APPENDIX 1

DOVER
DISTRICT
COUNCIL

Budget
2020/21
and
Medium Term
Financial Plan
2020/21 – 2023/24

CONTENTS

ANNEXES

EXECUTIVE SUMMARY

OVERALL POSITION

1. This section provides a summary of the main points of the budget and Medium Term Financial Plan (MTFP) covering the General Fund Revenue Budget, Housing Revenue Account (HRA) and Capital Programme.

BUDGET AND MEDIUM TERM PLANS

2. The MTFP is the Council's key financial planning tool and underpins the strategic approach to financial planning. Although it spans four years, it is reviewed at least annually, and is monitored during the year.

3. It should not be viewed in isolation but as part of the wider planning process and in conjunction with other plans and strategies, in particular with the Corporate Plan and the Asset Management Plan. This MTFP covers the period 2020/21 – 2023/24.

4. Year 1 (2020/21) is the formally approved budget for the coming year. Years 2 - 4 of the MTFP (2021/22 – 2023/24) are included as "indicative budgets" for planning purposes. These will be rolled forward and amended in subsequent MTFPs and so approval of the overall plan does not set the budgets for the future years.

5. Regard has been given to the resources required to deliver the Council's objectives and the budget has been prepared to reflect the anticipated service costs and pressures.

6. It is the view of the Strategic Director (Corporate Resources) (Section 151 Officer) that the budget has been prepared in an appropriate and prudent manner and that based upon the information available at the time of producing this report the estimates are robust and the resources are adequate for the Council's spending plans in 2020/21.

7. However, current funding (in particular from Business Rates (BR), the Fair Funding Review and New Homes Bonus) is volatile, difficult to predict and generally outside of the Council's control.

8. The Council is part of a 'pooling' arrangement for business rates with the other Kent authorities in 2019/20 and continues on the same basis for 2020/21. This means that more growth is retained due to a reduction in the levy payable on growth from 50% (of its share) when acting alone to less than 5%, typically, on a pooling basis.

9. The Council is a 'shadow pool' member alongside Sevenoaks rather than a formal pool member as determined by MHCLG. However, we enjoy broadly the same benefits as full members of the pool, including the same reduction in the levy rate, but nevertheless we do not retain the full benefit of the levy reduction ourselves. This is because the pool could not operate without KCC, and therefore KCC receives 30% of any additional growth retained by all district authorities due to the levy reduction.

10. The MTFP assumes the pooling arrangement continues in future years, but the BR system is expected to change from 2021/22 and the impact cannot be assessed at this time, whilst the system is being developed by various Government-led steering groups.

Monitoring of the position will continue throughout the year and changes reported to Members through the quarterly budget monitoring reports.

11. Business Rates Growth retained by DDC is likely to reduce at each 're-set', although some growth is expected to be transferred to Baseline Need. This is not yet built into the projections, but won't impact 2020/21, as the first full re-set is scheduled for 2021/22, which in line with the revised BR scheme.

12. The Government has also undertaken a consultation on future local government finance called the Fair Funding Review (FFR). At this stage it is not clear what impact this will have on the Council, and on the proportion of local government funding that is allocated to district council functions compared to that allocated to social services and other upper-tier functions.

BUDGET HEADLINES

GENERAL FUND

13. The General Fund headlines are:

- General Fund budget surplus of £2k for 2020/21;
- Prudent General Fund balances maintained at over £2.6m;
- DDC Council Tax increase of £4.95 (2.6%) for a Band D property, maintaining the lowest Council Tax in East Kent;
- Overall net expenditure levels increased slightly, in line with inflation;
- No significant reductions in funding for services and no major changes in staffing levels;
- Pressure comes mainly from reduced funding streams:
    - Revenue Support Grant 90% reduction in 2019/20, and forecast to remain at this lower level (circa £57k) for 2020/21 and be £nil thereafter;
    - New Homes Bonus scheme retained at four years in 2020/21, forecast to reduce to nil by 2024/25[1];
    - The Business Rates (BR)[2] regime remains complex, volatile and is beyond simple explanation. The bills paid by businesses are set by Government, the Council simply collects the income and passes most of it on. For Dover, a large proportion of the Council's BR income is generated from a small number of properties;
    - Results of the fair funding review are awaited as well as the impact of any other changes. There may therefore be other changes to funding streams for future years which will be incorporated into future budgets.
- Additional income has been generated and used to protect services. The main sources are from:
    - Increased Business Rates (mainly relating to renewable energy incl. one-off);
    - Increased Council Tax base and charge;
    - Treasury management investments;
    - Commercial property regeneration initiatives.

