



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**

Joint Budget Overview and Scrutiny Committee

13th January 2021

Report of: Councillor Adam Stokes, Cabinet Member for Finance & Resources
Councillor Robert Reid, Cabinet Member for Housing & Planning



Budget Proposals for 2021/22 and indicative budgets for 2022/23 and 2023/24

This report presents to the Joint Budget Overview and Scrutiny Committee the draft Budget estimates for 2021/22, 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:
Administrative	Budget and Policy Framework	All Wards

Reviewed by:	Alison Hall-Wright, Head of Finance	18 December 2020
Approved by:	Karen Bradford, Chief Executive	30 December 2020
Signed off by:	Councillor Adam Stokes, Cabinet Member for Finance and Resources	30 December 2020

Recommendation (s) to the decision maker (s)

The Budget – Joint Overview and Scrutiny Committee is asked to consider and put forward any proposals or amendments to Cabinet in respect of the budget proposals 2021/22 for:

- General Fund – Revenue and Capital
- Housing Revenue Account – Revenue and Capital
- Proposed use of Reserves
- Proposed Fees and Charges

1 The Background to the Report

1.1 The purpose of this report is to present the draft proposals for the 2021/22 budget to the Budget Joint Overview and Scrutiny Committee. This is a key part in the development and scrutiny of the budget for the coming year and the comments received will be presented to Cabinet on 2 February 2021.

1.2 The Council has approved a Corporate Plan that sets out a clear vision and key actions over the period of the Plan 2020 - 2023. The budget proposals have been formulated within the context of the Corporate Plan ambitions and alignment to the five priorities:

- Growth and our economy
- Housing that meets the needs of all residents
- Healthy and strong communities
- A clean and sustainable environment
- A high performing Council

The approval of the Plan provides clarity and focus to enable the financial resources to be directed to support delivery of the key actions that underpin each of the priorities set out above. This clarity is particularly important given the context of an extremely challenging financial outlook which has been severally impacted by the pandemic on the Council's resources.

1.3 The scale of the financial challenges ahead are significant and largely as a result of the external environment namely a further delay in the national review of the local government funding formula and the detrimental impact the pandemic has had on the Council's resources. Therefore the budget proposals have been built against this backdrop whilst maintaining quality services to the residents of South Kesteven.

1.4 The budget setting process commenced in September 2020, and the proposals have been formulated by the Cabinet, working closely with senior officers, through a number of budget sessions. The workshops focused on the spending ambitions of the Council to drive forward the Corporate Plan within the financial parameters. The timetable of the budget preparations has been challenging against a backdrop of financial challenges in the 2020/21 budget year. These challenges have been outside of the Council's direct control and has created a high level of financial uncertainty. The impact has been on income levels, unforeseen costs and resilience concerns on some of the Council's key suppliers and service providers. The Council has proactively managed these issues and risks and approved an amended budget on 17 September 2020. This amended budget has continued to be monitored and reported throughout the remainder of the 2020/21 financial year although it is anticipated that there may be a deficit which will be funded from the budget stabilisation reserve. Looking ahead, the 2021/22 financial outlook remains uncertain and the budget proposals are underpinned by a number of assumptions relating to recovery of income levels and future expenditure projections. However the Provisional Settlement announcement by Government has included a number of financial measures that should support the financial assumptions including the income losses compensation scheme (will continue until June 2021) and a one year lower tier un-ringfenced grant.

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 Spending Review 2020 – Overview

The Spending Review (SR) 2020 was announced by the Chancellor on 25 November 2020 and the technical consultation on the 2021/22 Draft Local Government Finance Settlement was published on 17 December 2020. The main headlines from the Spending Review and the Draft Local Government Finance Settlement relevant to the Council are:

- An increase in Local Government core spending power of 4.5% for 2021/22. This increase is calculated on the assumption that Councils will maximise the Council tax increases available.
- The referendum threshold for increases in Council Tax will be the higher of 2% or £5 in 2021/22.
- Maintaining the existing New Homes Bonus scheme for a further year with an additional payment for 2021/22.
- Business rates multiplier for 2021/22 will be frozen for 2021/22.
- There will be pause on pay rises in 2021/22 but public sector workers earning less than £24k will receive a minimum £250 increase.
- Extension of the fees and charges reimbursement scheme for a further three months until the end of June 2021.
- Funding reform and fundamental review of Business Rates is delayed and the Government's response to the first part of the fundamental review has been delayed to Spring 2021.
- Collection Fund deficits are proposed to be shared between Treasury and local authorities and through a compensation scheme with the Treasury to cover 75% of Collection Fund deficits. Details of the scheme are not yet confirmed.
- A new lower tier services grant of £362k has been allocated to the Council for 2021/22 only.

