



BUDGET – JOINT OVERVIEW & SCRUTINY COMMITTEE

Report of
Cabinet Member for Finance
Cabinet Member for Communities

Report to:	BUDGET – JOINT OVERVIEW & SCRUTINY COMMITTEE
Date:	10th JANUARY 2018
Subject:	BUDGET PROPOSALS 2018/19 (CFM447)

Decision Proposal:	Budget Framework Proposal
Relevant Cabinet Member:	Councillor Adam Stokes, Cabinet Member for Finance Councillor Nick Neilson, Cabinet Member for Communities
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SUMMARY

The purpose of this report is to present to the Overview and Scrutiny Committee:

The Budget estimates for 2018/19, revenue and capital, for both the General Fund and the Housing Revenue Account and provide the details that have been included in the budget proposals.

RECOMMENDATION

The Budget – Joint Overview and Scrutiny Committee is asked to review and consider the budget proposals for 2018/19 in respect of:

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

1. BACKGROUND TO REPORT

- 1.1 The Council is required to set a balanced budget and agree the level of Council Tax for 2018/19. The purpose of this report is to present Cabinet's draft proposals for the 2018/19 budget to the Budget Overview and Scrutiny Committee. This is considered to be a key part in the development and scrutiny of the budget for the coming year.
- 1.2 The budget setting process commenced in August 2017, and the proposals have been formulated by the Cabinet, working closely with officers, through a number of budget workshops. The objective of this process was to realign resources and spending plans to ensure the key priorities and aspirations of the Council can be delivered. This has resulted in proposed investment of £2.920M in 2018/19 in areas such as the Big Clean, Invest SK and several initiatives to transform the way the Council operates.
- 1.3 This report covers a number of areas:
- The funding position for the General Fund (section 2)
 - The draft general fund budget requirement (section 3)
 - Fees and Charges (section 4)
 - The Housing Revenue Account (HRA) position (section 5)
 - The Capital Programme 2018/19 to 2020/21 (section 6)
 - Reserves and Balances (section 7)

2. THE FUNDING POSITION FOR THE GENERAL FUND

2.1 Provisional Finance Settlement 2018/19

The Council remains within the Government's four year funding deal after it had successfully submitted an Efficiency Plan. The Plan provides details of how the Council is meeting the financial challenges and delivering its priorities against a backdrop of reducing reliance on Government grant. The four year deal covers the period 2016/17 to 2019/20 and allows the Council to consider annual Council Tax increases of £5 per annum for the period of the Plan. In the 2018/19 technical consultation, DCLG confirmed that the figures quoted in the four year deal had not changed (the offer was subject to an annual refresh in the event of exceptional circumstances).

- 2.2 Whilst indicative baseline funding has been set by Government, the Council will not be able to determine the overall allocation of funding resources until it has undertaken a forecast of the projected retained element of business rates for 2018/19. Business rates are the main component of the annual funding following the withdrawal of revenue support grant but are also the most volatile given that the composition and calculation of business rates are outside the remit of the Council.
- 2.3 The Council will be able to more accurately assess the indicative resources it will derive from business rates once it has submitted the statutory annual Government return which is undertaken towards the latter part of January 2018. The financial implications of this will be incorporated into the budget proposals presented to Cabinet on 8th February 2018.
- 2.4 Based on indicative information Table 1 below details an assessment of the Council's spending power for the current financial year and indicative for the next 4 years.

Table 1

	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Business Rates *	3.7	4.2	4.5	3.9	4.0
Revenue Support Grant	1.0	0.5	-	(0.1)	(0.2)
New Homes Bonus	3.2	2.2	2.0	1.9	1.7
Other Core Spending Power Grants	0.2	0.2	0.2	0.2	0.2
Council Tax	6.9	7.2	7.5	7.8	8.1
Total Resources	15.0	14.3	14.2	13.7	13.8
Annual % change		-4.7%	0.1%	-3.5%	0.7%

*The model assumes a full reset by Government in 2020/21 and includes forecast collection fund deficit

- 2.5 These projections assume a modest decline of resources over the period and demonstrate that there will not be a compensatory increase in business rates to offset the cessation of the revenue support grant in 2019/20 and therefore core funding will reduce in real terms. It has been confirmed that the Council has been successful in its bid to be part of a 100% business rate retention pilot for Lincolnshire for 2018/19, and therefore the grants referred to above will be removed and absorbed into the overall funding arrangement. The Council will therefore receive the same level of funding although the detail of the funding will change.