THE HOUSING REVENUE ACCOUNT

---

[1] It is possible that some form of development reward scheme will be introduced to replace some of NHB, but no information on this is currently available.

[2] Business Rates (BR) and Non Domestic Rates (NDR) are terms which are now used interchangeably by Government and Local Government.

14. The Housing Revenue Account (HRA) headlines are:

- Following consultation with tenants, Members will be considering the future arrangements for the management of DDC's housing stock. The budget has been produced on the broad assumption that the service will continue on the current basis – but with provision to draw on reserves to finance any costs of change and transition that may arise from a decision to change the management arrangements.
- 2020/21 budget funded;
- HRA balances maintained for 2020/21;
- Major variances for 2020/21:
  - Increase of rent by CPI +1% (2.7% in total);
  - Increased capital works;
- Rents set by Government, and have been increased by CPI +1% in 2020/21;
- Rents have reduced by 1% per annum for the previous 4 years as required by Government;
- The Council's ability to service the £73m remaining debt, that the Government required it to incur, needs to be protected, and this should continue to be a priority.

THE CAPITAL AND REVENUE PROJECTS PROGRAMME

15. The capital and revenue projects programme headlines are:

- The current capital programme totals £261m and is fully funded (subject to the borrowing arrangements for the Dover District Leisure Centre and the Property Investment Strategy[3]);
- The major projects in the programme are;
  - Property Investment Strategy;
  - Development of a Bus Rapid Transit System (BRT);
  - Refurbishment of Dover Town Hall;
  - Refurbishment of Tides Leisure Centre; and
  - Dover Market Square Public Realm Improvements.
- The resources for funding capital and revenue projects will be largely exhausted by the current programme.
- Future capital receipts are expected to come mainly from one-off asset sales and on-going housing right to buy sales which amount to circa £500k per annum at current sales levels, so will not replenish capital funds and will not be sufficient to maintain the current planned level of activity in the future.
- Revenue project resources will also be largely depleted, and no significant new resources are expected other than from contributions from the revenue budget.
- Borrowing for capital purposes can be undertaken but this will make business case proposals for projects more challenging.

TREASURY MANAGEMENT AND CAPITAL STRATEGIES

16. The Council is required to produce a Capital Strategy, Treasury Management Strategy and Investment Strategy. These are included at Annexes 7A, 7B and 7C.

KEY ASSUMPTIONS AND SIGNIFICANT BUDGET RISKS

[3] The borrowing approvals for the Leisure Centre and Property Investment Strategy total £185m and so the underlying capital programme is £68m.

17. The budget and projections have been based on the best information available. However, there are always areas where there remains a degree of uncertainty or it has been necessary to make assumptions. The most significant of these assumptions, together with the significant budget risks, have been set out within this MTFP in order to ensure that Members are aware of the basis of the budget.

18. Periodic budget monitoring reports will continue to be produced and circulated to all Members, so that adverse variances can be identified and remedial action initiated as early as possible.

RELATED STRATEGIES AND PLANS

19. Members are asked to consider the MTFP in relation to the other key plans and strategies, in particular the Corporate Plan.

CONSULTATION

20. The draft budget was placed on the Council's website for comments.

THE GENERAL FUND REVENUE ACCOUNTS

INTRODUCTION

21. All the Council’s services, other than housing, are provided through the General Fund (GF). The GF is mainly financed by Council Tax (CT), Business Rates (BR) and Enterprise Zone Relief, Revenue Support Grant (RSG, received from government), and New Homes Bonus (NHB, also received from government).

FINANCIAL OBJECTIVES

22. The main financial objectives for the GF Revenue Account[4] are as follows:

- Produce a fully funded GF Budget;
- Maintain general balances over the medium term at an appropriate level (considered to be a minimum of around 10% of the net budget requirement or £1.5m, and a preferred level at or above £2m);
- Use earmarked reserves to finance one-off items;
- Support the Council's corporate priorities and agreed service standards; and
- Undertake appropriate consultation.