Table 1 – Indicative Funding Levels for South Kesteven DC

Funding Heading	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Business Rates (SFA)	5.9*	4.6	3.9	4.0	4.1
Change to Baseline Need	0	0	0	0	0
New Homes Bonus	1.8	1.1	0.5	-	-
Rural Services Delivery Grant	0.3	0.3	0.3	0.3	0.3
Council Tax	7.8	8.1	8.4	8.7	9.0
Lower Tier Services Grant	-	0.4	-	-	-
COVID Grants	2.7	0.6	-	-	-
Total Resources	18.5	15.1	13.1	13.0	13.4
Annual % change		-18.4%	-13.2%	-0.8%	3%

*the 2020/21 business rates income includes the collection fund surplus of £834k

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 Business Rates figures shown are an estimation of the projected Council's income share received from business that operate in the District.
- 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. It is anticipated that the scheme will cease after 2022/23.
- 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 – table 2 below shows the tax base growth assumptions for the district.
- The lower tier services grant (un-ringfenced) has been transferred to the Budget Stabilisation reserve to contribute towards any COVID related deficit in 2021/22.
- The COVID grant for 2021/22 is an estimate of the Council allocations of the £1.55bn funding to meet additional expenditure pressures.

Table 2 – Proposed Council Tax Band D Charge Increase

	2020/21	2021/22	2022/23	2023/24
Proposed Band D Charge Increase	£5.00	£5.00	£5.00	£5.00
Tax Base (Projected from 22/23)	47,918.4	48,122.4	48,363.0	48,604.8
Band D charge (SKDC only incl. Special Expense Areas)	£163.62	£168.62	£173.62	£178.62
Assumed Council Tax Income	£7.840m	£8.114m	£8.397m	£8.682m

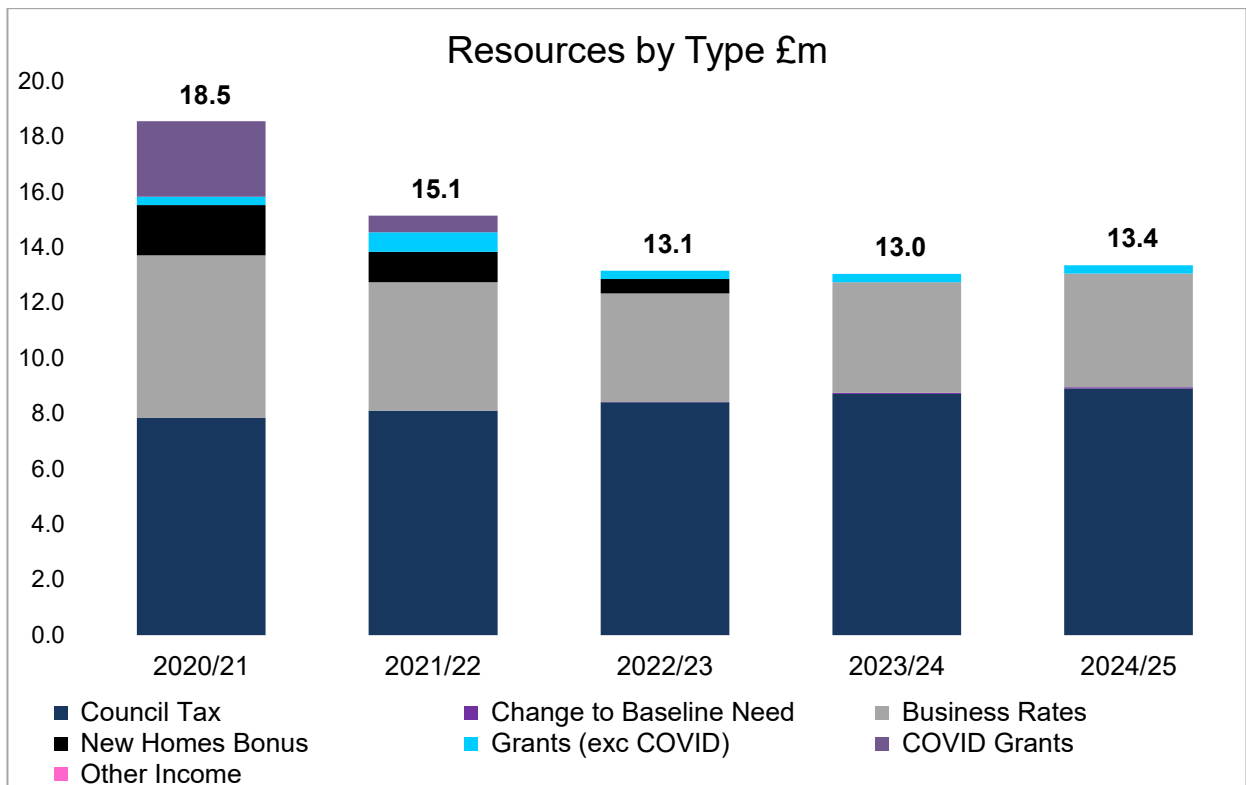
- **New Homes Bonus** - the table below shows the current and projected NHB receipts compared with previous projections. It anticipated that the scheme will continue until 2022/23 and thereafter no further funding will be received. This will have a direct impact on the resources available from the Local Priorities Reserve which will decrease significantly over the next three years. In the past this reserve has been the primary source of funding for one-off projects and in-year initiatives. This flexibility will no longer exist in the future and so alternative funding sources will need to be sought if there are proposals to fund in year changes to the budget framework. This strategy will need to be realigned in response to the reduction in NHB receipt going forward.

