

GENERAL FUND KEY ELEMENTS

1. The main factors impacting the General Fund budget are detailed below.

Staff Salaries

2. Independent advice on the cost of living increase is received to form the basis of negotiations for the 2020/21 pay settlement and is factored into the budget.

Vacancy Allowance and Organisational Savings

3. The vacancy allowance (savings from staff turnover) has been set at £150k. It is proposed to continue an employment management process to maintain the link between approved service standards and the approval of posts to be filled.

Pension Fund

4. The Council's Pension Fund (part of the countywide fund administered by Kent County Council) is subject to actuarial valuation on a three-yearly cycle. The last triennial valuation (the "2019 valuation") of the KCC pension fund started in April 2019 and is to be implemented from April 2020.
5. DDC pays two contributions to the pension fund; these are "current service rate" (the additional pension earned in year) and a lump sum to finance the existing pension deficit. The actuarial report advised that based on the various assumptions used the current contributions required to meet the cost of pensions being earned today should increase from 15.5% to 18.8%.
6. The annual calculations in respect of pension benefits as at 31 March 2019 estimated a decrease in the pension fund deficit for Dover. Dover is paying this deficit off over the next 14 years as agreed with the actuary. As a result, the fixed sum to finance the deficit was decreased from £2.01m to £1.76m (for all staff, including HRA) in 2020/21 and then increased by £60k in 21/22 and £70k in 22/23.
7. It should be noted that changes to the pension fund deficit are largely a result of factors outside of the Council's control including increases in pensions payable, increased life expectancy and lower asset values. There has also been an impact due to the creation of EKS and EKH, and the transfer of staff on a fully funded basis. However, this would only become a "real" effect if EKS and EKH were to move away from the Council into wholly separate and independent organisations.

General Inflation

8. Setting a guideline level of inflation introduces a risk of "over budgeting". Instead, all managers are asked to consider the specific quantity and price of services they will actually need in the coming year and to reduce expenditure where possible.
9. The other significant area of potential inflation pressures relates to major term contracts. In 2020/21 the assumed level of contract inflation is based on the details of

the specific contracts, the state of the market for the specific services and any other relevant factors. For future years it is not realistic to attempt to model contract renewal costs and so for planning purposes a 3% increase in the cost of major term contracts has been assumed. Each 1% variance in contract inflation leads to approximately £100k variance in costs.

Contingency Provision

10. Contingency provision of £146k has been included to meet any unexpected expenditure commitments, if they cannot be contained within other budgets. As part of the budget setting process managers and directors were asked to identify any budgets held for items such as legal or consultants' fees that would only be required if certain circumstances occurred. These budgets have been removed from individual budgets and will be funded from this provision if required for the items identified.

Grants to Organisations

11. The Council makes a number of grants to organisations for services across the district, including contributions to the Citizens Advice Bureau, Your Leisure, the Neighbourhood Forums; these are detailed in Annex 9. Overall, the grant payments are expected to remain the same as they were in 2019/20, however, there is a 10% decrease in the grant to Your Leisure. Additionally, the introduction of the Dover Lotto, which in turn raises money for the Neighbourhood Forums, has the potential for a larger grant payment.

Shared Services

12. East Kent Services manage the ICT and Human Resources functions on behalf of Dover, Canterbury and Thanet Councils. They also manage the revenues & benefits and customer services contract with Civica (which started on 1st February 2018) on behalf of the East Kent Councils. Thanet are the accountable body for these arrangements and they will continue to handle the accounting arrangements and be billed by Civica, and they in turn will charge management fees to Dover, as at present.
13. The Council awarded a 10-year contract to carry out recycling and waste collections, the processing of recycle collected and street cleansing operations to Veolia Environmental Services (UK), which commenced in January 2011. The contract has been awarded in partnership with Folkestone and Hythe District Council (FHDC) and Kent County Council (as the disposal authority). Dover is the lead on this partnership and manages the client team who oversee the contract from the Dover District Council offices on behalf of the three authorities. As the contract is due to end in January 2021 the process has started to look at outsourcing a joint waste contract with FHDC and to consider bringing the street cleansing elements back in house.
14. East Kent Audit partnership (EKAP), hosted by Dover, provides internal audit services to Dover, Folkestone and Hythe, Canterbury and Thanet (including East Kent Services) Councils and East Kent Housing.

Interest on Investments

15. The overall interest rates achieved in 2020/21 will depend on the combination of the LIBID rate and the margin it maintains above base rate, the rates for current investments, the prevailing market rates when current investments are renewed, as well as the permissible deposit durations which change according to updated credit rating criteria.
16. The Bank of England base rate has stayed at 0.75% during 19/20 and is expected to remain at that level for the near future. Uncertainty remains in the financial markets due to the continuing negotiations between the UK and EU over the timing and terms of Brexit.

As of the 31st December 2019 the Council has a total of £50m invested in pooled investment funds. These are forecast to generate an income return of between 4-5% per annum.