BUDGET DISCIPLINE

23. Corporate Management Team, in consultation with the Leader and Portfolio Holders, have reviewed their service areas in order to support delivery of efficient and effective services within the budgets available.

24. In order to maintain firm downwards pressure on expenditure and recruitment, and to ensure budgets are directed to the Council’s priorities the Council maintains a continuous “employment management” process. The employment management process provides a peer review and Chief Executive sign-off for all recruitment; so that all options are explored and tested before any recruitment is permitted.

25. The Council also has the facility to undertake efficiency and service reviews, “Delivering Effective Services (DES)”. The DES team’s role is to review services to deliver efficiencies, savings, alternative delivery methods, digital improvements, smarter working and improved customer experiences.

26. A key element of financial management is the treatment of unspent budgets. The Council has sought to promote a culture whereby budget managers have the flexibility to manage their budgets responsibly. Accordingly, managers are given the opportunity to carry forward unused elements of their budget, subject to approval by the Strategic Director (Corporate Resources).

THE GENERAL FUND BUDGET SUMMARY

27. The Council’s GF revenue budget for 2020/21 is shown in Annex 1. The budget is funded, and the GF balance is forecast to be £2.65m. The net budget requirement for the Council's own purposes, after transfers to/from earmarked reserves is £17.7m.

---

[4] The Revenue Account funds day to day recurrent expenditure. There are separate financing arrangements for capital expenditure where the benefit of the expenditure lasts for more than one year.

Movement of budget requirement between 2019/20 and 2020/21	2019/20 Original Budget £000	2020/21 Original Budget £000	Difference
Budget Requirement:			
Gross Revenue Expenditure	62,487	61,257	
Gross Revenue Income	(48,064)	(45,947)	
Underlying Budget Requirement	**14,423**	**15,310**	**887**
Earmarked Reserve adjustments[5]	1,500	2,424	924
Net Budget Requirement	**15,923**	**17,734**	**1,811**
Budget Financing	(15,951)	(17,736)	(1,785)
(Surplus) / Deficit	**(28)**	**(2)**	**26**

28. The underlying Budget Requirement has increased between the financial years, reflecting the impact of inflationary and other service expenditure changes.

29. The Council's GF revenue budget for 2020/21 is shown in Annex 1. The budget is funded, and the GF balance is forecast to be £2.65m. The main factors impacting the General Fund budget are detailed at Annex 1E.

KEY VARIANCES / SIGNIFICANT ISSUES

30. The table below summarises the main variances between the 2019/20 original budget and the proposed 2020/21 budget.

	£000	£000
2019/20 Original Budget Forecast		**(28)**
Decrease in Enterprise Zone Relief Grant	585	
Increase in Renewable Energy Retained – current year	(651)	
Increase in Renewable Energy Retained – prior years	(932)	
Increase in NNDR base funding	(148)	
Decrease in NNDR Deficit/Increase in Surplus	(366)	
Increase in Council Tax – tax base & charge	(287)	
Decrease in Collection Fund Surplus (Council Tax)	28	
Other net increases in funding (minor)	(14)	
Total Variances in Funding		**(1,785)**
One-off Renewable energy retained income transferred to Special Projects Reserve	932	
Change in NNDR Collection Fund Deficit/(Surplus) to/from Business Rates & Council Tax Reserve	366	
Reduced GF contribution to Special Projects reserve	(250)	
Other net reserve use	(124)	
Total Variances In Reserves		**924**
Impact of salaries inflation, increased car allowances, changes in grades and associated pensions impact	393	
Pensions back-funding increase arising from triennial valuation	260	

[5] Earmarked reserves are used to offset agreed expenditure within services in accordance with the protocols detailed in Annex 4.