Table 3 – New Homes Bonus Income Projection

	2020/21	2021/22	2022/23	2023/24
2019 Spending Review	£1.814m	£0.832m	£0.524m	£0
Updated Projection	£1.814m	£1.045m	£0.524m	£0

- **Business Rates Pool** – the Lincolnshire authorities have once again applied for pool status for 2021/22 which has proven to be financially beneficial for all tiers of Lincolnshire Councils. At the time of compiling the report a Pool proposal has been submitted to the Ministry of Housing, Communities and Local Government (MHCLG) and the joining Councils are confirmed as:
 - Boston Borough Council
 - East Lindsey District Council
 - Lincoln City Council
 - Lincolnshire County Council
 - North Kesteven District Council

- South Kesteven District Council
- West Lindsey District Council



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 2021/22 when it is expected that greater clarity of funding levels will be available.

3 GENERAL FUND BUDGET PROPOSALS

3.1 The overall General Fund position for 2021/22 is shown at table 4 below and Appendix A(i). The net budget requirement for 2021/22 is estimated at £13.929m.

Table 4 – Summary of General Fund Estimates

Description	2020/21 Original Budget	2021/22 Proposed Budget	2022/23 Indicative Budget	2023/24 Indicative Budget
	£'000	£'000	£'000	£'000
Commercial & Operations	8,197	7,680	7,763	7,906
Corporate	6,538	7,018	7,145	7,418
Growth & Culture	5,267	5,099	4,851	5,110
Housing & Property	1,238	349	(113)	(93)
HRA recharge	(2,558)	(2,759)	(2,637)	(2,664)
Net Cost of Services	18,682	17,387	17,009	17,740
Interest Payable & Investment Income	(236)	(100)	(108)	(105)
Minimum Revenue Provision	302	296	291	286
Revenue Contribution to Capital	72	186	228	42
Drainage Rates	725	746	768	791
Depreciation	(4,114)	(4,586)	(4,722)	(4,863)
Net Budget Requirement	15,431	13,929	13,466	13,891
Funding & Resources:				
Council Tax (Excluding Parishes)	(7,840)	(8,114)	(8,397)	(8,682)
Government Grant	(295)	(671)	0	0
Retained Business Rates	(4,954)	(3,757)	(3,912)	(3,991)
New Homes Bonus	(1,814)	(1,045)	(524)	0
Collection Fund Deficit	(957)	0	0	0
Total Funding	(15,860)	(13,587)	(12,833)	(12,673)
Transfers to/(from) earmarked reserves	429	(342)	266	(113)
Net Budget Deficit	0	0	899	1,105

3.2 The table confirms that a balanced position for 2021/22 but the forecast for the following years shows the Council will be facing a deficit position based on budget proposals and projected funding levels. 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.

3.3 Key Budgetary Proposals

The budgetary proposals for 2021/22 contain a number of service changes that have been incorporated in order to operational demands, reduce costs and generate revenue 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 savings proposals will be required to be implemented with effect from April 2021 in order to ensure the financial savings are realised.