2.6 New Homes Bonus

The Government undertook a consultation as to the future of the New Homes Bonus (NHB) and has introduced a number of changes that will reduce the amount of potential funding the Council will receive in the future. These are detailed as follows:

- A move from 6 to 5-year payments for both existing and future NHB allocations in 2017/18 and then to 4 years from 2018/19.
- The introduction of a national baseline of 0.4%, for 2017/18, below which allocations will not be made. The higher baseline of 0.4% further reduces the number of authorities receiving the NHB.
- The government will also retain the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth. This suggests that, in the absence of scaling, the government will alter the baseline each year, to ensure that the national control totals are not exceeded (in terms of the payments required).

2.7 The effect of these changes are shown in the table below:

Table 2

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£M	£M	£M	£M	£M	£M
Expired funding	0.0	0.0	1.3	2.7	3.3	4.0
2011/12	0.666	0.666				
2012/13	0.623	0.623				
2013/14	0.759	0.759	0.759			
2014/15	0.631	0.631	0.631			
2015/16	0.653	0.653	0.653	0.653		
2016/17		0.645	0.645	0.645	0.645	
2017/18			0.480	0.480	0.480	0.480
2018/19				0.480	0.480	0.480
2019/20					0.480	0.480
2020/21						0.480
Annual NHB grant	3.332	3.977	3.168	2.258	2.085	1.920

2.8 Currently the Council policy is to use NHB receipts to fund one-off projects (and any unplanned in-year revenue expenditure) rather than be used as core funding to support day to day revenue expenditure and has established a 'local priorities' reserve. Going forward, this approach will require careful consideration given the direction of travel of future NHB receipts.

3 GENERAL FUND BUDGET REQUIREMENT

Draft Budget Requirement

- 3.1 The proposed draft budget requirement for 2018/19 is calculated based on the options available for Council tax setting:

Table 3

2018/19 options			
	£5 increase (3.36%) Band D	3% increase £153.07 Band D	No increase £148.62 Band D
SFA (settlement funding assessment)	£5.2M	£5.2M	£5.2M
Council Tax level x 46,519.3** (inc. SEA*)	£7.146M*	£7.121M*	£6.914M*
SKDC Total (inc. SEA)	£12.346M	£12.321M	£12.114M
£M difference to £5 increase		(£0.025)M	(£0.232M)

*SEA – Special expense area

** Council Tax base

The provisional local government finance settlement announced on 19th December 2017 gave local authorities the option to raise Council Tax levels by a further 1% for 2018/19 without the need for a local referendum. This does not replace the previously agreed option of district councils being able to raise their element of Council tax by £5. The financial implications of these options are shown above.

- 3.2 It is anticipated that the total funding available will change following the compilation of projected business rates revenue as the SFA figure shown above includes only baseline funding and not actual projected revenue. Cabinet will be updated at their meeting on 8th February as part of their budget proposals for 2018/19.

Budget Estimates – 2018/19

- 3.3 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 4 – Budget Assumptions

Cost Heading	Assumption (%)	£'000 – Financial impact
Retail Price Index	3.0	200
National Business Rate	3.0	25
Utility Costs	3.0	21
Drainage Board Levies	Ranging from 2 – 3.0	18
Fuel Costs	3.0	26
Pay Award and incorporation of national living wage	2.0	447
Interest Rates Income	0.73	(250)
Apprenticeship levy	0.5	48
Workforce Efficiency Target	3.5	(490)

- 3.4 These are budget pressures that the Council annually anticipates and therefore the majority of them were previously built into the indicative 2018/19 budgets when these were set a year before. However the provisional pay award and incorporation of the national living wage was not anticipated at the levels quoted above. Therefore in order to incorporate this level of increase into the proposed base budgets it has been necessary to establish a corporate savings target of £300K. This pressure on the salary budgets will continue in the medium term as the increases in the national living wage impacts on the lower salary bandings of the Council pay scales. It will be necessary to incorporate this new pressure into the Medium Term Financial Strategy in order to model the financial impact and how this can be incorporated into future spending proposals.
- 3.5 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):

Table 5 – Treasury Investment Financial Forecasts

Financial Year	2018/19	2019/20	2020/21
Base Rate	0.50%	0.75%	1.00%
Money Market Rate	0.82%	0.98%	1.18%
Weighted average Money Market rate	0.73%	0.88%	1.05%

- 3.6 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 £250K to the General Fund and £228K 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.
- 3.7 The overall General Fund position for 2018/19 is shown at table 6 below. The total service expenditure (net of direct income) for 2018/19 is estimated at £17.161M. The 2018/19 proposals no longer include a revenue contribution to the capital programme which will result in the equivalent amount being funded from capital reserves. This will be reviewed on an annual basis and future years’ budget proposals may be able to consider the inclusion of revenue contributions subject to any available funding headroom.