17. The MTFP assumes that the Council's investments overall will earn the General Fund £1,750k (£56k less than the level budgeted for 2019/20), this is due to deciding not to invest £2m in the Schroders fund in 19/20.
18. Changes to accounting requirements under IFRS9 require fluctuations in the capital value of investments to be charged to the Income & Expenditure Account from 1st April 2018, even though these are not realised unless investments are sold. MHCLG have confirmed that they will be introducing a statutory override to mitigate the volatility caused by changes in the fair values of pooled funds. This will be in place for five years.
19. Members should note that the localisation of Business Rates places a significant potential risk on DDC's cash flow. If there is a significant reduction in Business Rates collection through revaluation, demolition or major business failure in the district, this would reduce the funds available for investment and therefore reduce the interest earned.

Regeneration and Property Investment

20. On 30 November 2016 Council approved the Property Investment Strategy. This approved investing up to £200m in commercial and residential property, either directly or through a property company, primarily in order to increase economic regeneration and also to generate returns.
21. Transfer of Garages
 - In March 2017 Cabinet approved the transfer of garages, shops and land from the HRA to the General Fund. For the financial year 2019/20 a net income of £232k.
22. B&Q Whitfield
 - The B&Q property is a modern purpose-built retail warehouse constructed in 2008 providing 62,180 sq. ft. with external garden centre and builder's yard. The site extends to approximately 8.8 acres (3.56 hectares) and is situated in a highly prominent position, adjacent to and visible from the A2. The property is let entirely to B&Q plc until May 2028.

- In September 2017 the purchase of the freehold was completed for £16.29m resulting in a total cost, including Stamp Duty, external fees, internal recharges, etc., of £17.25m.
- The lease income is £1.1m per annum, increasing to £1.2m from 2023. Based on funding this purchase from PWLB borrowing over 40 years annual costs, including borrowing and management, are currently forecast at £837k per annum, resulting in a retained income of £231k. This equates to a gross return of 6.2% and a net return of 1.3%.

23. Whitfield Court

- Whitfield Court is a modern multi-let business park comprising of 14 office and light industrial units totalling 45,636 sq. ft. Situated on the established White Cliffs Business Park and easily accessible from the A2. The freehold is currently let to seven tenants with an average unexpired lease term of 8.15 years to expiry and 5.26 years to break.
- In December 2017 the purchase of the freehold was completed for £4.25m, resulting in a total cost, including Stamp Duty, external fees, internal recharges, etc., of £4.5m.
- The total lease income (based on all units being let) is £337k per annum and service charge income is forecast at a further £54k per annum. Annual costs, including borrowing and management, are currently forecast at £263k per annum, resulting in a retained income of £128k. This equates to a gross return of 7.5% and a net return of 2.9%.

24. Former Co-op Building, Castle Street, Dover

- The site was previously occupied by the Co-op retail store and remains partially occupied by Action Carpets on a secure tenancy. It is considered that the site has longer term development potential for retail, residential or mixed used development (all subject to financial evaluation and appropriate planning consent).
- In April 2018 the purchase of the freehold was completed for £625k, resulting in a total cost, including Stamp Duty, external fees, internal recharges, etc., of £660k. At that time the site was proposed to be demolished and converted into car parking for the area, with a forecast net income after costs of £12k per annum (if funded from internal resources).
- In July 2018 Cabinet approved a proposal to bring into temporary use the former Co-op building as a Mean-While space to provide an area to support community activities and to enable entrepreneurs and new businesses to market test their products/services.
- This project is now in progress; officers worked closely with Dover Big Local (DBL) over the summer to ensure all suitability and governance checks were conducted, the building passed all necessary health and safety inspections and the building lease was agreed and signed in August 2018.
- Since signing the lease DBL has been in occupation of the building with its various contractors and designers developing the space. The first Maker/Seller shop opened early December and has been followed by three more during January. There are firm plans to have three more shop units open during February. Negotiations are proceeding with two further businesses – one existing, looking for expansion, and the

other a start-up. Additionally, two office based businesses are up and running and two additional units will be occupied by the end of January. Current plans are for a further unit to open during March. The proposed Refreshment area operator has brought equipment onto site and plans to be operational shortly.

- Further events and activities are planned for the coming months and DDC continues to work with DBL to provide support and assistance where required.
- Options for the long term future of the site continue to be developed by officers for future consideration by Members.

25. Future Investments

- The 2020/21 budget includes a £100k target to achieve additional income from further projects to be identified through the Property Investment Strategy.

Other Income Streams and Fees and Charges Made by DDC

26. Fees and Charges are reviewed and set annually, with reports approved by Licensing and Regulatory Committees and Cabinet. When setting Fees and Charges managers consider:

- Cost of providing the service;
- General market rate for the service;
- Charges levied by neighbouring authorities;
- Government guidelines;
- The last time the fee / charge was increased;
- Appropriate price points – it is more sensible to increase by rounded amounts every two or three years rather than a few odd pence every year;
- Impact of the fee upon service use and upon different sections of the community;
- Impact of service use upon corporate objectives; and
- Overall income the service generates.

