



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**

Council

3 March 2022

Report of: Councillor Adam Stokes, Deputy
Leader of the Council
Councillor Robert Reid, Cabinet
Member for Housing & Property



Budget Proposals for 2022/23 and indicative budgets for 2023/24 and 2024/25

The Council is required to set a balanced budget and agree the level of Council Tax for 2022/23 and this report contains a summary of the proposals that have been considered for inclusion. The proposals were considered and scrutinised in detail by the Budget Joint Overview and Scrutiny Committee on 12 January 2022. The budget proposals were considered by Cabinet on 13th January and 8th February 2022 and are included in this report.

Report Author

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Corporate Priority:	Decision type:	Wards:
Well Performing Council	Budget and Policy Framework	All Wards

Reviewed by:	Alison Hall-Wright, Head of Finance	15/02/2022
Approved by:	Alan Robinson, Deputy Chief Executive	21/02/2022
Signed off by:	Councillor Adam Stokes, Deputy Leader of the Council Councillor Robert Reid, Cabinet Member for Housing & Property	21/02/2022

Recommendation (s) to the decision maker (s)

GENERAL FUND (RECORDED VOTE)

1. To set a General Fund budget requirement of £14.562m for 2022/23 detailed at section 2 of this report and shown in detail at Appendix A (inclusive of special expenses).
2. To approve a Council tax base of 48,706.7 for the South Kesteven District.
3. To approve a Council Tax level of £173.59 for 2022/23 (Band D property including SEA) shown at Appendix H.

4. To note the indicative base estimates for 2023/24 and 2024/25 as detailed in the summary at Appendix A.
5. To approve the Fees and Charges detailed at section 4 of this report and shown at Appendix B.
6. Approve the General Fund Capital programme for 2022/23 to 2024/25 and the budget carry forwards for 2021/22 detailed at section 5 of this report and shown at Appendix C.
7. Approve the General Fund Capital Financing statement detailed at Appendix C.
8. To approve the movements in General Fund Revenue and Capital reserves and balances detailed at section 7 of this report and shown at Appendix D.
9. To approve the Treasury Management Strategy Statement detailed at section 9 of this report and provided at Appendix G.
10. To approve the updated Capital Strategy as detailed in Appendix H.

(END OF RECORDING VOTE SECTION)

HOUSING REVENUE ACCOUNT

11. To approve Housing Revenue Account (HRA) dwelling rent increases of 4.1% (CPI + 1%) in accordance with Government guideline rent providing an average rent of £84.06 (an average rental increase of £3.28 per a week).
12. To approve an increase in HRA garage rents of 3%.
13. To approve an average increase of 3% in HRA service charges for communal facilities and communal rooms.
14. To approve an increase in shared ownership rents by 4.1% (CPI +1%).
15. To approve the HRA Revenue Summary for the year 2022/23 and to note the indicative budgets for 2023/24 and 2024/25 shown at Appendix A.
16. Approve the Housing Capital Investment programme for 2022/23 to 2023/24 and the budget carry forwards for 2021/22 detailed at section 5 of this report and as shown at Appendix C.
17. Approve the HRA Capital Financing statement detailed at Appendix C.
18. To approve the movements in HRA revenue and Capital reserves and balances detailed at section 7 of this report and shown at Appendix D.

1 The Background to the Report

1.1 The Council is required to set a balanced budget and agree the level of Council Tax for 2022/23 and this report contains a summary of the proposals that are considered for inclusion. The proposals were considered and scrutinised in detail by the Budget Joint Overview and Scrutiny Committee on 12 January 2022. The draft proposals were consulted upon during the period 14 – 28 January 2022 and the results of the consultation were presented to Cabinet at their meeting on 8th February 2022.

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

This is underpinned by the Council vision to 'be the best place in which to live, work and visit'.

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. The Corporate Plan is currently being reviewed and refreshed in response to new emerging priorities and the changing landscape and the budget proposals have been formulated alongside the Corporate Plan review.

1.2 This report covers the following sections:

- The General Fund Budget estimates and Council Tax proposals (paragraph 2)
- The Housing Revenue Account (HRA) position (paragraph 3)
- Fees and Charges (paragraph 4)
- The Capital Proposals 2021/22 to 2023/24 including financing (paragraphs 5 & 6)
- Reserves and Balances (paragraph 7)
- Treasury Management Strategy (paragraph 8)
- Collection Fund (paragraph 9)
- Statement of Financial Robustness (paragraph 10)

1.3 At the meeting on 12 January 2022 the Budget Joint Overview and Scrutiny Committee (OSC) undertook a robust scrutiny of the budget proposals that are proposed by Cabinet and the OSC considered all aspects of the revenue and capital proposals for both General Fund and Housing Revenue Account. The OSC considered all elements of the budget proposals and supported the proposals without any amendment.