Table 5 - Key Budgetary Proposals for 2021/22

Heading	Financial implication £'000	Comments
Removal of public convenience attendants in Grantham and Stamford	(70)	Annual saving from April 2021
Merge of Visitor Information Centres and the box office at Stamford	(30)	Annual saving from April 2021
Removal of vacant posts in the Benefits processing team in response to the process automation and changes in volume demands	(40)	Annual saving from April 2021
Increase of internal recharges to the General Fund from the Housing Revenue Account for 2021/22 of £150k to reflect the increase central support that is required to respond to the findings arisen from the Internal Audit compliance report.	(150)	One year saving to the General Fund to reflect additional resource requirements to support the implementation of the findings arising from the Internal Audit compliance report
Cessation of ongoing financial contribution from the Grantham Special Expense Areas towards the Grantham Carnival.	(6)	The budget will be redirected to meeting the costs of grass verge cutting costs for Grantham area
Corporate salary reductions arising from targeted service reviews	(300)	Annual saving following on from service reviews
Full Year saving following the implementation of the area office offer changes at Stamford and Market Deeping	(80)	Annual saving from April 2021
Ongoing inclusion of savings arising from the Ernst Young (EY) process automation initiative	(200)	£30k allocated to automation introduced in planning area, £170k to be allocated depending upon automation programme
Continuation of Ward member grant scheme	28	Continuation of scheme @ £500 per ward member
Sub-letting income from shared office space at St Peters Hill Council offices	50	Income level based on existing and anticipated sub-letting arrangements
Financial contribution towards Foodbanks in the District	15	Allocation based on invited applications from foodbanks
Car Parking tariff improvements	(200)	Additional income based on user modelling
Increase in green waste charge	(90)	Additional income based on £3 collection charge increase
Changes to employee costs for front line street scene staff	197	Full year cost increase from April 2021
Operational costs of university space	75	Full year budgeted cost from April 2021

Company Funding proposals

The 2021/22 budget proposals contain funding proposals for each of the following companies:

- EnvironmentSK Ltd

- InvestSK Ltd
- LeisureSK Ltd

There are not any funding proposals for Gravitas Housing Ltd for 2021/22 as the focus of the company remains on the project completion of the Wherrys Lane Development in Bourne.

EnvironmentSK Ltd

EnvironmentSK Ltd is a wholly owned company of South Kesteven District Council providing facilities management focused on grounds maintenance, arboriculture and horticultural services to the Council, other authorities, parish and town councils, business and the public. It was established to provide the Council's grounds maintenance services and provide flexibility for a dynamic and evolving district ambition, and to deliver additional commercial financial benefits. The business plan for EnvironmentSK Ltd was presented to the Companies Committee on 22 September 2020 which set out the business development proposals over the period up to 2023/24. During the budget preparatory work, ongoing savings from the General Fund were identified following a reduction in the service requirements. Alongside this, additional services and increased specification standards were requested by the HRA. In addition, it is intended to continue with the highway verge grass cutting in Grantham, funded from the Grantham Special Expense Area. These are shown below in the funding table which sets out the varying levels of payment levels between the Council and the company over the budget period.

The Council determines its grounds maintenance requirements and pays EnvironmentSK Ltd for the services it delivers. The only additional financial support provided to EnvironmentSK Ltd to date has been a start-up loan to provide the initial capital investment in plant and machinery. This loan has interest charged at a commercial rate and is being paid down according to an agreed schedule.

Table 6 – EnvironmentSK Ltd

Grounds Maintenance services	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
General Fund	302	289	253	253	253
Housing Revenue Account	328	278	405	405	405
Special Expense Areas	318	338	327	327	327
Total Proposed Fee	948	905	985	985	985

InvestSK Ltd

InvestSK is the economic and regeneration company for the District and as such is fully aligned with the SKDC Corporate Plan and integral to meeting the Council ambition of being 'the best district in which to live, work and visit.'

The Business Plan presented to the Companies Committee on 22 September is an update on the previous year and has been prepared in recognition of the current economic landscape resulting from the COVID-19 pandemic and as such as a clear focus on the key priorities for delivery that underpin the Plan:

- Business Support
- Regeneration and place making
- The visitor economy

The funding levels have been revised to ensure the deliverables and outcomes set out in the Plan.

Table 7 - Proposed funding levels from 2021/22

Funding	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
InvestSK (focus on Economic Development, Inward Investment and Visitor Economy)	800	370	370	370
Total	800	370	370	370

LeisureSK Ltd

The funding proposals for LeisureSK Ltd have been considered by Council on 26 November 2020 (<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=261&MId=4009&Ver=4>) and the level of funding agreed. The five year business plan that has been developed demonstrates that for 2021/22 only there will be a requirement for a management fee to be paid by the Council to LeisureSK Ltd. This is primarily due to the income projections being restricted by ongoing trading limitations. However the five year business plan projects that after the first trading year, a balanced position should be achievable without ongoing management fees from the Council. Therefore, these budget proposals have been formulated within this framework.

The Council can also award 100% business relief under the existing discretionary rate relief scheme. If granted, the cost of awarding this relief will be shared between the Council, Central Government and Lincolnshire County Council in accordance with the national framework for Business Rates funding arrangements as set out at table 8.