Table 6 – Summary of General Fund Estimates - Indicative

		Adjusted base 2017/18 £'000	Estimated base 2018/19 £'000	Indicative base 2019/20 £'000	Indicative base 2020/21 £'000
1	Growth (net)	161	1,055	204	13
2	Environment (net)	7,408	7,110	7,211	7,269
3	Culture (net)	3,227	3,696	3,776	3,854
4	Housing (net)	1,059	1,105	1,152	1,255
5	Corporate (net)	4,862	4,195	3,741	3,543
6	Net Service Costs	16,717	17,161	16,084	15,934
7	Investment Income	(157)	(250)	(220)	(200)
8	Minimum Revenue Provision	153	147	141	135
9	Depreciation	(3,740)	(2,752)	(2,531)	(2,850)
10	Revenue to capital contribution	385	0	0	0
11	Transfer from Reserves	(917)	(1,960)	(999)	(929)
12	Budget Requirement	12,441	12,346	12,475	12,090
13	Financed by:				
14	Council Tax	6,854	7,146	7,490	7,754
15	Settlement Funding	5,587	5,200	4,985	4,336

3.8 Capacity and Growth Bids

The budgetary proposals for 2018/19 include a number of new growth proposals that are designed to introduce capacity into key priority areas, some of which continue the investment that has already been approved by Council during the current financial year. The details of these are provided at Appendix A and summarised in the table below. The increase in budget in respect of the changes to Members Allowances, as approved by Council (£110k) has also been incorporated into the budget.

Heading	£000s
The Big Clean	430
Invest SK	800
Leisure and the Arts	350
Transformation, commercial and budget pressures	1,340
Total proposed investment 2018/19	2,920

3.9 The growth proposals set out above are being funded through a significant number of new initiatives designed to deliver corresponding savings over the budget period. These have been categorised under a number of theme headings and are summarised in the table below and provided in greater detail at Appendix B.

- 3.10 A proportion of the reductions are predicated on the Council operating more commercially, such as the operation of a commercial waste service. Operating in a commercial environment brings a degree of risk of achieving the budgeted savings due to external influences, some of which are outside of the control of the Council. Robust governance and tracking arrangements will be put in place to monitor savings and identify mitigating actions where necessary to ensure the overall savings target is achieved.
- 3.11 The proposed investment does not include any cost implications of the re-modelling of the St Peter's Hill council offices which will be subject a separate report to Cabinet on 8th February 2018. The financial implications of the proposal will be incorporated into the budget proposals that are presented to the February meeting.

Use of Reserves, Savings, Efficiencies & Income Generation

Area	£000s
Use of reserves Invest to save reserve to fund transformation team, use of local priorities reserve to part fund Big Clean, festivals and community fund. Use of pension reserve to contribute towards employer contributions	(1,960)
Budget reductions, savings and efficiencies Changes to staffing terms and conditions, increase of vacancy factor to 3.5%, staffing changes in some areas, budget reductions in use of consultants, agency staff and subscriptions Savings and efficiencies service transformation, shared services, corporate procurement	(1,383)
Fees and charges and income generation Planning fees, green waste collection, car parking incl. season tickets, increase number of market stalls New income generation Web advertising, sharing expertise, commercial waste, Council company, sharing of ICT platforms, St Peter's Hill development	(1,111)
Total for 2018/19	(4,454)

4. FEES AND CHARGES

- 4.1 The draft fees and charges proposals for 2018/19, which are set out in Appendix C, have been compiled and are discussed below in more detail for consideration by this Committee.
- 4.2 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:

Statutory Charges – 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 principle established in the current Medium Term Financial Strategy (MTFS) - "*Fees and charges should be reviewed annually and any changes should have regard to the priority outcomes.*"

4.3 The annual review of fees and charges (particularly in discretionary areas) is a fundamental element of the Council's approach to delivering its MTFS and Corporate Plan. The Council is developing strong commercial values and together with comprehensive market knowledge this has informed the review of fees and charges. The fees and charge proposals for 2018/19 include a number of new discretionary charges that emphasise this new approach and will introduce new income streams. These include:

- Commercial waste services to businesses in the district
- Commercial advertising and sponsorship
- Selling expert advice services

These have been included in the draft budget proposals, as set out above in Section 3.