	£000	£000
Other inflationary pressures – contracts renewals, etc.	356	
Allowance for climate change resources / staff pressures	100	
Additional investment in Tourism	89	
New finance system – overlap of maintenance contracts between systems	73	
Reduction in Housing Benefit and Council Tax Discount Scheme Administration subsidies	74	
Reduction in Housing Benefit net credit due to transfer of cases to Universal Credit (inc. reserve use reduction)	50	
Interest receivable – minor reduction	56	
Interest payable reduction due to repayment of LOBO	(216)	
Parking income – all categories – increase	(377)	
Off-Street Parking income increase transferred to reserves	106	
Income from Places for Leisure for DDLC management	(285)	
Reduced contribution from reserve (19/20 contribution applied to offset lower income)	310	
Homelessness – additional Housing Benefit income	(90)	
EKS/Civica management fees reduction	(52)	
MS365 annual licensing costs	58	
Corporate Maintenance increase	40	
Recycling income – green waste subscriptions	(30)	
Corporate contingency	26	
Numerous miscellaneous variances	(54)	
Total Variances in Corporate and Service Budgets		**887**
2020/21 Budget Forecast		**(2)**

FINANCING THE BUDGET

31. Financing of the net 2020/21 requirement is shown below.

2020/21 General Fund Revenue Financing	**£000**	**%**
Non-Domestic Rates Income – baseline	3,705	
Non-Domestic Rates Income - growth, S31 grant, less levy, etc.	1,953	
NNDR Collection Fund Surplus – relating to prior years' appeals, etc.	8	
Enterprise Zone Relief Grant	610	
Renewable Energy Retained (incl. prior year)	2,074	
Total NNDR Funding	**8,350**	**47.1**
Revenue Support Grant	57	0.3
New Homes Bonus	1,733	9.8
Council Tax	7,503	42.3
Collection Fund Surplus (Council Tax)	84	0.5
Council Tax (Other S31 Grants)	9	0.0
Total Financing	**17,736**	**100.0**

32. The year on year changes in financing are detailed at Annex 1A. The following sections provide further explanation of the Council's main funding streams.

REVENUE SUPPORT GRANT

33. RSG (from Government) has been reduced by significant amounts every year since 2012/13.

34. The cash settlements are shown in the table below. RSG is expected to fall away to £nil from 2020/21. The reductions in RSG account for the bulk of the Council's future savings requirement.

Revenue Support Grant Settlement	Grant £000	Reduction £000	Reduction %	Cumulative £000	Cumulative %
2012/13[6]	5,112				
2013/14[7]	4,699	413	8.1	413	8.1
2014/15	3,698	1,001	21.3	1,414	27.7
2015/16	2,529	1,169	31.6	2,583	50.5
2016/17	1,758	771	30.5	3,354	65.6
2017/18	1,027	731	41.6	4,085	79.9
2018/19	568	459	44.7	4,544	88.9
2019/20	57	511	90.0	5,055	98.9
2020/21	57	0	0	5,055	98.9
2021/22 Onwards	0	57	100.00	5,112	100.0

35. For financial planning purposes it has been assumed that RSG remains at zero for the remainder of the MTFP planning period.

BUSINESS RATES (BR)

36. There are a number of significant aspects to the current business rates regime:

- "Real" Growth
- The DDC BR Profile
- Renewable Energy Income
- NNDR Collection Fund Surplus
- Enterprise Zone Relief Compensation Grant (Income)
- The Business rates Pilot and Pool
- BR retention as a system of local government finance

Real Growth

37. The Dover District has been successful in generating significant real growth in developments in the district during 2016/17 – 2020/21 including:
    - St. James Retail & Leisure Park, Dover
    - The new Dover Leisure Centre, White Cliffs Business Park
    - Combined Heat and Power Plant at Discovery Park
    - Supermarket (Lidl) at White Cliffs Business Park
    - Lok'nStore self-storage facility at White Cliffs Business Park

---

[6] Split for 2012/13 based on proportion of RSG:NNDR for 2013/14 before Council Tax Support Funding, with an adjustment to add to the 2012/13 RSG the level of CTS funding of £1,218k awarded in 13/14 for comparability across the years.

[7] Council Tax Support Funding added by Govt. to RSG from 2013/14 onwards, replacing subsidy for council tax benefit previously shown in service costs. This effectively covers reduced income from Council Tax due to discounts being applied against tax base/council tax bills instead of being awarded as Benefit. CTS Funding not disclosed separately by Government from 14/15 onwards.

- Maritime Skills Academy
- Betteshanger Park
- Discovery Park
- Two new restaurants on Beach Street, Deal
- Aldi, Deal (strictly replaces old Co-Op, but full demolition and reconstruction)
- Further units at White Cliffs Business Park
- Business Rates Incentive Scheme providing grants to improve high street premises.