Table 8 – Cost of awarding 100% discretionary rates relief

	2021/22 £'000	Cost of NNDR relief shared as follows:		
		50% Central Government £'000	40% South Kesteven District Council £'000	10% Lincolnshire County Council £'000
Business Rates Relief	581	291	232	58
Management Fee (one year only)	500			
Total	1,081*			

*the cost to South Kesteven District Council is £732k due to the cost sharing of business rates as shown above

Budget Estimates – 2021/22

- 3.4 The budget has been compiled to deliver the outcomes and aspirations of the Council. The budget assumptions that have been considered and incorporated into the budget estimates are shown in table 9, all other inflationary costs have been absorbed by service areas which has assisted with achieving a balanced budget.

Table 9 – General Fund Budget Increases

Cost Heading	2021/22 Budget Increases (%)	Financial impact £'000
Drainage Board Levies	3.0	21
Pay Award and incorporation of national living wage	1.0	150

- 3.5 The pay award incorporated in the budget proposals is in accordance with the government announcement that all employees earning £24k or less will receive a minimum increase of £250 for 2021/22.
- 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 are therefore liable to change over the budget period.

Table 10 – Treasury Investment Financial Forecasts

Financial Year	2021/22	2022/23	2023/24
Base Rate	0.10%	0.10%	0.10%
Investment Interest Rate	0.25%	0.40%	0.50%

- 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 £100k to the General Fund and £152k 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 2021/22 is calculated based on the options available for Council tax setting:

Table 11 – Council Tax options (current 2020/21 charge £163.62)

	2021/22 options			
	£5 increase £168.62 (3.06%) Band D	3% increase £168.53 Band D	2% increase £166.89	No increase £163.62 Band D
Council Tax level x 48,122.4** (including SEA*)	£8.114m	£8.110m	£8.031m	£7.874m
£ annual difference to a £5 increase	£0	(£4k)	(£83k)	(£240k)
SKDC only Band D Charge	£154.98			
SKDC Including SEA	£168.62			

*SEA – Special expense area

** Council Tax base

- 3.9 The budget proposals for 2021/22 have been compiled on the assumption that the opportunity will be taken to approve a £5 increase for 2021/22 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:

- Reduction of specific budgets within service headings.
- Increase in savings, efficiencies and/or income to offset the reduction in Council tax income.

- 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 2021/22 will be launched in January following the Cabinet meeting and the results of the consultation will be presented to Cabinet at their February meeting.

4. HOUSING REVENUE ACCOUNT (HRA)

4.1 The HRA Housing Strategy 2017 – 2021 continues to provide the overarching framework for the budget proposals.

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.

The budget formation has taken into consideration the deliverables arising from the Compliance audit action plan. This is to ensure that necessary resources are made available during 2021/22 whilst ensuring overall service standards are maintained.

4.2 The rental income budgets are set in accordance with the Government's rent setting guidance formula which is CPI (consumer price index) + 1%. The total rental income budgets have been reduced for 2021/22 following a reduction in Consumer Price Index (CPI) for September 2020 which was 0.5% when compared to the indicative budgets that were prepared a year ago when the CPI was on average 1.7%. This has reduced the budgeted income for next financial year by approximately £1.1m and cumulatively over £5m for the next three financial years.

However due to a number of competing factors such as a reduced rental forecast and an increase in operational expenditure costs, it is only possible to present a balanced one-year revenue account as the following years are projecting a revenue deficit. This is clearly not sustainable and so a programme of cost reduction and income generation is being developed to ensure a balanced position can be achieved from 2022/23 onwards.

The following HRA revenue bids have been included in the 2021/22 budget for approval:

Table 12 – Revenue Bids

Revenue Bid Description - Ongoing	£'000
Grounds Maintenance	150
Scheduled repairs to manage the property voids	100
Housing Compliance Officer post	50
Specialist Tenancy Legal Advice	42
Housing System Revenue Costs	40
Total	382

Housing Revenue Account 2021/2022 – Rent Proposals

4.3 The rent setting proposals for 2021/22 has increased the annual budgeted rental income from £24.557m in 2020/21 to £24.627m in 2021/2. For 2021/22 the average weekly rental increase for individual property will be £1.19. The average rent in 2021/22 will be £80.78 with a minimum of

£59.55 and a maximum of £116.07. Garage rents are proposed to increase by 3% and service charges are proposed to increase in accordance with the fees and charges shown at Appendix D. Further analysis of rent details is provided in tables 13 and 14.