Current Proposals for 2018/19

Planning Fees (Statutory)

4.4 A recent initiative allows the Council to take advantage of a 20% increase in the nationally set planning fees if it leads to better services, improved performance and creates greater capacity to deliver the Government's aspirations for housing growth. To achieve this, it will be important to invest a significant proportion of the additional income in the planning service to support the local economy and especially local house builders. The increase was scheduled to come into effect on 1st July 2017 but at the time of compiling the report no specific announcements have been made and therefore the appended fees and charges remain at the current levels. Based on a full year impact, initial estimates indicate that the 20% uplift could equate to a circa £176k pa increase in gross income from planning application fees.

Car Parking (Discretionary)

4.5 The current tariffs have remained unchanged since 2010 and usage since that time has remained relatively stable whilst operating costs have increased particularly maintenance, business rates and enforcement. It is recognised that town centre parking is a major component of the economic viability of each town and that tariffs

should be used as a traffic management tool to control and influence parking behaviour and patterns.

- 4.6 At the time of compiling the report a range of tariff proposals are being compiled and these will be presented to the Committee at the meeting for its consideration. The proposals will exclude proposed changes to the Welham Street Grantham car park as these are being considered separately by Cabinet details can be found at: <http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=164&MId=3500&Ver=4>

Green Waste & Domestic Waste (Discretionary)

- 4.7 It is proposed to increase the fee per bin for collecting and disposing of green waste from £30 to £32 for residents who pay online or by direct debit and from £33 to £35 for those who pay in person or by telephone. This is estimated to generate an additional £30k income compared to the indicative budget for 2018/19 and will be used to contribute towards the operational costs of delivering the service. Going forward, it is proposed that marketing will be targeted towards sales of second bins in order to generate renewed interest in this aspect of the service offer.

Markets (Discretionary)

- 4.8 The weekly markets are widely regarded as a key element of the attractiveness and economic viability of each of our market towns and attract visitors from outside the district. In recent years, the economic performance of the markets has declined resulting in a number of initiatives to stimulate and promote them. These include themes such as farmers markets, French markets and an annual beach theme at Grantham during a weekend in the summer. Traditionally, stall lettings charges have been increased with inflation to keep pace with annual cost increases for hosting them but evidence suggests that annual increases in fees may actually be harming the viability of the markets rather than increasing annual revenue. There is a range of tariffs and charges in place at each market town. This reflects the popularity, viability and therefore the level of subsidy for each market.
- 4.9 In view of the above, it is proposed that the fees and charges for 2018/19 remain at current levels. Going forward, a number of initiatives are being considered to increase capacity and stimulate performance of the markets.

Proposed New Fees and Charges

- 4.10 The following new fees and charges will be introduced from April 2018:
- Environmental Health – Food Hygiene Rating Scheme (Re-inspection/Re-visit). (Appendix C page 44)
 - Environmental Health – Sampling of Private Water Supplies Taken During Monitoring of Group A and B Parameters (Appendix C page 45)
 - Environmental Health - Private Sector Housing Civil Penalties.

- 4.11 The proposal to introduce a trade waste collection service is detailed in Cabinet Report ENV671
<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=164&MId=3501&Ver=4>
The service will be operating in direct competition with other providers and therefore in order to compete on the same terms our prices need to remain commercially confidential. For this reason, they will not form part of the annual scale of charges publication process.

Other Discretionary Fees & Charges

- 4.12 It is proposed that, where appropriate all discretionary fees and charges be increased in April 2018 by inflation (3.0%). However, it is recognised that there may be some exclusions – see narrative below.

Bus Station Departure Charges

- 4.13 The Council provides three differing bus stations in the towns of Grantham, Stamford and Bourne and has in the past sought to recover the operational costs of each station from the departure charges that are levied on the bus operators that use them. In order to maintain a balance between bus operators contributing towards the running costs of the facilities and the subsidy level it is proposed no increase for 2018/19.

