



## BUDGET - JOINT OVERVIEW & SCRUTINY COMMITTEE (CFM482)

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

<b>Report to:</b>	<b>BUDGET - OVERVIEW &amp; SCRUTINY COMMITTEE</b>
<b>Date:</b>	<b>10<sup>TH</sup> JANUARY 2019</b>
<b>Subject:</b>	<b>BUDGET PROPOSALS 2019/20</b>

<b>Decision Proposal:</b>	Budget Framework Proposal
<b>Relevant Cabinet Members:</b>	Councillor Adam Stokes – Cabinet Member for Finance Councillor Nick Neilson – Cabinet Member for Housing
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### SUMMARY

The purpose of this report is to present to the Budget Joint Overview and Scrutiny Committee:  
The Draft Budget estimates for 2019/20, 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 2019/20 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 2019/20. The purpose of this report is to present Cabinet's draft proposals for the 2019/20 budget to the Budget Joint 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 2018, and the proposals have been formulated by the Cabinet, working closely with senior officers, through a number of budget workshops. The objective of this process was to realign resources and align spending plans to ensure the key priorities and aspirations of the Council can be delivered.
- 1.3 This report covers a number of areas:
  - The funding position for the General Fund (section 2)
  - The draft general fund budget proposals (section 3)
  - Fees and Charges (section 4)
  - The Housing Revenue Account (HRA) position (section 5)
  - The Capital Programme 2019/20 to 2021/22 (section 6)
  - Reserves and Balances (section 7)

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

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

The Council remains within the Government's four-year funding deal after it had successfully submitted an Efficiency Plan. 2019/20 is the last year of the four-year deal and the period after this remains uncertain as the Government has yet to conclude the findings of the fair funding review, which was launched last year. This review is intended to fundamentally challenge the current complex formula driven funding allocation to Councils and replace it with a simplified, more transparent formula. At the time of writing this report no further information is known so the latter two financial years of the indicative budgets are currently compiled on a series of assumptions regarding funding levels.

- 2.2 The four-year deal covered 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.

Therefore, in summary the proposed funding allocation for the Council is as follows:

**Table 1**

<b>Heading</b>	<b>2019/20 £m</b>	<b>2018/19 £m</b>
Settlement funding assessment (SFA)	3.610	4.022
New Homes Bonus	1.957	2.086
Rural Services Delivery Grant	0.295	0.236
Compensation for under-indexing the business rate multiplier	0.118	0.081
<b>Total</b>	<b>5.862</b>	<b>6.425</b>
Variance	9% reduction	

2.3 The 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. 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 is greater than the figure shown above.

2.4 The amount allocated 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.

The compensation factor is grant allocation to all authorities for the Government understating the rating multiplier since 2014/15 and to reflect the multiplier calculation change from RPI to CPI from 2018/19.

2.5 The 2016/17 local government finance settlement announced Core Spending Power figures for the period 2016/17 to 2019/20. These amounts were subsequently updated for the 2017/18 and 2018/19 local government finance settlements. The provisional settlement for 2019/20 was announced on 13 December 2018. The key points from this are set out below.

- **Council Tax** – For district councils, increases of less than 3% or up to and including £5 (whichever is higher) above the authority's relevant basic amount of council tax for 2018/19 can be made without triggering a referendum.
- **New Homes Bonus** - the 2019/20 allocations have been announced (previously these figures were only indicative – based on previous years' allocations). The technical consultation on the 2019/20 Local Government Finance Settlement, published in September 2018, suggested there would be an increase to the deadweight for the 2019/20 "in-year" allocations. However due to an additional £10m of funding being added, the Government has not made changes to the deadweight threshold (at 0.4%) or the eligibility of properties to qualify for the funding.
- **Business Rates Pilot** – the Lincolnshire authorities applied for a continuation of pilot status for 2019/20 (which is a reduced scheme from 100% to 75% retention). However, as the Government had already indicated its preference was to award pilot schemes to those areas not previously granted. Therefore, it has been confirmed that Lincolnshire was unsuccessful in its bid and will therefore revert back to a pool (as it was in 2017/18) in 2019/20. The Council's MTFP had not assumed the pilot status would continue in 2019/20 and therefore there has been no adverse financial impact as a result of this announcement.

- **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 additional £16m to rural authorities. Therefore, the funding for the Council has increased in 2019/20 from the previously announced £236k to £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 2019.
- **Negative Revenue Support Grant** – The Council had previously been notified that it would be the recipient of negative RSG of £26k in 2019/20 but it has been confirmed that the Government will bear the costs of negative RSG so the Council is no longer required to make this payment.