27. The only Fees and Charges that are not included in this process are for car parking, which are the subject of a separate report.

28. The main sources of income and relevant issues are summarised below.

- Car Parking

The 2019/20 gross income (before costs) for parking fees and penalty charge notices is currently forecast to be slightly above than the original budget of £2.3m at £2.32m.

There will be an increase in fees for 2020/21. The parking rate will increase by 20p per hour and chargeable parking hours will be extended by one hour. In addition there will be new types of parking permit schemes introduced for short and long stay car parks across the district to help support local tourism through discounted parking incentives.

The Council expects a notable surplus from on-street parking in 2020/21 (the surplus is forecast to be £96k in 2020/21 compared to a deficit of £5k in 2019/20). In accordance with Section 55 of the Road Traffic Act 1984 (and subsequent updates), the surplus from on-street parking will be set aside to carry out permitted

activities as specified in the Road Traffic Act). Any surplus over £100k would be remitted to KCC.

- Rental Income

The 2020/21 budget forecasts rental income of over £2.3m. This consists of the rent (excluding any costs) for the Property Investment purchases as detailed above as well as existing rental streams from corporate properties, including the letting of space at DDC's Whitfield offices.

- Development Management

The original budget for Development Management fee income in 2019/20 was £660k incorporating £600k for planning application fees and £60k for pre-application fees. Planning application fee income is standing at £350k as at 29/11/19. Whilst it is always difficult to predict Development Management fee income, it is anticipated that the planning application fee income should achieve target by the end of the financial year. Fee income for pre-application advice has remained steady with a circa £3k increase anticipated by the end of year.

The income budget for 2020/21 has remained the same. This reflects the Fees and Charges report that has been informed by the expected mix of application types and the anticipated take-up of pre-application advice.

With effect from January 2018 regulations introduced a 20% increase in planning fees. This additional income (currently -87k in 2019/20 and budgeted £-120k for 2020/21) is not included in the above figures and has been retained in a separate budget for planning related functions. This reserve currently stands at £-287k with commitments of £40k in 2019/20 and £103 in 2020/21. Expenditure relates to additional staffing resource within the planning service and a contribution towards economic development costs with regards to the marketing of the district.

- Licensing

This includes Alcohol, Regulated Entertainment, Taxis, Gambling and other miscellaneous licences. The original budget for 2019/20 was set at £216k. Incomes from the various licensing streams are projected to achieve their targets by the end of the financial year.

The 2020/21 budget has decreased slightly to £206k due to reduced income on veterinary fees following a change in vet inspection requirements, reduced income from Betting Premises Licences based on the actual number of premises, a reduction in the number of Private Hire Vehicles Licences and lower income from Criminal Records Bureau checks. The overall reduction however has been offset by additional income due to an increase in the number of temporary event notices and a decrease in the expenditure budgets for both veterinary fees and Criminal Records Bureau checks.

- Land Charges

The original 2019/20 budget of £-180k has been reduced by £10k to £-170k based on the lower number of search requests expected. The 2020/21 budget also reflects the anticipated reduction in the number of searches and has been

set at £-170k. Income reduction is a reflection of free data accessibility and an uncertain property market.

Statutory Instrument 2018 No.273 (The Local Land Charges Rules 2018) came into force on 6 April 2018 which allows for HM Land Registry to take over responsibility for the Local Land Charges Register. The CON29 (Enquiries of the Local Authority) is to remain the responsibility of the Local Authority. Phase 1 of the HMLR data migration project commenced in July 2018 with seven local authorities having now transferred their local land charges data to the new HM Local Land Charges Register, more are planned by the end of 2019. As Dover DC is not part of Phase 1 the local land charges data will not be transferring this year. The timing of future phases has not yet been decided and will be subject to decisions by Ministers. Because of the scale and complexity of the service change, the entire data migration for all 316 local authorities (number reduced from 326 following local authority re-organisations on 1 April 2019), could take up to seven years.

- Green Waste Subscription Service

The original budget for Green Waste subscription service for 2019/20 was set at £300K. This forecast has been increased to £330k to reflect the increase in cost of service. In line with an estimate of approximately 6,600 subscribers and the new fees and charges, the 2020/21 budget has been set at £330k.

- Building Control

The Building Control (BRFE) income is largely dependent upon construction activity. Assumptions about the level of activity combined with the economic forecasts led to a budget of £320k being set for 2019/20. The year-to-date receipts are in line with the forecast budget. The budget for 2020/21 has been keep at £320k.

29. In total the major fees and charges generate approximately £6.7m gross towards the General Fund budget.

Grants to Organisations

30. The Council makes grants to organisations in two ways; by concessionary rental and by cash payments. The value of grants proposed for 2020/21 totals £335k comprising concessionary rental of £38k and payments of £297k. The individual grants with the organisation names and the grant purposes are set out in Annex 9.