Arts Centres & Corn Exchange

- 4.14 The arts venues at Grantham and Stamford offer a wide and diverse range of activities and attract several sources of income ranging from performance ticket sales through to venue hire. The published fees relate to predominantly hire charges that are aimed at conferences, weddings and commercial hire. In order to ensure that the offer remains competitive, the published fees are provided as guidance and specific quotes are available depending on hiring requirements. This discretion is detailed on the appropriate fees page of the budget book.

Cycle Centre- Grantham

- 4.15 No increase is proposed as an alternative charging structure will require consideration following the introduction of a new offer as part of the wider St Peter's Hill Development.

Building Control

- 4.16 No increase in fees and charges is proposed for 2018/19 but one additional charge will be introduced relating to "forming a single structural opening".

Neighbourhoods

- 4.17 A number of issues have been raised in relation to fly tipping and the published fixed penalty notices based on DEFRA guidance. As a result, the charges for fixed penalty notices after discount for payment in 10 days have been removed. In order

to deter people from fly tipping and influence behaviour, the fixed penalty charge has been increased from £200 to £400.

MOT Testing

- 4.18 No increase is proposed on MOT testing based on the Vehicle and Operator Standards Agency (VOSA) recommended fees.

Statutory Fees and Charges

- 4.19 As mentioned above, the charges for the majority of statutory services are set nationally and local authorities have little or no influence over them as this is done by Central Government. In a few cases, where the Council has some discretion over the charge set, the fee has been increased by inflation (3%), e.g. premises/personal registration for acupuncture and the licensing of premises for bingo, etc.
- 4.20 Table 7 below provides a list of mainly statutory charges levied by the Council. Further details of the charges can be found in Appendix C.

Table 7 – Statutory Charges

Business Area	Charging Category	Priorities	Current Charging Principle	App. C Page Number
Environmental Health	Local by-law	Environment	Full cost recovery	44
Environmental Health	Statutory function with discretionary charge	Environment	Full cost recovery	44,45
Environmental Health	Statutory	Environment	N/a	44,45
Gambling Licensing – permits	Statutory	Environment	Full cost recovery	53
Gambling Licensing – premise licences	Statutory function with discretionary charge	Environment	Full cost recovery	52
Air Pollution	Statutory	Environment	N/a	46,47
Planning Applications	Statutory	Housing	Subsidy/Partial Cost Recovery	58-60
Liquor Licensing	Statutory	Environment	Full cost recovery	49-51

5. HOUSING REVENUE ACCOUNT (HRA)

5.1 The draft proposals for the HRA enable key areas of activity to be carried out including:

- Letting homes , managing and supporting tenancies
- Engaging and involving tenants in service delivery
- Continuing investment in the housing stock
- Providing a timely and effective responsive repairs service
- Continuing to improve the energy efficiency of the stock and attracting external funding
- Ongoing investment in improving access to sheltered schemes and communal areas of accommodation
- Acquisition and development of additional homes within the HRA

5.2 As part of the budget formation there are a number of additional items of expenditure and these are detailed as;

- The post of Assistant Director of Housing has been created to support the delivery of the ambitions in relation to housing growth and development and to provide support for developing the HRA business plan.
- The national pay award of 2% and implementation of the national living wage has been included in the proposals resulting in additional salary costs of £67K.
- An increase in the HRA proportionate share of central support and democratic costs of £90K.
- Social housing is now discounted to 42% of the vacant possession value rather than 34% in previous years. This increased valuation has resulted in an increase in capital charges of £476K. This increased capital charge is later removed and therefore has no overall effect on HRA balances.
- Grass cutting and responsive grounds maintenance costs have risen by £15K.