1.4 The supporting actions contained in the Corporate Plan have been reviewed the Overview and Scrutiny Committees and it has been important to ensure the budgetary proposals continue to support the resource requirements of each action where appropriate. The 2022/23 budget proposals can demonstrate the continuation of investment into the key services and ambitions of the Council whilst maintaining a sustainable financial position. However the financial future remains uncertain primarily due to the Government continuing to suggest the national funding allocation methodology may change as part of the levelling up agenda and only receiving a one year settlement. Therefore uncertainty remains and specifically from 2023/24, which makes maintaining a financial sustainable financial plan more challenging.

2 GENERAL FUND BUDGET PROPOSALS

2.1 The overall General Fund position for 2022/23 is shown at table 1 below and Appendix A. The net budget requirement for 2022/23 is estimated at £14.562m.

Table 1 – Summary of General Fund Estimates

Description	2021/22 Original Budget £'000	2022/23 Proposed Budget £'000	2023/24 Indicative Budget £'000	2024/25 Indicative Budget £'000
Directorate Area				
Commercial & Operations	7,686	7,664	7,631	7,847
Corporate	7,034	7,295	7,741	7,722
Growth & Culture	5,111	5,394	5,197	5,286
Housing & Property	279	681	5	21
HRA recharge	(2,759)	(2,787)	(2,814)	(2,870)
Net Cost of Services	17,351	18,247	17,760	18,006
Investment Income	(100)	(101)	(91)	(85)
Interest Payable	0	0	0	213
Minimum Revenue Provision (MRP)	296	291	286	718
Revenue Contribution to Capital	186	55	57	0
Drainage Rates	746	792	816	840
Depreciation	(4,586)	(4,722)	(4,863)	(4,960)
Net Budget Requirement	13,893	14,562	13,965	14,732
Funding & Resources:				
Council Tax (Excluding Parishes)	(8,114)	(8,455)	(8,804)	(9,160)
Government Grant	(1,432)	(852)	(490)	(490)
Retained Business Rates	(3,808)	(3,971)	(3,722)	(4,129)
New Homes Bonus	(1,045)	(1,232)	(400)	(400)
Collection Fund (Surplus)/Deficit	51	(54)	0	0
Total Funding	(14,348)	(14,564)	(13,416)	(14,179)
Transfers to/(from) earmarked reserves	455	2	233	302
Net Budget Deficit	0	0	782	855

2.2 The table shows a balanced position for 2022/23 but emerging deficits from 2023/24 resulting from a number of variables including uncertainty regarding the levels of funding from a national perspective and the costs that will be incurred for financing the refurbishment programme. From 2024/25 there is a budgeted increase in both interest payable and MRP to reflect the borrowing costs incurred for the refurbishment of Deepings Leisure Centre. This has been included in the 2024/25 budgets but the timing may vary depending on the completion of the refurbishment works. At Council on 14 December 2021, Council approved the inclusion of the indicative costs for Deepings Leisure Centre and also agreed to develop an affordability plan in response of these new costs. It is important that this budget allocation review is undertaken well in advance to ensure a financially sustainable position is achieved.

The above table now includes InvestSK as an in-house service under the Directorate of Growth and Culture and the increase of £30k in the operating costs have been off-set by a one-year reserve movement. Once the company of InvestSK Ltd has been wound up, then the reserve balance from the company will be returned to the Council and used to contribute towards the increase in the

operational costs until it is fully spent. This in accordance with the Cabinet report accessed here: <http://moderngov.southkesteven.gov.uk/documents/s32408/InvestSK%20Covering%20Report%20FINAL.pdf>

2.3 **Key Budgetary Proposals**

The budgetary proposals for 2022/23 contain a number of service changes that have been incorporated in order to meet 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. The table below sets out the proposed changes to the 2022/23 budget and these are shown under the headings of additional budgets bids, savings and fees and charge proposals. Each of the saving proposals will be required to be implemented with effect from April 2022 in order to ensure the financial savings are realised. Table 2 has been updated since the report presented to Cabinet on 13 January 2022 to include the budget allocation for Change 4 Lincs (this budget is fully funded from government grant) and the Council is the host authority for the partnership with North Kesteven, South Holland and West Lindsey District Councils and table 3 has been updated to include the Corporate restructure saving of £500k.