38. The district also benefits from an Enterprise Zone (EZ) at Discovery Park which has major benefits to businesses in terms of BR relief (generally at £55k per annum per business for five years) and the employment and economic activity this brings locally and regionally.

39. All of these projects will have a positive impact on the tax base of the district and therefore on the total income collected by DDC and the amount retained by the Council for its own purposes.

40. This level of growth is vital to the Council since it helps to offset the erosion of the tax base and BR income from BR appeals, or from unexpected downward revisions by the VOA.

DDC BR Profile

41. The BR profile for DDC is unusual in three main respects. First, a very high proportion of the income is concentrated at a small number of sites (hereditaments). That means that a change at just one site can have a significant effect on DDC's income.

42. Second, some of these, including the Channel Tunnel, Dover Port and the Enterprise Zone (EZ)/ Discovery Park are unique and their RVs are very hard to predict when revaluations are underway.

Dover's Rateable Values	**Rateable Value [8] £000**	**%**
Channel Tunnel	28,000	25
Discovery Park	9,382	9
Dover Harbour Board	2,610	2
Tesco, Whitfield	2,390	2
Biomass Power Plant	2,120	2
Sub Total	**44,502**	**40**
Remainder[9]	66,508	60
Total	**111,010**	**100**

43. Third, the table below shows the volatility in DDC's share of BR since the local retention of BR was introduced. The majority of this volatility is due to how the BR retention scheme operates, and is not due to "real" changes.

[8] Note – These figures are based on 2017 valuations. Rateable Value is not the same as the Business Rates paid. RV is multiplied by a government set multiplier (50.4p in 2018/19 increasing to 51.2p in 2019/20 for the standard multiplier) to determine the amount payable and this may be subject to BR reliefs.
[9] The next largest site is just 1% of the total.

NNDR/Business Rates (exc. EZ Grant)	DDC Share of Income £000	Reduction/ (Increase) £000	Reduction/ (Increase) %	Cumulative Change £000	Cumulative Change %
2012/13[10]	3,348				
2013/14	2,994	354	10.6	354	10.6
2014/15	4,682	(1,688)	(56.4)	(1,334)	(39.8)
2015/16	4,296	386	8.2	(948)	(28.3)
2016/17	2,805	1,491	34.7	543	16.2
2017/18	4,097	(1,292)	(46.1)	(749)	(22.4)
2018/19 [11]	6,945	(2,848)	(69.5)	(3,597)	(107.4)
2019/20 Projected	5,613	1,332	19.2	(2,265)	(67.7)
2020/21 Estimated	7,740	(2,127)	(37.9)	(4,392)	(131.2)

44. Despite the extreme volatility, the projected outcome for 2019/20 is favourable for the Council compared to prior years, with the exception of 2018/19 which included one-off income of £1,983k while in the '100% growth retention' pilot scheme. The further increase in 2020/21 is largely due to renewable energy income retained (see section below).

Renewable Energy Income

45. The new Biomass Power Plant at Discovery Park is a renewable energy site. As such, we are able to retain all of the BR income ourselves, i.e. it does not have to be shared between the preceptors, so long as we granted planning permission.

46. Renewable energy retained is a significant income stream due to the inclusion of the Biomass Power Plant from 13/09/2018 when it became fully operational. However, it was only valued in May 2019 and until then, all income was based on a lower estimate of RV provided by VOA. It is included in the table of NNDR income above, which is why estimated income for 2020/21 is unusually high. This is mainly because the valuation was significantly higher than VOA had originally estimated – the actual valuation being £2,120k against an estimate in the range £800k - £1,200k (from which we used a cautious estimate of £900k in our projections).

47. The plant will generate £1,085k in 2020/21 (at 51.2p) and £1,068k in 2019/20 (at 50.4p). However, for 2019/20 we estimated only £466k based on the lower VOA rateable value estimate, and therefore the additional £602k will also be recognised in 2020/21 under statutory accounting regulations (not in 2019/20). There is a further amount of income arising in 2019/20 but relating to 2018/19 of £330k following the backdating of the formal valuation to 13/09/2018, which will also be recognised in 2020/21. Therefore, there is £932k additional income relating to prior years' renewable energy within the 2020/21 figures, as well as £600k approx. extra income for 2020/21 itself based on the valuation of £2,120k versus the £900k est. used in prior forecasts.