### 3 GENERAL FUND BUDGET PROPOSALS

#### Draft Budget Proposals

- 3.1 The overall General Fund position for 2019/20 is shown at table 2 below. The total service expenditure (net of direct income) for 2019/20 is estimated at £13.780m.

**Table 2 – Summary of General Fund Estimates - Indicative**

Directorate	2018/19 Adjusted Budget £000	2019/20 Original Budget £000	2020/21 Indicative Budget £000	2020/21 Indicative Budget £000
Commercial	6,172	5,115	5,206	5,656
Growth	6,689	6,330	6,197	6,314
Resources	5,844	8,034	7,400	7,672
HRA Recharge	0	(2,470)	(2,470)	(2,470)
<b>Net Cost of Service</b>	18,705	17,009	16,333	17,172
Interest Payable and Receivable	(198)	100	123	120
Minimum Revenue Provision	247	308	502	496
Depreciation	(3,400)	(3,637)	(3,785)	(4,190)
Parish Grant allocation - LCTSS	22	0	0	0
<b>Net Budget Requirement</b>	15,376	13,780	13,173	13,598
Capacity Bids	0	866	265	156
Savings and Efficiencies	0	(14)	(14)	(14)
<b>Total Budget Requirement</b>	15,376	14,632	13,424	13,740
Funding and Resources:				
Council Tax	(7,146)	(7,475)	(7,815)	(8,170)
S31 Grants	0	(118)	0	0
Revenue Support Grant	0	0	98	0
Retained Business Rates	(4,650)	(4,594)	(4,132)	(3,974)
New Homes Bonus	(2,086)	(1,957)	(1,576)	(1,490)
Rural Grant	0	(295)	0	0
Collection Fund (Surplus)/Deficit	321	0	0	0
Return of Levy	0	(55)	0	0
<b>Total Funding</b>	(13,561)	(14,494)	(13,425)	(13,634)
Reserve Movement	(1,815)	(138)	863	1,016
<b>Net Budget (Surplus)/Deficit</b>	0	0	862	1,122
<b>Cumulative (Surplus)/Deficit</b>	0	0	862	1,984

The table confirms that a balanced position has been achieved for 2019/20 but the forecast for the following years shows the Council will be facing a deficit position based on current budget proposals. Uncertainty for these years is further compounded by the proposed changes in the national funding formula which is seeking to radically alter the methodology in how funding is allocated to local government having regard to national and local measures. In order to meet these challenges, the Council is embarking on a corporate wide service review programme supported by a range of other initiatives and this is explained in further detail in section 3.3.

### 3.2 Capacity proposals

The budgetary proposals for 2019/20 include a number of new growth proposals that are designed to underpin the transformation and capacity building into priority areas of the Council. The details of these are provided at Appendix A in more detail.

In order to enable these capacity proposals to be brought forward there has been a roots and branch review of core budgets to remove or reduce budgets that are no longer deemed necessary. This fundamental review process has identified circa £900k in revenue budget reductions that has contributed to the financing of the capacity proposals outlined above. In addition, a corporate savings target of £300k and transformation savings target of £200k have also been included across the three-year period.

**Table 3 – Savings**

Directorate	2019/20 £'000	2020/21 £'000	2021/22 £'000
Commercial	202	203	212
Growth	218	199	205
Resources	492	504	517
<b>Total from review of budgets</b>	<b>912</b>	<b>906</b>	<b>934</b>
Corporate savings target	0	300	300
Transformation savings	200	200	200
<b>Total</b>	<b>1,112</b>	<b>1,406</b>	<b>1,434</b>

### 3.3 Transformation

In order to achieve the annual budgeted savings target of £200k the Council will be embarking on a radical transformation programme incorporating the following programme themes:

- Intelligent automation
- Digitisation
- Predictive analysis
- Operational improvements
- Service reviews

Over the coming weeks an implementation plan will be developed incorporating the themes above and will include all service areas. The plan will identify the work activities, the required outcomes and the savings that are to be delivered. This plan will be monitored and reported on during the year and where necessary corrective action will be taken in order to ensure the budgeted outcomes are delivered.

3.4 It is also proposed to fund specific expenditure items from reserves and these are detailed at section 7.3. The budget proposals include the continuation of the Community Fund (£150k) and Ward member grant scheme (£56k). These have been funded by utilising the £42k balance on the community fund reserve with the balance of £164k built into mainstream financing to avoid the reliance on reserve funding. As agreed at Cabinet on 1 November

2018 the ward member grant scheme has been built into the 2019/20 proposals only with a mid-term review to assess its community impact.