Table 2 – Proposed Budget Bids

Details	Financial Implication £'000	Recurring/One-Off	Comments	Directorate Area
Asset maintenance programme	150	Recurring	Annual budget to respond to maintenance issues in relation to General Fund assets	Growth and Culture
Climate Change Budget	20	Recurring	Transfer of previous reserve allocation to an annual budget to fund climate change initiatives	Commercial and Operations
Mental Health initiatives	10	Recurring	Fund to support the mental health challenge	Corporate
SK Community Awards	8	Recurring	Establishment of an annual SK community awards programme	Commercial and Operations
Grantham Carnival Grant	6	Recurring	Contribution towards carnival costs – funded from Grantham special expense area	Commercial and Operations
Asset maintenance programme	400	One-off	One-off funding to respond to backlog of General Fund asset maintenance	Housing and Property
Local Plan	161	One-Off	Funding of £161k for 2022/23 and £119k for 2023/24 to progress Local Plan	Growth and Culture
Leisure SK Management Fee	250	One-off	To fund the business rates payable by Leisure SK	Growth and Culture

Community Governance review	20	One-off	Costs expected to be incurred in relation a comprehensive governance review for the Grantham Parish	Corporate
Change 4 Lincs	346	One-off	Funded from government grant	Housing and Property

Table 3 – Proposed Savings

Details	Financial Implication £'000	Comments	Directorate Area
Street Scene – one dedicated team for the district	126	Changes to Big Clean staffing arrangements	Commercial and Operations
Ward Member Grant scheme	28	Cessation of scheme but retain Community Fund scheme	Corporate
Festival Programme	20	Retain an annual festival programme budget of £80k	Growth and Culture
Food Waste Service (Pilot)	30	Funding for the pilot ceases in 2022/23.	Commercial and Operations
Corporate restructure savings	500	Corporate restructure proposals	All directorate areas

Table 4 – Proposed changes to Fees and Charges

Details	Financial Implication £'000	Comments	Directorate Area
Pay and Display Car Parks	44	Proposed increase of 10p per tariff across the car parks of Grantham and Stamford	Commercial and Operations
Street Naming and Numbering	20	Introduction of new fees that will be charged to developers	Growth and Culture
Green Waste Service	177	£5 increase for annual collection charge	Commercial and Operations
Other discretionary services	100	Inflationary increase only to all other discretionary charges	All

2.4 Company Funding proposals

The 2022/23 budget proposals contain funding proposals for each of the following companies:

- EnvironmentSK Ltd
- LeisureSK Ltd

2.5 Grounds Maintenance delivered by EnvironmentSK Ltd (ESK Ltd)

ESK 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, parish and town councils, business and the public.

The Council determines its grounds maintenance requirements via the specification and makes payments to ESK Ltd for the service provided. The only additional financial support provided to ESK 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. The contract payments to be made in respect of special expense areas have been reduced to reflect the removal of the costs relating to Bourne special expense area.

Table 5 – ESK Ltd – Proposed Contract Fee

Grounds Maintenance services	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
General Fund	253	261	261	261
Housing Revenue Account	428	428	428	428
Special Expense Areas	327	327	327	327
Total Proposed Fee	1,008	1,016	1,016	1,016

2.6 LeisureSK Ltd

The leisure management fee for 2021/22 was approved at £500k and was based on the business plan that was provided by external leisure providers reflecting the challenging operating environment of the leisure sector. At the time of providing the 2021/22 fee proposals, the five year business plan demonstrated that beyond the first year of trading, LeisureSK Ltd would not require a further management fee as the financial projections showed a balanced trading position. However due to the operating restrictions encountered during 2021/22, the operating environment for LeisureSK Ltd will continue to be challenging for 2022/23. The most recent trading projections shows that there is no requirement for a management fee as the operating costs will be met from income projections although this situation will be kept under review as the trading position changes. Therefore it is requested that management funding in relation to business rates only is requested for 2022/23. This figure is proposed at £250k to reflect the business rates that are payable in respect of the leisure centres.

For 2022/23, the Government has confirmed the extension of business rates relief to the hospitality, leisure and retail sector of 50% relief and therefore 50% rates payable. The leisure centres would therefore qualify for this relief which would reduce the business rates payable from £500k to £250k for the financial year 2022/23. In line with the localised Business Rates funding model, the Council would then financially contribute 40% of the rates payable with the Government contributing 50% and Lincolnshire County Council contributing 10%. This would equate to a Council contribution of £100k for 2022/23. However close monitoring of the financial performance of LeisureSK Ltd will be undertaken and if the financial situation changes this will be reported to members as necessary.