48. The prior year elements of £932k have been transferred to the Special Projects reserve to fund future projects. The other £600k is extra income which helps to meet other net budget pressures, including reduced Enterprise Zone Relief Compensation grant in 2020/21.

NNDR Collection Fund Surplus

[10] Split for 2012/13 based on proportion of RSG: NNDR for 2013/14 excl. Council Tax Support Funding.
[11] Includes £1,983k additional income from '100% growth retention' pilot scheme in 2018/19 ('Financial Sustainability Fund' and 'Growth Fund' elements, incl. additional levy saving).

49. A further improvement arises from an estimated NDR collection fund surplus estimate of £8k in 2020/21 vs. an expected deficit of £358k in 2019/20, an improvement of £366k. These amounts are included in the NDR but are offset by reserve movements in both years (using the Business Rates & Council Tax reserve intended to meet such fluctuations) and therefore have no direct impact on the General Fund surplus for the year.

Enterprise Zone Relief Compensation Grant

50. The Discovery Park is a 'Case B' Enterprise Zone (EZ), and the EZ Relief given to its businesses are compensated by separate government grants. The compensation grant received is split between the preceptors in accordance with the tier split, and is not subject to any additional levy (which is advantageous). As such, it also sits outside of the pooling arrangements.

51. Enterprise Zone Relief Compensation grant, which is excluded from the preceding table, is expected to generate £610k in 2020/21 which is lower than the original budget estimate of £1,196k for 2019/20, a pressure of £586k. This is an expected pressure arising from reductions in relief given, as more Discovery Park businesses (hereditaments) come to the end of their five-year claim periods. No fresh claims were permitted after 31st March 2018, but prior claims are allowed to run for their full five years.

52. However, the projected income from Enterprise Zone Relief Compensation grant for 2019/20 is expected to be £1,752k, relating to recognition of prior year amounts under statutory accounting rules, which is higher than the original budget of £1,196k for 2019/20 by £556k. This one-off extra £556k is being transferred into the Business Rates & Council Tax Reserve to deal with future fluctuations in income relating to 'baseline resets', appeals and reassessments of baseline need, some of which are expected to impact from 2021/22.

The Business Rates Pilot and Pool

53. For 2018/19 DDC was included, with KCC and all other Kent districts, in the Kent BR Pilot, enabling all business rates growth to be retained locally (i.e. without Government taking its 50% share and without it charging any levy on growth). Government did not renew the Kent BR pilot for a second year and so the Kent BR Pool resumed operation in 2019/20 and continues in 2020/21.

54. DDC is not a full Member of the BR pool, as it is advantageous to all pool members, including DDC, to minimise the BR levy we pay, by giving DDC "shadow" pool member status and this has been agreed to continue for 2020/21.

BR Retention as a System of Local Government Finance

55. The system contains a complex web of tariffs and top-ups, safety nets, levies, baseline "resets", BR pools, pilot schemes, periodic revaluations, transition periods, appeals and frequently changed BR relief schemes.

56. Although referred to as a 50% local retention system, of which 40% is currently retained by districts, it is a misleading concept. A simplified illustration of the mechanism for the "50%" BR retention system is set out in the table below, based on draft 2020/21 data (before adjustment for S31 grant funding of reliefs).

Attribution of BR Income (Indicative)	£m
Dover district net rate yield	**(41.4)**
Less	
50% to Government	20.7
9% to KCC and 1% to Fire	4.1
Retained balance of 40%	(16.6)
Less: **tariff to Government**	12.3
Balance retained by DDC	**(4.3)**

57. From the 40% retained, if the baseline amount that remains with the council is greater than the council's baseline budget requirement, then the council pays the excess to government in the form of a "tariff". For Dover this means the bulk of the 40% is also paid to government, as you can see in the illustration above.

58. Once the tariff is set, a district will have to continue to pay this amount to government. If actual collection is lower (for example, due to demolition at Discovery Park, successful appeals by doctors surgeries, etc.) the council has to continue to pay the tariff, and bear the loss itself, as well as bearing the costs of the appeals refunds, which may stretch back over many years and may even pre-date the current system.

59. The dynamic nature of the system, the elements of which can all be moving in different directions at the same time, can produce perverse outcomes, which makes it very difficult to develop a stable and robust budget, which therefore raises questions about its longer term operation. The accounting regulations for the different elements of the system mean that some elements are recognised in different years, even though they arise in the current year!