5.3 The Housing Revenue Account has continued its track record of delivering savings and efficiencies whilst ensuring that resources are allocated to front line services and delivering strategic outcomes. Further savings have been identified as part of the 2018/19 budget setting in addition to the £264K savings brought forward from previous years. These are shown below:

Table 8 – Savings & Efficiencies

Heading	Details	£000
Property Improvements	Reduced demand for surveys and asbestos removal on future contracts	70
Responsive Repairs	Replacement of communal doors financed by the capital programme budget	40
Responsive Repairs	Reduction in overtime costs due to increased efficiency	11
Responsive Repairs	Reduction in standby payments due to increased efficiency	24
Responsive Repairs	Reduction in agency staff costs due to the DWO being fully staffed	16
Housing management	The contract with external mortgage provider will terminate from 1/4/18	8
Sheltered Housing	A reduction in utility costs identified as part of zero based budgeting	25
Total		194

Housing Revenue Account 2018/2019 – Rent Proposals

- 5.4 The main element of policy relating to the HRA for 2018/19 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%. Based on an assumed level of CPI this will result in approximately £10M less rental income than previously anticipated.
- 5.5 This decrease in rent will see the annual rental income reducing from £24.825M in 2017/18 to £24.439M in 2018/19. For 2018/19 the average weekly rental decrease for individual property will be £0.78. The average rent in 2018/19 will be £78.43 with a minimum of £52.00 and a maximum of £113.94. 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 C. Further analysis of rent details are provided below:

Rent Summary –1% rent reduction**Table 9**

Average rent Per Week (£)	£78.43
Average decrease Per Week (£)	£0.78
Average decrease Per Week (%)	1%

Impact – 1% decrease

Table 10

Bedrooms	% of Dwelling Stock	Average Weekly Rent 2017/18	Average Weekly Rent 2018/19	Average Decrease	% Decrease
Bedsit	0.40%	£55.74	£55.18	£0.56	1%
1 Bedroom	12.49%	£68.21	£67.53	£0.68	1%
2 Bedrooms	41.81%	£76.70	£75.93	£0.77	1%
3 Bedrooms	43.32%	£84.59	£83.75	£0.84	1%
4 Bedrooms	1.98%	£89.54	£88.65	£0.89	1%

Decreases for Individuals

Table 11

<i>Bracket</i>	<i>Number Of Properties</i>	<i>% Of Properties</i>
<i>Under £0.66</i>	<i>219</i>	<i>3.61%</i>
<i>£0.66 - £0.85</i>	<i>4,510</i>	<i>74.40%</i>
<i>£0.86 - £1.05</i>	<i>1,329</i>	<i>21.92%</i>
<i>£1.06 - £1.25</i>	<i>4</i>	<i>0.07%</i>
<i>Total</i>	<i>6,062</i>	<i>100.00%</i>

- 5.6 In addition to using the 1% rent reduction in setting the budget for rental income for future years further assumptions have been made. Void rent assumptions will be budgeted at 1.2% although during the current year this is closer to 1.0% thus gaining an additional £25k in collectable income. Given the volatility of the void rate it is considered prudent to budget at 1.2% for 2018/19 rather than the current 1.0% that is being achieved. Right to buy assumptions are set at 39 with the current year projected to be 52 sales.

6. CAPITAL PROGRAMME 2018/19 - 2020/21

- 6.1 The capital programme has been formulated to reflect 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.

Priority Area	2018/19 £M	2019/20 £M	2020/21 £M
Growth	9.835	0.130	-
Housing	0.922	0.125	0.125
Culture	0.672	0.095	0.050
Environment	0.835	0.911	0.875
Corporate	0.125	-	-
Total	12.389	1.261	1.050
Financed By:			
Capital Reserve	5.766	1.166	0.266
Capital Receipts	0.788	-	0.784
Grants	1.134	-	-
Revenue Financing	4.701	0.095	-
Total	12.389	1.261	1.050

- 6.2 Due to the reduction in government funding and reduced income from traditional treasury investments, there is a need to make better use of the Council's available assets and consider additional investment options, predominantly property based in order to support the ambitions of the Council. To underpin support for a capital programme that is both ambitious and responsive it is necessary to develop a supporting strategy that sets out the governance and affordability criteria to support capital investment decisions. A Capital Investment Strategy will be presented to Cabinet in February 2018, along with the Treasury Management and Minimum Revenue Provision (MRP) Policy, as part of the overall budget proposals. As a general principle where the expenditure is aligned to a commercial investment decision, the approach will be to undertake borrowing that will be met from the revenue income that will be received from the holding of the asset. Therefore there will be no cost to the taxpayer as the borrowing costs will be wholly met. This requirement will be a pre-requisite for commercial investment acquisitions going forward.
- 6.3 Proposals to invest for wider economic and re-generation purposes will be considered in terms of affordability as governed by the Council's prudential indicators and specific criteria will be introduced as part of the proposed Capital Investment Strategy. It is anticipated that there may be a period of time after acquisition before any direct revenue income is generated. Therefore in the short term, borrowing costs during this period will need to be met from Council Tax increases or reserves as there is no available headroom in the revenue budgets to accommodate borrowing costs.
- 6.4 As an approximation based on current borrowing costs, for every £1M borrowed, there is a £60K annual revenue cost (over a 30 year period). Given that Council tax levels are maximised in the short term to fund the delivery of services, it would be necessary to utilise New Homes Bonus (NHB) receipts (via the local priorities reserve) to fund any borrowing costs in the short to medium term. There are risks associated with solely relying on reserves as a means of funding such significant borrowing costs that require careful consideration particularly as the future of NHB is far from certain as an income stream over a 30 year period. Therefore the Council should seek to create borrowing headroom within its net cost of services over the medium term in order to mitigate the risk identified.
- 6.5 As such, the business case of each proposal will need to be considered before it is approved for inclusion into the capital programme.