General Fund Budget Estimates – 2022/23

- 2.7 The budget has been compiled to deliver the outcomes and aspirations of the Council's Corporate Plan. The budget assumptions that have been considered and incorporated into the budget estimates are shown in table 7, all other inflationary costs have been absorbed by service areas which has assisted with achieving a balanced budget.

Table 7 – General Fund Budget Increases

Cost Heading	2022/23 Budget Increases (%)	Financial Impact £'000	2023/24 Budget Increases (%)	Financial impact £'000
Drainage Board Levies	6.2	46	3.0	24

Pay Award	1.5-1.75	210	1.0	146
Utility price increases	20-25	90	10-15	76
Insurance	10	24	10	26
Grounds Maintenance	5	24	5	24
National Insurance Levy increase	1.0	106	1.2	107
Pension deficit	12.4	141	11.0	150
Tri-ennial Pension Review	-	-	1.0	123

- 2.8 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 8 – Treasury Investment Financial Forecasts

Financial Year	2022/23	2023/24	2024/25
Base Rate	0.25% – 0.50%	0.50% - 0.75%	0.75% - 1.0%
Investment Interest Rate	0.5%	0.75%	1.0%

- 2.9 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 are expected to generate an income of £101k to the General Fund and £200k 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

- 2.10 The proposed draft budget for 2022/23 is calculated based on the options available for Council tax setting:

Table 9 – Council Tax options (current 2021/22 charge £168.59)

	2022/23 options	
	Up to £5 increase £173.59 (2.96%) Band D	No increase £168.59 Band D
Council Tax level x 48,706.7** (including SEA*)	£8.455m	£8.211m
£ annual difference to a £5 increase	£0	(£244k)
SKDC only Band D Charge	£159.93	
SKDC Including SEA	£173.59	

*SEA – Special expense area

** Council Tax base

- 2.11 Therefore it can be seen that the proposed increase generates an additional £244k for 2022/23. The tax base of 48,706.7 has been used to calculate the amount of the Council Tax income and was recommended by Cabinet on 7th December 2021.

The budget proposals for 2022/23 have been compiled following the recommendation from Cabinet to recommend the maximum increase of £5 in order to take advantage of the limited availability of the higher level (without the need for a referendum). This proposed increase was consulted upon, and 265 responses were received. Approximately 30% of the responses supported the increase of £5 after taking into consideration the financial challenges the Council is facing and recognising the need to continue to invest and support the local economy and population. Should Council approve a lesser amount than is being 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

3 HOUSING REVENUE ACCOUNT (HRA)

3.1 The HRA budget proposals continue to focus on:

- Helping to meet the housing needs of tenants
- Facilitating the delivery of new housing across a range of tenures
- Enabling those whose independence may be at risk to access housing (including their current home) that meets their needs
- Encouraging, supporting and regulating the private rental sector to provide well managed, safe homes.

3.2 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 increased for 2022/23 resulting from an overall increase of 4.1% (CPI in September 2021 was 3.1%). This is leading to an increase in projections for rental income of £650k for 2022/23 when compared to previous financial assumptions.

In response to an increase in void turnaround times the budget proposals have assumed a void rate of 1.8%, an increase of 0.3%. This increase has an adverse impact on rental income (as properties remain empty for longer) which has been costed at a rental income loss of £75k for 2022/23.

The HRA revenue summary is shown at Appendix A and a 3 year forecast is shown for both income and expenditure. The forecast expenditure budgets have been prepared prior to the findings of the stock condition survey (SCS) findings being received and analysed. It is probable that the budgets will need to be reviewed as there is likely to be a shift between planned and responsive maintenance requirements. Therefore there is an assumption that the HRA revenue summary may be reviewed and re-presented to Council during the 2022/23 financial year.

Table 10 – Proposed Budget Bids

Details	Financial Implication £'000	Recurring/One-Off	Comments
Training requirements	25	Recurring	Increase in annual budget to provide additional compliance training

Housing Revenue Account 2022/2023 – Rent Proposals

- 3.3 The rent setting proposals for 2022/23 has increased the annual budgeted rental income from £24.627m in 2021/22 to £25.399m in 2022/23. For 2022/23 the average weekly rental increase for individual property will be £3.28. The average rent in 2022/23 will be £84.06 with a minimum of £59.54 and a maximum of £122.35. 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 B. Further analysis of rent details is provided in tables 11 and 12.