Table 13 - Impact – 1.5% increase

Bedrooms	% of Dwelling Stock	Average Weekly Rent 2020/21	Average Weekly Rent 2021/22	Average Increase	% Increase
Bedsit	0.82%	58.67	59.55	£0.88	1.5%
1 Bedroom	13.11%	£68.86	£69.89	£1.03	1.5%
2 Bedrooms	48.88%	£77.20	£78.36	£1.16	1.5%
3 Bedrooms	28.90%	£85.18	£86.46	£1.28	1.5%
4 Bedrooms	1.93%	£90.15	£91.50	£1.35	1.5%
6 Bedrooms	0.08%	£114.35	£116.07	£1.72	1.5%

Table 14 - Increases for Individuals

Bracket	Number of Properties	% Of Properties
Under £1.00	327	5.49%
£1.00 - £1.24	3,559	59.75%
£1.25 - £1.49	2,036	34.18%
£1.50 - £1.85	34	0.57%
Total	5,956	100.00%

- 4.4 In addition to using the 1.5% rent increase in setting the budget for rental income for future years further assumptions have been made. Void rent assumptions have been built into the budgets and have been set at 1.5% which is broadly comparable with previous year's rate (although it is accepted that rates have been more volatile during 2020/21). Right to buy sales have been budgeted at 50 sales for 2021/22 (actual sales for 2019/20 were 59) as it is assumed that levels will return to pre-COVID levels during 2021/22.

5. CAPITAL PROGRAMME 2021/22 – 2023/24

- 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. The Council has a stated ambition to provide quality leisure services although the proposed capital programme does not yet include any specific changes to the leisure offer as further detailed analysis of options and financial modelling are being undertaken in order to be able to present fully costed proposals for member consideration. Information will be presented to Council for approval once the business cases have been developed and the affordability of the revenue implications have been assessed.
- 5.2 A summarised capital programme is shown in table 15 and a detailed capital programme included in Appendix B.

Table 15 – General Fund Capital Programme Summary

Directorate	2021/22 Proposed Budget* £'000	2022/23 Indicative Budget £'000	2023/24 Indicative Budget £'000
Commercial & Operations	2,405	2,263	2,349
Corporate	50	0	0
Growth & Culture	1,638	314	70
Total Budget	4,093	2,577	2,419
Financing:			
Grants and contributions	(1,685)	(1,123)	(902)
Reserves	(1,122)	(1,059)	(1,201)
Useable Capital Receipts	(1,286)	(395)	(316)
Total Financing	(4,093)	(2,577)	(2,419)

*includes £0.849m proposed slippage from 2020/21 as detailed in Appendix B

- 5.3 The capital programme is focused on investing in Council assets to improve the service offer and is particularly relevant to the arts offer with a combined investment programme of £390k across the two arts venues. Elsewhere in the proposals, investment continues in the Street Scene fleet and the car parking offer with maintenance required at Welham Street car park in Grantham.

Housing Investment Programme (HIP)

- 5.4 The formation of the capital programme for the period 2021/22 – 2023/24 is currently projecting an investment of £75m over a 3-year period focussing on the continuation of the new build and stock acquisition programme and the objectives of the HRA Business Plan.
- 5.5 In respect of the new build programme the outline 3-year capital programme totalling £44.3m is anticipated to deliver approximately 412 properties. Detailed appraisal of the schemes are underway and further details of the new build programme will be presented to members at a future meeting.
- 5.6 The other major part of the HRA capital programme is the continuation of investment in existing housing stock which includes central heating upgrades, kitchen and bathroom refurbishments, door and windows replacements and re-roofing. This investment programme may be reviewed once the full details of the Stock Condition Survey are analysed which may identify other priority investment areas. If necessary, the capital programme will be revised accordingly. A summary of the programme is shown at table 16 and detailed at Appendix B.

Table 16 – HRA Capital Programme Summary

	2021/22 Indicative Budget £000	2022/23 Indicative Budget £000	2023/24 Indicative Budget £000
Decent Homes	9,645	9,435	9,535
New Build Programme	10,375	14,940	18,995
ICT	700	500	0
Repairs Vehicles	273	214	304
HRA Budget	20,993	25,089	28,834
Financing:			
Borrowing	0	0	(12,521)
Capital Receipts	(3,000)	(3,593)	(2,300)
External Funding*	(1,844)	(3,375)	(4,174)
Reserves	(16,149)	(18,121)	(9,839)

Total Financing	(20,993)	(25,089)	(28,834)
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*this is an estimate of the level of funding anticipated from Homes England

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 an indicative three-year budget of £44.31m. These schemes will be financed using the Council's own resources and grant funding from Homes England, which will be applied for on a scheme by scheme basis. The level of funding available has yet to be determined as Homes England assess each scheme separately. Therefore the external funding included in table 16 is an estimation until such as time as each scheme is financially assessed.