60. Provisions for likely reductions in RV from appeals also have to be calculated, which are complex but nevertheless remain estimates. These may or may not be sufficient in reality. A 'safety net' forms part of the system that restricts the loss of income in the event of such problems.

61. For 2020/21 the baseline budget requirement (a.k.a. 'Baseline Funding Level' or 'BFL') is deemed to be £3,705k. The safety net kicks in at £3,427k, meaning the first £278k of any loss due to reduced income (for appeals, etc.) has to be borne by the Council before a safety net payment is received from Government. The safety net payment would top up the Council's income to 92.5% of the BFL (i.e. to £3,427k).

62. Further changes to the BR system are being developed by steering groups and likely to impact from 2021/22, at which point a "reset" is also expected to occur and some loss of 'growth retention' is expected to arise, which will have an adverse impact. However, the exact mechanisms are not yet known.

63. Therefore, the MTFP assumes the continuation of the system as at present, without any "reset", and with a continuation of pooling to reduce levies.

COUNCIL TAX

64. A Council Tax increase of 2.6% for DDC purposes has been assumed for the 2020/21 budget which, if approved, will produce a Band D Council Tax of £192.24. This will result in an increase of £4.95 per year on a Band D property, which is 5p within the Government's capping requirements, which limit increases to 2% or £5, whichever is the greater.

65. The increase in the tax base from 38,526.26 Band D equivalent properties in 2019/20 to 39,029.75 equivalent properties in 2020/21, which is a rise of 1.3% approx., is mainly due to new properties being registered for Council Tax (incl. estimates of new builds), empty home premiums being charged for the first time, and reduced claimant counts for Council Tax Reduction Scheme (CTRS) discounts, offset by a small increase in single person discounts.

66. The combined impact of the Council Tax increase and the tax base increase is forecast to generate total Council Tax income of £7.5m. For planning purposes a Council Tax increase of £4.95 per annum has been estimated for future years.

COMPARISON WITH OTHER DISTRICTS' 2019/20 BAND D COUNCIL TAX

67. DDC has one of the lowest Council Tax rates in Kent. A comparison with the East Kent authorities' 2019/20 Council Tax rates is shown below. This shows the percentage that their 2019/20 Council Tax level exceeds DDC's and the extra income DDC would receive at their level of Council Tax:

	Band D Council Tax £	Difference to DDC %	Extra Income DDC would receive
Dover District Council	187.29	-	-
Canterbury City Council	211.32	16%	£926k
Folkestone and Hythe District Council	249.21	37%	£2.40m
Thanet District Council	233.19	28%	£1.80m

NEW HOMES BONUS

68. New Homes Bonus (NHB) was funded by the MHCLG[12] from a top slice of existing local government finance. The NHB received is credited to the General Fund revenue budget and it is therefore an essential element in balancing the Council's budget. Reductions in NHB results in offsetting savings being required.

69. The grant awarded to Dover since the start of the scheme is detailed below:

Year of Scheme	Financial Year	Annual Grant £000	Cumulative Grant £000	Cumulative Years Included
1	2011/12	294	294	1
2	2012/13	155	449	2
3	2013/14	450	899	3
4	2014/15	396	1,296	4
5	2015/16	275	1,570	5
6	2016/17	328	1,899	6

[12] Ministry of Housing, Communities and Local Government

Year of Scheme	Financial Year	Annual Grant £000	Cumulative Grant £000	Cumulative Years Included
7	2017/18	415	1,865	5
8	2018/19	497	1,515	4
9	2019/20	488	1,729	4
10	2020/21	333	1,733	4
11 (Estimated)	2021/22	0	1,318	3
12 (Estimated)	2022/23	0	821	2
13 (Estimated)	2023/24	0	333	1
14 (Estimated)	2024/25	0	0	0

70. The Government implemented changes to the scheme from 2017/18 resulting in a reduction in the number of years grant in payment from 6 years in 2016/17 to 5 years in 2017/18 and further reducing to 4 years in 2018/19. In addition, Government has introduced a minimum growth level of 0.4%, below which no NHB will be paid. The growth delivered by DDC for the 2020/21 NHB calculations was sufficient to receive NHB of £333k.