Table 11 - Impact – 4.1% increase

Bedrooms	% of Dwelling Stock	Average Weekly Rent 2021/22	Average Weekly Rent 2022/23	Average Increase	% Increase
Bedsit	0.81%	£57.19	£59.54	£2.35	4.1%
1 Bedroom	13.06%	£69.96	£72.82	£2.86	4.1%
2 Bedrooms	42.50%	£78.26	£81.47	£3.21	4.1%
3 Bedrooms	42.57%	£85.76	£89.28	£3.52	4.1%
4 Bedrooms	1.96%	£89.86	£93.54	£3.68	4.1%
6 Bedrooms	0.10%	£117.53	£122.35	£4.82	4.1%

Table 12 - Increases for Individuals

Bracket	Number of Properties	% Of Properties
Under £2.49	48	0.81%
£2.50 - £2.99	773	13.06%
£3.00-£3.49	2,515	42.50%
£3.50-£3.99	2,576	43.53%
£4.00-4.85	6	0.10%
Total	5,918	100.00%

- 3.4 Right to buy sales have been budgeted at 50 sales for 2022/23 (actual sales for 2020/21 were 29) as it is assumed that levels have returned to pre-COVID levels. Right to buy sales from the previous 5 years are detailed in the table below:

Table 13 – Right to Buys

Financial Year	Number of Right to Buys
2016/17	52
2017/18	56
2018/19	64
2019/20	56
2020/21	29

4 FEES AND CHARGES

- 4.1 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. The policy introduces a set of principles which have been applied to fees and charges setting.

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:

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.

4.3 A summary of the proposed fees and charges for 2022/23 are shown in table 14 and full details are shown at Appendix B. 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 £5
- Grantham Pay and Display car parking 10p increase per tariff
- Stamford Pay and Display car parking 10p increase per tariff

Table 14 – Fees and Charges Summary

QUADRANT (as per the Policy)	HEADING	PROPOSAL FOR 2022/23	INCORPORATION OF POLICY PRINCIPLES
Discretionary	Arts centres	5% (rounded up to £1)	Subsidised
	Bus stations	3% (rounded up to 1p)	Subsidised
	Car parking charges	10p increase per tariff for short stay and long stay parking. Season tickets 3% (rounded up to £1)	Cost Recovery and investment in traffic management related assets
	Car parking penalty charge notices	0%	Cost Recovery
	Green waste	Direct Debit/Online 13%- £5 Offline/cash/cheque 11%-£5 Additional bins Direct Debit/Online 13%-£2.50 Additional bins Offline/cash/cheque 11%- £2.50	Cost Recovery
	Markets	3% (rounded up to 10p)	Subsidised
	Outdoor recreation	Up to 3%	Subsidised
	Planning, pre-planning and street	Up to 10% and new charges proposed for	Cost Recovery

	naming and numbering charges set locally	street naming and numbering	
	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	Up to 9% (rounded up to £10)	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	Up to 13%	Cost Recovery
	Planning fees set by Government	0%	Cost Recovery
	Smoke free fixed penalty notices and smoke and carbon monoxide alarms for landlords	0%	Cost Recovery
		Community rooms & guest rooms	Up 3%

Specialism	Domestic refuse collection e.g. bulky waste	Up to 16%	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

5 **CAPITAL PROGRAMME 2022/23 – 2024/25**

- 5.1 The primary elements of the capital programme have been formulated to deliver the Council ambitions of growth and investment in its assets to support the delivery of quality services. In summary the capital programme contains key investments to support services and include fleet replacement, asset maintenance and investment in Future High Streets and Heritage Action Zone. The proposed programme totals £17.064m and will be financed from a combination of Council reserves, borrowing and external grant funding.

At its meeting on 14 December 2021 the Council approved a comprehensive refurbishment programme of Deepings Leisure Centre which will require significant capital expenditure over the period of the proposed capital programme. At the time of compiling the report the specific timing of the refurbishment programme has yet to be finalised due to the outstanding matters relating to the lease of the premises and the procurement route to market. Therefore the indicative cost of £10.663m has been included in 2022/23 capital programme although it is accepted that this budget allocation will move (in whole or part) to 2023/24. This will be reviewed during the year and programme updates will be provided accordingly. The exact timing of the programme is crucial to determining when the Council will be required to make annual minimum revenue provisions (MRP) within its annual revenue budget proposals. The accounting guidance requires the Council to make annual MRP commencing the year after the asset has become operational. Therefore it is anticipated that this will be either 2024/25 or 2025/26 depending upon the timing of the programme. The revenue budgets presented cover the period 2022/23 – 2024/25 and so MRP is shown in the final year accordingly.