6. Capital Financing

6.1 The General Fund Capital Programme is detailed at Appendix B, 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 B, 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 2021/22 will be financed from the following

- £1.286m capital receipts reserve
- £1.685m specific grants (Disabled Facilities Grant amount to be confirmed)
- £1.122m reserves

At the time of compiling the report, the total of the specific grants referred to have not been confirmed and therefore the financing or level of the 2021/22 investment may require amending once the confirmed grant funding is known to the Council.

Housing Revenue Account

6.3 The HRA capital programme for 2021/22 will be financed from the following:

- £3m capital receipts reserve
- £1.844m specific grants (to be confirmed)
- £16.149m 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 2021/22 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. A summary of the proposed reserve

movements are set at table 17 below and full details of the General Fund Reserves can be found at Appendix C.

Table 17 – Budgeted General Fund Revenue Reserve Movements

Reserve Heading	2021/22 £'000	2022/23 £'000	2023/24 £'000
Budget Stabilisation Reserve	362	0	0
Commercial Reserve	(250)	0	0
Government Specific Grants	(48)	(25)	(26)
ICT reserve	0	(176)	0
Invest to Save	(523)	0	0
Local Priorities Reserve	(250)	(435)	(1,127)
Pensions	(45)	(45)	(45)
Property Maintenance	(94)	(41)	(65)
Regeneration Reserve	(451)	(33)	(25)
Special Expense	23	49	29
Street Scene	(29)	0	0

- The Budget Stabilisation reserve was created to fund short term budget pressures. As part of the 2021/22 Local Government settlement the Council will receive a lower tier services grant of £362k for one year. This grant has been award to local authorities in recognition of the ongoing financial challenges the COVID crisis is having on local government finances. Therefore in order to ensure there is further protection of the 2021/22 budget proposals, it is proposed that this grant is transferred to the Budget Stabilisation Reserve.
- A climate change reserve was created for the 2020/21 financial year and has been utilised during the year on approved initiatives to support the climate agenda action plan. At a meeting of the Environment OSC on 6 October 2020, members recommended the reserve is set at £20k for the 2021/22 financial year to enable further initiatives to be funded as necessary. It is therefore proposed that £20k is transferred from the Local Priorities reserve should this recommendation be supported by Cabinet.
- The regeneration reserve was created to finance the short term borrowing costs associated with regeneration projects and to fund any associated MRP (minimum revenue provision) that may be associated following the acquisition of the asset. The purpose of the reserve was to avoid placing undue financial pressures on the revenue budgets for the period the asset is held. For the period to date, the reserve has been used to finance the costs of St Martins Park and will continue to do so until such time as the asset is disposed of. For 2021/22 the operational costs of St Martins Park are estimated at £430k. In order to ensure the reserve has a level that is sufficient to continue to meet St Martins Park costs and also to fund the operational costs of any further acquisitions it is recommended that the reserve is increased by £500k. The proposal is to vire £250k from the commercial reserve and the balance from the invest to save reserve.
- In 2020/21 it is proposed that Government Specific Grants are used to part fund £23k of the Local Plan costs and £25k of the costs incurred in electoral registration.
- The Invest to Save Reserve will be used to fund the remaining payment of £225k for the Intelligent Automation project with Ernst and Young and £55k to fund the Procurement Lead post or until such time as the partnership arrangements with external procurement support comes to an end. It is proposed that £250k of this reserve is transferred to the regeneration reserve.
- New Homes Bonus totalling £1.569m is budgeted to be transferred to the Local Priorities Reserve over the period of the 3-year budget. It is proposed that £2.938m of this reserve is used to finance the capital programme which includes £1.955m to fund vehicles replacement and £0.812m funding for the capital improvements to the Councils existing assets and replacement CCTV. This reserve will also be used to fund the £500k management fee

associated with Leisure SK and £193k has been budgeted to fund the budget deficit. It should be noted that further financial contributions to this reserve are uncertain as it is anticipated that the New Homes Bonus scheme will cease from 2023/24.

- The pension reserve will be used to fund the annual pension costs of former employees which is £45k per year.
- The Property Maintenance Reserve will be utilised over the budget period to provide the financing of essential property related works such as leisure centres (£65k) and safer surfaces at parks (£135k).
- The Special Expense Reserves will be utilised over the period of the budget proposals. In respect of Langtoft £3k of the reserve will be utilised 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 reserves for Bourne, Grantham and Stamford will be used to fund £40k of park safer surfaces costs.
- 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 £29k of the Street Scene reserve is utilised to fund these additional costs in 2021/22.

7.3 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. Further detail of the HRA reserves can be found in Appendix C.