### 3.5 Invest SK

There are proposed allocations included in the 2019/20 budget framework to support the Council's wholly owned company InvestSK and these are detailed below:

**Table 4**

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

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

### 3.6 Environment SK

The Council's wholly owned company which is established primarily to deliver the grounds maintenance service in 2019/20 is proposed to receive the same level of funding as the outgoing contractor in order to deliver a like for like service. The proposed allocation is shown below:

**Table 5**

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

### **Budget Estimates – 2019/20**

3.7 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 6 – General Fund Budget Assumptions**

<b>Cost Heading</b>	<b>Assumption (%)</b>	<b>£'000 – Financial impact</b>
Retail Price Index	3.0	77
National Business Rate	3.0	21
Utility Costs	3.0 (average)	20
Drainage Board Levies	Ranging from 2 – 3.0	18
Fuel Costs	3.0	18
Pay Award and incorporation of national living wage	2.0	343
Interest Rates Income	1.2	(250)
Apprenticeship levy	0.5	58
Workforce Efficiency Target	3.5	(478)

- 3.8 These are budget assumptions that the Council annually anticipates and therefore they had been incorporated into the indicative 2019/20 budgets last year. Upon review there have been no material changes to the assumptions built into the indicative budgets and therefore no new cost pressures have arisen.
- 3.9 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 extremely volatile given the current uncertainty regarding the Brexit position and therefore are liable to change in the coming months:

**Table 7 – Treasury Investment Financial Forecasts**

Financial Year	2019/20	2020/21	2021/22
Base Rate	1.25%	1.50%	2.00%
Investment Interest Rate	1.20%	1.50%	1.75%

- 3.10 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 £219K 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**

- 3.11 The proposed draft budget proposals for 2019/20 is calculated based on the options available for Council tax setting:

**Table 8 – Council Tax options**

2019/20 options			
	£5 increase (3.25%) £158.62 Band D	3% increase £158.22 Band D	No increase £153.62 Band D
SFA (settlement funding assessment)	£3.610m	£3.610m	£3.610m
Council Tax level x 47,125.70** (inc. SEA*)	£7.475m*	£7.456m*	£7.239m*
SKDC Total (inc. SEA)	£11.085m	£11.066m	£10.849m
£M difference to £5 increase	0	£19k	£236k

\*SEA – Special expense area

\*\* Council Tax base

- 3.12 It is important to highlight the impact on the Council's Medium Term Financial Plan should the deal to increase not be continued in 2019/20 by the Council. This is shown in the table below. The cumulative effect of freezing council tax in 2019/20 would be a loss of income over £1.290m over a 5 year period.

**Table 9**

	2019/20	2020/21	2021/22	2022/23	2023/24	Cumulative total
1 year freeze and then 3%	£7.239m	£7.568m	£7.912m	£8.272m	£8.648m	
£5 increase and then 3%	£7.475m	£7.814m	£8.170m	£8.541m	£8.929m	
Difference	£0.235m	£0.246m	£0.258m	£0.269m	£0.281m	£1.290m

3.13 The budget proposals for 2019/20 have been compiled on the assumption that the Cabinet would wish to recommend a £5 increase for 2019/20 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 to 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 2019/20 will be launched in January following the Cabinet meeting and the results will be fed back to Cabinet at their February meeting.

#### **4. FEES AND CHARGES**

4.1 The draft fees and charges proposals for 2019/20, which are set out in Appendix B, 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 corporate priorities.

A summary of the proposed fees and charges for 2019/20 are shown in the table below:



**Table 10**

<b>HEADING</b>	<b>PROPOSED 19/20 FEE</b>	<b>EFFECTIVE DATE CHANGE (OR LAST INCREASE DATE)</b>
Car parking charges	No increase	01/04/2010
Car parking penalty charge notices	No increase	01/04/2013
Bus stations	No increase	01/04/2014
Building control charges	No increase	01/02/2017
Markets	No increase	01/04/2016
Arts Centres	Mainly inflation increase	01/04/2019
Green waste	No increase	01/04/2018
Supply of new or replacement bins	No increase	01/04/2016
Domestic refuse collection e.g. bulky waste	No increase	01/04/2015
MOT Fees	No increase	01/04/2010
Fees for Scrap Metal dealers, tattooing, acupuncture, control of dogs, caravan parks etc	Inflation increase	01/04/2019
Houses of Multiple occupancy, Immigration inspections, contaminated land enquiries & Sampling of water supplies	Inflation increase	01/04/2019
Smoke free fixed penalty notices and smoke and carbon monoxide alarms for landlords	No increase	01/04/2016
Letting Agents Redress Scheme	No increase	01/04/2017
Hygiene food safety, packs and energy efficiency standards	Inflation increase	01/04/2019
Air Quality	No increase	01/04/2017
Hackney Carriage, Animal licenses and sex establishments etc	Inflation increase	01/04/2019
Alcohol licensing	No increase	24/11/2005
Bingo premises, betting premises etc	Inflation increase	01/04/2019
Gambling Licensing- Gaming machines and lottery licenses	No increase	31/01/2007
Fixed Penalty Notices- Nuisance parking/ Waste Transfer Offence etc	Maximum penalty as per regulations – no increase	01/04/2017 & 01/04/2018
Fixed Penalty Notices – Littering/Fly posting	Default penalty as per regulations – no increase	01/04/2018
Outdoor recreation	Inflation increase	01/04/2019
Cemetery charges	Inflation increase	01/04/2019
Local Land Charge fees	Inflation increase on land charges, CON29R increased to match other local authorities	01/04/2019
Planning fees set by Government	No increase	17/01/2018
Planning and pre-planning charges set locally	Inflation increase	01/04/2019
Community rooms & guest rooms	Inflation increase	01/04/2019

## 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 Chief Executive for Housing Delivery as approved by the Employment Committee on 13 November 2018. This new post is identified as being pivotal to supporting the delivery of the Council's housing growth ambitions by utilising its role as a major social landlord and by also engaging with other housing providers to develop strategic partnering opportunities. To support this ambition a proposed annual budget of £500K is incorporated into base budgets from 2019/20.
- An increase in the HRA proportionate share of central support and democratic costs of £297k to reflect increased activity in respect of communications and public relations, transformation and innovation and customer facing services.

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 2019/20 budget setting. These are shown overleaf (table 11):

**Table 11 – Savings & Efficiencies**

Heading	Details	£000
Improvements and Repairs	Merger of Housing Improvements and Repairs team, resulting in reduction of staff costs due to realignment of posts and roles.	100
Housing Management	Reduction of staffing costs due to realignment of roles.	50
<b>Total</b>		<b>150</b>

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

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

- 5.5 This decrease in rent will see the annual budgeted rental income reducing from £24.439M in 2018/19 to £24.408M in 2019/20. For 2019/20 the average weekly rental decrease for individual property will be £0.81. The average rent in 2019/20 will be £77.62 with a minimum of £51.48 and a maximum of £119.77. Garage rents are proposed to increase in line with inflation (2.5%) and service charges are proposed to increase in accordance with the fees and charges shown at Appendix C. Further analysis of rent details are provided below:

### Rent Summary –1% rent reduction

**Table 12**

Average rent Per Week (£)	£77.62
Average decrease Per Week (£)	£0.81
Average decrease Per Week (%)	1%

### Impact – 1% decrease

**Table 13**

Bedrooms	% of Dwelling Stock	Average Weekly Rent 2018/19	Average Weekly Rent 2019/20	Average Decrease	% Decrease
Bedsit	0.50%	£55.18	£54.75	£0.43	1%
1 Bedroom	12.59%	£67.53	£66.80	£0.73	1%
2 Bedrooms	42.19%	£75.93	£75.17	£0.76	1%
3 Bedrooms	42.69%	£83.75	£82.94	£0.81	1%
4 Bedrooms	1.98%	£88.65	£87.79	£0.86	1%
6 Bedrooms	0.05%	n/a	£112.75	-	-

### Decreases for Individuals

**Table 14**

Bracket	Number Of Properties	% Of Properties
Under £0.66	310	5.14%
£0.66 - £0.85	4,712	78.19%
£0.86 - £1.05	1,000	16.59%
£1.06 - £1.25	5	0.08%
Total	6,027	100.00%

- 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 1.5% 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 2019/20 rather than the current 1.0% that is being achieved. Right to buy assumptions are set at 50 with the current year projected to be 60 sales.

## **6. CAPITAL PROGRAMME 2019/20 - 2021/22**

- 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. A summarised capital programme is shown below and a detailed capital programme included in Appendix C (General Fund) and Appendix D (Housing Revenue Account).