There has been a further amendment made to the General Fund capital programme by Cabinet to include a budget allocation relating to a sustainable warmth grant of £1.245m which has been awarded to the Council. This grant, which is wholly funded by Government, will be used to deliver energy upgrades for low-income, low energy efficiency mixed tenure households across the district. The grant must be spent or returned by 31 March 2022 and so, subject to Council approval, a team including the appointment of temporary resources (fully funded by the grant) will be introduced to ensure the grant can be fully utilised.

- 5.2 A summarised capital programme is shown in table 15 and a detailed capital programme included in Appendix C.

Table 15 – General Fund Capital Programme Summary

Directorate	2021/22 Budget Carry Forward £'000	2022/23 Proposed Budget £'000	2023/24 Indicative Budget £'000	2024/25 Indicative Budget £'000
Commercial & Operations	63	3,280	2,172	2,556
Growth & Culture	963	13,029	4,772	0
Housing & Property	270	2,003	0	0
Total Budget	1,296	18,312	6,944	2,556

Financing:				
Borrowing	0	10,663	0	0
Grants and contributions	743	3,385	5,589	860
Reserves	553	2,909	585	1,480
Useable Capital Receipts	0	1,355	770	216
Total Financing	1,296	18,312	6,944	2,556

Housing Investment Programme (HIP)

- 5.3 The formation of the capital programme for the period 2022/23 – 2024/25 is primarily focused on continuing to invest in the Council housing stock, the continuation of the new build and stock acquisition programme and the objectives of the HRA Business Plan.
- 5.4 In respect of the new build programme the outline 3-year capital programme totalling £9.63m is anticipated to deliver approximately 67 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.
- 5.5 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 C.

Table 16 – HRA Capital Programme Summary

	2021/22 Budget Carry Forward £'000	2022/23 Indicative Budget £'000	2023/24 Indicative Budget £'000	2024/25 Indicative Budget £'000
Decent Homes	1,375	9,810	9,535	8,150
New Build Programme	0	3,820	3,000	2,810
ICT	670	500	0	0
Repairs Vehicles	128	50	280	304
HRA Budget	2,173	14,180	12,815	11,264
Financing:				
Capital Receipts	0	3,300	3,000	2,810
Grants & Contributions	30	520	0	0
Reserves	2,143	10,360	9,815	8,454
Total Financing	2,173	14,180	12,815	11,264

6 Capital Financing

- 6.1 The General Fund Capital Programme is detailed at Appendix C, the proposed schemes have been funded by a combination of external grants, Council reserves and borrowing. The HRA Capital Programme is included at Appendix C, the proposed schemes are funded by external contributions and Council reserves so for the duration of the proposed Capital Programme no external borrowing is currently required.

General Fund

- 6.2 The General Fund capital programme for 2022/23 will be financed from the following

- £1.355m capital receipts reserve
- £3.385m specific grants (Disabled Facilities Grant amount to be confirmed)
- £2.909m reserves
- £10.663m borrowing

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 2022/23 investment may require amending once the confirmed grant funding is known to the Council.

Housing Revenue Account

6.3 The HRA capital programme for 2022/23 will be financed from the following:

- £3.3m capital receipts reserve
- £0.520m grants and contributions
- £10.360m revenue reserves

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 (earmarked) –these are 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 D.

Table 17 – Budgeted General Fund Revenue Reserve Movements (excluding carry forward funding)

Reserve Heading	2022/23 £'000	2023/24 £'000	2024/25 £'000
Budget Stabilisation Reserve	(1,581)	0	0
Commercial Reserve	(250)	0	0
Government Specific Grants	(26)	(26)	0
ICT reserve	(96)	0	0
Invest to Save	257	0	0
Local Priorities Reserve	(2,022)	(304)	(1,080)
Pensions	(33)	(33)	(33)
Property Maintenance	494	0	0
Regeneration Reserve	(470)	(95)	(180)
Special Expense	98	100	105
Street Scene	27	0	0

- The Budget Stabilisation reserve was created to fund short term budget pressures arising from financial volatility in the General Fund either from unforeseen expenditure or reductions in budgeted income projections. The balance at 31 March 2022 is forecast at £4.531m which is higher than is deemed necessary so it is proposed the balance is reduced to £2.950m (a reduction of £1.581m). It is proposed that £1m is transferred to the regeneration reserve, £250k

to the invest to save reserve and £331k to the Property Maintenance reserve to provide funding to support the funding of the backlog of property maintenance.