Table 18 - Budgeted HRA Reserve Movements

Reserve Heading	2021/22 £000	2022/23 £000	2023/24 £000
Improvement Reserve	(690)	(516)	0
Property Development Reserve	(5,531)	(7,991)	0
Working Balance	(556)	(203)	6
Capital Receipts Reserve	(1,242)	(138)	1,157
Major Repairs Reserve	(3,420)	(3,224)	(2,647)

- The capital receipts reserve and the property development reserve shown above are proposed to contribute towards financing the new build scheme over the 3 year capital programme.
- 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.
- The HRA surplus is transferred to the working balance each year. There is an annual transfer of £3.222m from the annual HRA account to the working balance which is then used to fund the principal repayment of the external loan taken out under the HRA self-financing in 2012. There is also a contribution each year from the working balance to the Major Repairs Reserve to ensure there are sufficient resources available to fund investment in the housing stock.
- It is proposed that the balance on the HRA Improvement reserve is primarily used to finance the Housing System Enhancements.

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 was approved by Council in March 2020. The policy introduces a set of principles which have been applied to fees and charges setting.

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 2021/22 are shown in table 19 and full details are shown at Appendix D. The majority of the fee increases are in line with the directly related costs associated with delivering the service. Specific points to note are:

- Green waste – annual collection charge increase of £3
- Grantham Pay and Display car parking 10p increase per tariff up to and including 3 hours
- Stamford Pay and Display car parking 30p increase per tariff up to and including 3 hours

Table 19 – Fees and Charges Summary

QUADRANT (as per the Policy)	HEADING	PROPOSAL FOR 2021/22	INCORPORATION OF POLICY PRINCIPLES
Discretionary	Arts centres	Theatre hires increased in line with benchmarking results. Up to 29% (rounded up to £1)	Subsidised
	Bus stations	3% (rounded up to 1p)	Subsidised
	Car parking charges	Grantham - Up to 3 hours parking 10p increase per tariff Stamford – Up to 3 hours parking 30p increase per tariff	Cost Recovery and investment in traffic management related assets
	Car parking penalty charge notices	0%	Cost Recovery
	Green waste	Direct Debit/Online 8% Offline/cash/cheque 7%	Cost Recovery

		Additional bins Direct Debit/Online 8%	
		Additional bins Offline/cash/cheque 7%	
	Markets	3% (rounded up to 50p)	Subsidised
	Outdoor recreation	Up to 3%	Subsidised
	Planning and pre-planning charges set locally	Up to 21%	Cost Recovery
	Supply of new or replacement bins	0%	Cost Recovery
Regulatory	Air quality	0%	Cost Recovery
	Alcohol licensing	0%	Cost Recovery
	Bingo premises, betting premises etc	0%	Cost Recovery
	Building Control charges	0%	Cost Recovery
	Cemetery charges	3% (rounded up to £1)	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	0%	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 3%	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	0%	Cost Recovery

	monoxide alarms for landlords		
Specialism	Community rooms & guest rooms	Up 3%	Cost Recovery
	Domestic refuse collection e.g. bulky waste	0%	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 Collection Fund

The Government has recognised that the Collection Fund will be under pressure due to the challenges in collection rates for both Council Tax and Business Rates. In a response to this pressure, new legislation has been introduced that will allow billing authorities to spread the anticipated deficit equally over a three financial year period. This will avoid the anticipated deficit to be recovered in one financial year (as the previous legislation required) and enable a more manageable deficit recovery. This change will affect all three major precepting authorities proportionally from 2021/22. In January of each year the Council is required to calculate the surplus or deficit position on the Collection fund and this figure is then included in the Budget framework which is approved by Council each year.

10 Consultation and Feedback Received, Including Overview and Scrutiny

10.1 The Budget Joint OSC meeting is the opportunity for members to consider the budget proposals for 2021/22 and to make any recommendations for Cabinet's consideration.

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 on 2 February 2021.

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, Director of Law and Governance

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 E.

19 Community Safety Implications

19.1 None identified.

20 How will the recommendations support South Kesteven District Council's declaration of a climate emergency?

20.1 Any climate change implications will be considered as part of any specific policy and not directly related to budget setting proposals.

21 Other Implications (where significant)

21.1 None identified.

22 Background Papers

22.1 N/a

23 Appendices

Appendix A - Revenue summary – General Fund (GF) and Housing Revenue Account (HRA)

Appendix B – Capital Programmes & Financing Statements – GF & HRA

Appendix C – Reserves Statement – GF & HRA

Appendix D – Fees & Charges – GF and HRA

Appendix E – Risk Register

Report Timeline:	Date of Publication on Forward Plan (if required)	Not applicable
	Previously Considered by: Budget - Joint Overview and Scrutiny Committee	Not applicable
	Final Decision date	1 March 2021