**Table 15**

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

- 6.2 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 through DeliverSK, an investment partnership set-up to manage the delivery of physical growth and regeneration in South Kesteven; through Gravitas, the Council's housing-focussed company and via direct investment.
- 6.3 The capital strategy over the medium term will be focussed on delivery through the acquisition, facilitation and development of strategic sites and buildings to stimulate inward investment and regeneration. This will lead to the creation of jobs and economic growth. Different opportunities will bring a different range of risks and types of return. There are potential local economic and social returns as well as capital and income returns. The strategic aim will be to create a balanced portfolio with clear investment or regeneration objectives. The supporting business case will develop these criteria in more detail to enable an informed decision to be taken. Risks will be managed through a rigorous and independent appraisal process.
- 6.4 To enable this, the capital programme includes an allocation of £10m for 2019/20. The associated borrowing will be financed in the short term from the Regeneration Reserve on the basis that the asset will be sold within a defined period (ordinarily no more than 3 years but with flexibility depending on the business case) in order to repay the borrowing and re-invest any profit gain into future acquisitions. As an approximation based on current borrowing costs, for every £1m borrowed, there is a £20k Minimum Revenue Provision cost (over a 50-year period) and a £30k interest cost (over a 30 year period). The governance of this proposal is being developed in more detail in the Investment and Regeneration strategy which will be presented to Cabinet in February with the budget report and will set out the approach and criteria to be considered in making decisions about capital investment.
- 6.5 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)**

- 6.6 The formation of the capital programme for the period 2019/20 – 2021/22 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.

**Table 16**

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

- 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 31 March 2018. This proposal will therefore require the Council to re-finance the £25M maturity loan which is currently due for full repayment on 27 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 Working Balance**

The Council maintains a working balance in order to meet unforeseen expenditure that may arise during the year that is not included in the annual budget framework. The proposed level is set at 16.5% of net operating service expenditure which is slightly higher than the guidance level of 15% and reflects the volatility of the expenditure for 2019/20 given the uncertainty of external pressures.

### **7.3 Earmarked Reserves**

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

**Table 17**

<b>Reserve Heading</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>
Events and Festivals	(93)	0	0
Regeneration Reserve	(718)	(417)	(369)
New Homes Bonus income	1,957	1,576	1,490
Building Control	31	41	23
Invest to Save	(168)	(101)	(101)
Pensions	(933)	(192)	(60)
Special Expense	49	49	49
ICT reserve	(112)	(22)	(22)
Member training and development	(11)	0	(1)
Grants	(313)	(71)	7
Local Priorities Reserve	215	0	0
Community Fund	(42)	0	0
<b>Total Transfer to/(from) reserves</b>	<b>(138)</b>	<b>863</b>	<b>1,016</b>

The current forecast balances and the proposed movements over the next three-year period are shown at Appendix E. The main forecast movements in 2019/20 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 £93k.
- The regeneration reserve has been utilised over the period of the budget to finance the borrowing costs associated with the regeneration capital bid included in the capital programme. It is proposed that the balance on this reserve is increased by transferring £1m from the Local Priorities Reserve as this will ensure that the balance is sufficient to contribute towards the borrowing costs.
- New Homes Bonus totalling £5.023m is transferred to the Local Priorities Reserve over the period of the 3-year budget. It is proposed that £3.368m of this reserve is used to finance the capital programme which includes £1.4m funding for Gravitas carried forwards from 2018/19.
- Invest to Save reserve has been utilised to fund the 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.
- The Pensions reserve has been fully utilised to financially support the employer contributions that the Council makes in respect of the employees that are members of the Local Government pension scheme. This follows the current policy of a 1% reduction in the employer rates at service budget level and making the corresponding contribution from the reserve. From 2020/21 it is proposed to revert back to budgeting the cost at service level.
- 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.

- ICT reserve – the reserve is budgeted to be utilised to fund specific one-off projects during the year including the acquisition of new ICT equipment for members following the May local election.
- Member training – one-off funding to support member training and development following the May local election.
- Grants – these relate to an allocation of £200k towards the progression of the garden village planning application, £76k planning delivery and individual electoral registration.
- Community Fund reserve balance of £42k has contributed towards the continuing community scheme of £150k with the balance mainstreamed into the 2019/20 revenue budget.
- 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 D.

## 8. OTHER OPTIONS CONSIDERED

8.1 The budget setting process is set out at 1.2 above.

## 9. RESOURCE IMPLICATIONS

9.1 These 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	The draft budget proposals include a number of savings targets that will be managed and monitored during the year.

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

11.1 There are none.

## **12. CRIME AND DISORDER IMPLICATIONS**

12.1 There are 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 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.

## **15. COMMENTS OF OTHER RELEVANT SERVICES**

15.1 The budget setting process is set out at 1.2 above.

## **16. APPENDICES**

Appendix A – Capacity Bids – General Fund (GF)

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

Appendix C – Capital & Reserves Statement – GF

Appendix D – Capital & Reserves Statement – HRA

## **17. BACKGROUND PAPERS**

17.1 None