Housing Investment Programme (HIP)

- 6.6 The formation of the capital programme for the period 2018/19 – 2020/21 is 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.
- 6.7 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 31st March 2018. This proposal will therefore require the Council to re-finance the £25M maturity loan which is currently due for full repayment on 27th March 2020.

7. RESERVES AND BALANCES

7.1 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

7.2 Minimum level of reserves

The Council's minimum reserves target is set at £1m, which represents 5.8% of net operating expenditure. Presently the general fund working balance is above the minimum level at £1.588m, representing 9% of net operating expenditure. It is proposed to retain the working balance at this higher level in order to underpin the structural budgetary changes that have been incorporated into the 2018/19 budgets.

7.3 Earmarked Reserves

Earmarked reserves are used as a means of building up funds to meet known or predicted liabilities. The balances held in Earmarked Reserves as at 1st April 2017 and estimated balances over the next three year period are shown at Appendix E. The main forecast movements in 2018/19 are summarised below.

- Events and Festivals reserve has been utilised to contribute towards the festivals that will take place over the district. Over the period of the budget proposals the forecast spend is £310K.
- Community Fund reserve has been increased to fund the Cabinet proposals of continuing the community scheme (£150K) and member ward budgets scheme (£56K) for 2018/19 only.
- Local Priorities Reserve has been utilised to part fund the Big Clean costs (£200K) in readiness for the full year cost being mainstreamed into budgets from 2019/20.
- Invest to Save reserve has been utilised to fund for 1 year a transformation and innovation team to support the delivery of the agreed savings and to develop new initiatives for both commercial and efficient ways of working

going forward. It is proposed to replenish the balance of the reserve to £500K as a funding source for new ideas that generate legacy revenue streams.

- 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 Wyndham Park improvement works 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.
- At the time of compiling the report it is not yet confirmed the level of funds that will be required from the Business Rates and Council Tax volatility reserve to support any Collection Fund deficit as the calculation is required to be undertaken on a legislative prescribed date. However in order to ensure there is no adverse impact on the Council tax payer any forecast deficits will be offset with a movement from this reserve in line with the policy.

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 E.

8. OTHER OPTIONS CONSIDERED

8.1 N/A

9. RESOURCE IMPLICATIONS

9.1 This are considered within the report.

10. RISK AND MITIGATION

Risk has been considered as part of this report and any specific high risks are included in the table below:

Category Risk	Action / Controls
Financial risks	These are discussed in the report and mitigating actions are considered where necessary

11. ISSUES ARISING FROM IMPACT ANALYSIS (EQUALITY, SAFEGUARDING etc.)

11.1 N/A

12. CRIME AND DISORDER IMPLICATIONS

12.1 None.

13. COMMENTS OF FINANCIAL SERVICES

13.1 These are considered throughout the report.

14. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

14.1 The recommendations relate to proposals for the budget which forms part of the budgetary and policy framework. Members must consult with the community on the proposals contained within this report as required in accordance with statutory regulation and constitutional requirements.

15. COMMENTS OF OTHER RELEVANT SERVICES

15.1 None.

16. APPENDICES

Appendix A– Savings summary – General Fund (GF)

Appendix B – Capacity Bids - GF

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

Appendix D – Capital & Reserves Statement – GF

Appendix E – Capital & Reserves Statement – HRA

17. BACKGROUND PAPERS

17.1 None