- The Climate Change reserve has been utilised during the year on approved initiatives to support the climate agenda action plan. From 2022/23 a specific service budget of £20k per annum has been included in the General Fund budget.
- 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 (SMP). For 2022/23 it is proposed that the operational costs of St Martins Park £430k, the Council contributions of £108k for the Heritage Action Zone and £104k towards the Future High Street fund are funded from this reserve. Following the decision at Council a further £500k has been allocated to the reserve from the Local Priority Reserve in order to ensure there is sufficient funding to finance the demolition costs of £1.303m for SMP. In order to ensure the reserve has a level that is sufficient to continue to meet the costs of any further acquisitions it is recommended that the reserve balance is increased by £1m. The proposal is to transfer £1m from the budget stabilisation reserve.
- In 2022/23 it is proposed that Government Specific Grants are used to part fund £26k of the costs incurred in electoral registration.
- It is proposed to amalgamate the Commercial reserve into the Invest to Save reserve and to broaden the remit of the use of the reserve to include funding commercial ventures that require a level of start up funding. Therefore the reserve balance of £250k is proposed to move to the Invest to Save reserve. As referenced above, it is proposed that £250k is transferred from the Budget Stabilisation reserve to the Invest to Save reserve which can then be utilised to fund the costs associated with any savings initiatives. During 2022/23 £234k, the reserve will be used to fund the costs associated with the Corporate restructure so the estimated balance at 31 March 2023 is £398k.
- New Homes Bonus totalling £1.724m is budgeted to be transferred to the Local Priorities reserve over the period of the 3-year budget. It is proposed that £4.124m of this reserve is used to finance the capital programme which includes £2.257m to fund vehicles replacement and £1.126m funding for the capital improvements to the Councils existing assets and replacement CCTV. This reserve will also be used to fund the £250k management fee associated with Leisure SK and £280k has been budgeted to fund the local plan. 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 2025/26.
- The Pension reserve will be used to fund the annual pension costs of former employees which is currently £33k per year.
- The Property Maintenance reserve will be utilised over the budget period to provide the financing of essential property related works (£400k) and safer surfaces at parks (£41k). It is proposed that £331k is transferred from the budget stabilisation reserve and the one-off Government grants received totalling £604k is proposed to be transferred to this reserve so that there is sufficient balance to fund other essential works when identified.
- The Special Expense reserves will be utilised over the period of the budget proposals. In respect of Langtoft £2k of the reserve will be utilised over the next 2 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 Grantham will increase by £305k over the 3 year budget period which will enable improvements to be completed across the town as schemes are identified

- Street Scene reserve - The Council owns its operating fleet and currently has 54 vehicles in its stock. This level of stock has an impact the operating costs of the in-house workshop and therefore this reserve is utilised in the event of costs exceeding budgeted levels.
- The insurance reserve is set at £222k for 2022/23 and will be utilised to fund unforeseen costs arising from insurance claims that fall within the Council's self-insurance arrangements and excess levels. The reserve is also utilised to fund unexpected costs arising from planning matters that require the Council to incur external professional advice such as Counsel.

7.3 In respect of the HRA, there are a number of specific reserves to assist in the delivery of the HRA services 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 3 years. Further detail of the HRA reserves can be found in Appendix D.

Table 18 - Budgeted HRA Reserve Movements (excluding carry forward funding)

Reserve Heading	2022/23 £000	2023/24 £000	2024/25 £000
Improvement Reserve	(1,140)	0	0
Working Balance	297	(527)	(383)
Capital Receipts Reserve	155	457	690
Major Repairs Reserve	(4,938)	(2,623)	(1,047)

- 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 Statement by the Chief Finance Officer (Section 25 Local Government Act 2003)

8.1 The Council's Chief Finance Officer is required to comment on the robustness of the budget estimates and the adequacy of the proposed financial reserves in accordance with the requirements of the Local Government Act 2003. The estimates are considered to be robust. Employee costs are based on the approved establishment, contractual inflation included, reasonable provision for inflation, interest income is based on the advice of the Council's treasury management advisors and income targets are considered to be achievable.

8.2 The draft budgets for 2022/23 to 2024/25 (inclusive) assume that the working balance for the General Fund remains no less than £1.9m throughout the period. The formation and replenishment of the Budget Stabilisation Reserve is an important component of ensuring the Council has the financial resilience to meet the immediate and medium term impact of the recovery period and also to absorb the expected transitional arrangements of the changes to the national funding arrangements for local government. More details in respect of this issue are expected during 2022.

8.3 The working balance for the Housing Revenue Account (HRA) has been replenished and is now showing a projected balance level that can supporting unforeseen operating costs each year. For this reason a 3 year HRA revenue summary can be presented. Following the analysis of the 100% stock condition survey, the financial business plan of the HRA will be reviewed following the re-prioritisation of the expenditure that will be necessary.

