities.

- 8.3 A summary of the proposed fees and charges for 2020/21 are shown in the table below and full details are shown at Appendix E:

**Table 16 – Fees and Charges Summary**

QUADRANT (as per the Policy)	HEADING	PROPOSAL FOR 2020/21	INCORPORATION OF POLICY PRINCIPLES
Discretionary	Arts Centres	3% (rounded to £1)	Subsidised
	Bus stations	Up to 3%	Subsidised
	Car parking charges	Inflationary increase (inflation since 2010)	Cost Recovery
	Car parking penalty charge notices	0%	Cost Recovery
	Green waste	DDR/Online 12% Offline/cash/cheque 17% Additional bins DDR/Online 20% Additional bins Offline/cash/cheque 24%	Cost Recovery
	Markets	Up to 3%	Subsidised
	Outdoor recreation	Up to 3%	Subsidised
	Planning and pre-planning charges set locally	Up to 15%	Cost Recovery
	Supply of new or replacement bins	0%	Cost Recovery
	Air Quality	0%	Cost Recovery
	Alcohol licensing	0%	Cost Recovery



Regulatory	Bingo premises, betting premises etc	2%	Cost Recovery
	Building control charges	0%	Cost Recovery
	Cemetery charges	Up to 3%	Cost Recovery
	Fees for Scrap Metal dealers, tattooing, acupuncture, control of dogs, caravan parks etc	Full cost recovery analysis undertaken	Cost Recovery
	Fixed Penalty Notices- Nuisance parking/ Waste Transfer Offence etc	0%	Cost Recovery
	Fixed Penalty Notices – Littering/Fly posting	0%	Cost Recovery
	Gambling Licensing- Gaming machines and lottery licenses	Up to 2%	Cost Recovery
	Hackney Carriage, Animal licenses and sex establishments etc	Full cost recovery analysis undertaken	Cost Recovery
	Houses of Multiple occupancy, Immigration inspections, contaminated land enquiries & Sampling of water supplies	Up to 12%	Cost Recovery
	Letting Agents Redress Scheme	0%	Cost Recovery
	Local Land Charge fees	0%	Cost Recovery
	Planning fees set by Government	0%	Cost Recovery
	Smoke free fixed penalty notices and smoke and carbon monoxide alarms for landlords	0%	Cost Recovery
	Specialism	Community rooms & guest rooms	Up to 3%
Domestic refuse collection e.g. bulky waste		Up to 25%	Cost Recovery
Hygiene food safety, packs and energy efficiency standards		Full cost recovery analysis undertaken	Cost Recovery
Total Cost Recovery	MOT Fees	0%	Cost Recovery

## **9. Other Financial Considerations**

- 9.1 In recent weeks there have been two significant publications by CIPFA which are designed to assist local authorities in ensuring there is sound financial management practices and governance at a time of financial pressures and uncertainty. These publications are the Financial Management Code and the Prudential Property Investment Guidance.

### **Financial Management Code**

- 9.2 The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

- 9.3 The Code is made up of a number of underlying principles that inform the requirements of it. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional standards is promoted by the leadership team and is evidenced.
- Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

- 9.4 Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. Local authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will therefore be 2021/22. The Council already has in place a number of established financial arrangements and has policies and procedures that meet the Code requirements. However in order to respond to the timescale a full review of the current financial management cycle will be reviewed alongside the Code principles in order to allow sufficient time for any modifications to be incorporated from April 2020.

### **Prudential Property Investment Guidance**

- 9.5 Over the last five years there has been a growing trend for authorities to acquire land and buildings with the effect of supplementing their revenue budgets with rental income. Often these acquisitions have been supported by borrowing cheaply from the Public Works Loan Board (PWLB).
- 9.6 Questions have been asked about how these transactions fit with the guidance that has traditionally been given that borrowing to make an investment return is not permissible. The Ministry of Housing, Communities and Local Government's (MHCLG) Statutory Guidance on Local Government Investments and CIPFA's Prudential and Treasury Management codes have all been updated recently to address the implications of investment in property.
- 9.7 The scope of the new guidance extends to all acquisitions of land and/or buildings where rental income and/or capital appreciation are a substantial consideration in the decision whether to enter into the transaction.
- 9.8 A decision to acquire property intended to make an investment return will have three parts:
- the identification of the legal powers that support the proposed transactions
  - demonstration that the exercise of these powers would be reasonable
  - confirmation that the authority wishes to take the proposed course of action.
- 9.9 The guidance sets out the case that authorities should not enter borrowing to fund commercial investment property purchase; authorities need to be transparent about investment details and making a full analysis with attention paid to risk to future revenue budgets.
- 9.10 CIPFA published this paper in response to the increase in commercial property investment across local government and concerns about risk to future revenue budgets alongside government concerns regarding cheap borrowing potentially causing market distortion.
- 9.11 The main point throughout is that authorities must not borrow more than or in advance of needs purely in the interest of profit. Therefore, should the Council consider any future commercial investments then due consideration of the guidance should be included into the decision-making process which is in line with the Treasury Management Strategy.

## **10 Consultation and Feedback Received, Including Overview and Scrutiny**

- 10.1 The Budget Joint OSC is the opportunity for members to consider the budget proposals for 2020/21 and to make any recommendations with respect to the information set out in the report.

## **11 Available Options Considered**

- 11.1 N/a

## **12 Preferred Option**

- 12.1 The report presents a number of options for members to consider.

## **13 Reasons for the Recommendation (s)**

- 13.1 The Council is legally required to set a balanced budget each financial year.

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

- 14.1 The budget proposals will be considered by Cabinet at their next meeting.

## **15 Financial Implications**

- 15.1 These are considered throughout the report and supporting appendices.

**Financial Implications reviewed by: Richard Wyles, Director of Finance**

## **16 Legal and Governance Implications**

- 16.1 The recommendations relate to proposals for the budget which forms part of the budgetary and policy framework in accordance with the Budget and Policy Framework Procedure Rules set out at Part 4.21 of the Constitution of the Council. Members must consult with the community on the proposals contained within this report as required in accordance with statutory regulation and constitutional requirements.

**Legal Implications reviewed by: Shahin Ismail, Head of Legal Services**

**17 Equality and Safeguarding Implications**

- 17.1 All equality and safeguarding implications will be considered as part of any of the proposals being approved.

**18 Risk and Mitigation**

- 18.1 A risk analysis has been undertaken and is provided at Appendix G.

**19 Community Safety Implications**

- 19.1 None identified

**20 Other Implications (where significant)**

- 20.1 None identified

**21 Background Papers**

- 21.1 N/a

**22 Appendices**

Appendix A - Revenue summary – GF and HRA

Appendix B - General Fund Revenue Budget Bids

Appendix C – Capital & Financing Statement – GF & HRA

Appendix D – Reserves Statement – GF & HRA

Appendix E - Fees and charges policy

Appendix F – Fees & Charges – GF and Housing Revenue Account (HRA)

Appendix G – Risk Analysis

<b>Report Timeline:</b>	Date of Publication on Forward Plan (if required)	9 January 2019
	Previously Considered by: Budget - Joint Overview and Scrutiny Committee	14 January 2020
	Final Decision date	27 February 2020