9 Treasury Management Strategy and Capital Strategy

- 9.1 The CIPFA Treasury Management Code defines treasury management activities as:
“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 9.2 The TMSS details the investment and borrowing policies that the Council will follow during 2022/23. The CIPFA code and MHCLG statutory guidance also requires the Council to have a policy on non-treasury investments.
- 9.3 The TMSS sets out the counterparties that the Council will invest with and the limits that will be invested with each counterparty. There are no proposed changes to the limits that were approved by Council on 1 March 2021.
- 9.4 CIPFA has recently completed a consultation of the Treasury Management and Prudential Codes, and there are no changes to the Code 2022/23 that is shown at Appendix G.
- 9.5 It should be noted that the Department for Levelling Up, Housing and Communities is proposing to update the regulations to restrict local authorities with respect to financing capital expenditure on investment in commercial projects for yield. Access to PWLB borrowing has already been restricted as the Council is unable to borrow if commercial projects are included in the approved capital programme. The new CIPFA Codes are also likely to adopt a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.
- 9.6 The consultation also proposed that the frequency of reporting treasury management performance should be amended to quarterly instead of half-yearly. If this amendment is adopted by the Code then the reporting requirements will be changed accordingly.
- 9.7 The Capital Strategy has also been amended and updated and is provided in detail at Appendix H. The strategy set out the strategic framework of capital investment, capital financing and treasury management activity and how they support the delivery of the Corporate Plan and service provision.

10 Collection Fund

- 10.1 All relevant transactions associated with Council Tax are shown in the Collection Fund.
- 10.2 To comply with CIPFA’s Best Value Accounting Code of Practice authorities are required to forecast the outturn on the Collection Fund as at 31st March each year in order to distribute this amount to precepting bodies in the following financial year (together with any remaining unallocated surplus from previous years).
- 10.3 Any surplus or deficit arising from Council Tax transactions is shared between South Kesteven District Council, Lincolnshire County Council and Lincolnshire Police and Crime Commissioner (the precepting bodies) in proportion to their demands on the Collection Fund.
- 10.4 A breakdown of the surplus allocated to the preceptors in 2022/23 is detailed below:

Precepting Body	Distribution Amount (£)
South Kesteven District Council	£54,432

Lincolnshire County Council	£358,255
Lincs and Police Crime Commissioner	£70,558

11 Consultation and Feedback Received, Including Overview and Scrutiny

- 11.1 The Budget Joint OSC met on 12 January 2022 and debated all aspects of the budget proposals from both a General Fund and Housing Revenue Account. There were no amendments to the proposed budgets that were presented at the meeting. The Council Tax setting proposals were also open to community consultation for the period 14 – 28 January 2022.

12 Available Options Considered

- 12.1 N/a

13 Preferred Option

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

14 Reasons for the Recommendation (s)

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

15 Next Steps – Communication and Implementation of the Decision

- 15.1 The final budget proposals will be presented to Council on 3 March 2022 for approval.

16 Financial Implications

- 16.1 These are considered throughout the report and supporting appendices. My statement on the robustness of the budget proposals is set out in section 8.

Financial Implications reviewed by: Richard Wyles, Assistant Director of Finance & s151 Officer

17 Legal and Governance Implications

- 17.1 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: Graham Watts, Head of Democratic Services and Deputy Monitoring Officer

18 Equality and Safeguarding Implications

- 18.1 All equality and safeguarding implications will be considered as part of any of the proposals being approved. A full equality impact assessment has been carried out and is provided in detail at Appendix F.

19 Risk and Mitigation

- 19.1 A complete risk register is presented that shows the impact and likelihood of each identified risk supported by the mitigating actions. The risk appendices also includes a risk analysis that shows the main budget headings that are subject to unpredictability and an assessment of the financial exposure if there is an adverse impact on the proposed budgets. This analysis confirms that the Council's reserves are sufficient to cover this financial exposure if needed. This is shown at Appendix E.

20 Community Safety Implications

20.1 None identified

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 – Fees & Charges – GF and HRA

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

Appendix D – Reserves Statement – GF & HRA

Appendix E – Risk Register and financial risk cover ratio

Appendix F – Equality Impact Assessment

Appendix G – 2022/23 Treasury Management Strategy

Appendix H –Capital Strategy

Appendix I – Council Tax Resolution

Report Timeline:	Date of Publication on Forward Plan (if required)	7 December 2021
	Previously Considered by: Budget - Joint Overview and Scrutiny Committee	N/a
	Final Decision date	3 March 2022