71. For the purposes of the MTFP it has been assumed that no new NHB grant will be awarded in future years. It is therefore forecast that a reduction to the scheme will be implemented, reducing the payments by a year every financial year, resulting in nil payment by 2024/25. There may be changes to other areas of funding, for example from the results of the Fair Funding Review, that could offset this reduction but at this stage not enough information is available to incorporate other changes into the forecasts.

COLLECTION FUNDS

72. The Collection Funds (CF) are statutory funds. They sit entirely outside of the General Fund and the Council budget.

73. The Council manages Collection Funds for Council Tax and Business Rates. Every year the CF is credited with the income from CT and BR (c. £66.9m and £42.3m respectively).

74. The CF is also debited with the precepts from DDC, KCC, Fire, Police etc. These precepts are based on the forecast of income based on assumptions about the tax base, collection rates, etc. So, if income is below forecast, the collection fund will show a deficit at the year end. If it is above forecast, it will show a surplus.

75. This surplus (or deficit) is owed to (or by) the preceptors and will be added to (or deducted from) the following year’s precept in order to distribute the surplus available in the CF or contribute the projected deficit back to the CF to top it up. This is a continuous rolling process.

76. It is forecast that there will be a surplus for Council Tax of £605k by the end of 2019/20 (Dover’s share being £84k for recognition in 2020/21) and a surplus for NNDR of £20k by the end of 2019/20 (Dover’s share being £8k approx. for recognition in 2020/21).

GENERAL FUND RESERVES AND BALANCES

77. The uncertainty and volatility that has been introduced into the major income streams for Business Rates and NHB suggest that maintaining or increasing reserves would be prudent.

78. The proposed General Fund balance in 2020/21 of £2.65m is above the Council's £2m "minimum preferred level". £2.65m represents 15% of the Council's budget requirement or just under 2 months net expenditure. It is prudent but not excessive.

79. The forecasts for future years show a requirement to identify savings or income generation of circa £1.3m in 2021/22 followed by further savings or income of £700k in 2022/23 and an additional £600k in 2023/24. The main cause for the savings requirements, over and above the normal inflationary pressures, is the forecast reduction in New Homes Bonus and the estimated impact of significant contract renewals to be undertaken in the period. This is the normal pattern of MTFP projections since future cost pressures are generally identified in advance of potential savings.

80. The Council's earmarked reserves, and protocols for their use, are set out in Annex 4. Without these earmarked reserves the Council cannot plan effectively for anticipated future events and requirements and expenditure of a cyclical nature. Nor could the Council plan to smooth the impacts of the volatile income streams from Business Rates, New Homes Bonus etc. Therefore, the earmarked reserves are held at an appropriate level for the Council's future plans.

81. Further supporting information on the GF budget is provided in the following Annexes:
- Annex 1 contains the budget summary for the General Fund;
- Annex 1A summarises the net expenditure and financing requirements;
- Annex 1B is a summary version of the NDR forecasting model;
- Annex 1C shows the net service expenditure analysed by categories of expenditure and income;
- Annex 1D shows the key expenditure and income figures and patterns for the General Fund;
- Annex 1E details the main factors impacting the General Fund budget;
- Annex 2 provides the General Fund Revenue Budget projection for the period to 2023/24;
- Annexes 3A – 3C contain summaries of the services managed by each Director and the associated budgets; and
- Annex 4 contains details of the General Fund balance and earmarked reserves.

Recommendations from this Section

82. It is recommended that Cabinet:
- Approve the grants to organisations detailed at Annex 9.

83. It is recommended that Council:
- Approve the General Fund Revenue budget for 2020/21 and the projected outturn for 2019/20;
- Approve the policies and protocols regarding the General Fund balances and earmarked reserves, and transfers between reserves as set out in Annex 4.

HOUSING AND THE HOUSING REVENUE ACCOUNT

OVERVIEW

84. This section addresses two separate, but related, aspects of housing within the district. The first concerns the financial standing of the HRA, its budget and balances, and the rent levels for the coming year.

85. The second concerns housing development and investment, and includes developments by the HRA, Registered Providers (RPs) and by the private sector.

HRA FINANCIAL OBJECTIVES

86. The main strategic financial objectives of the Housing Revenue Account are as follows:

- Maintain a Housing Revenue Account that is self-financing and reflects the requirements of residents;
- Comply with the Decent Homes Standard and relevant health and safety requirements;
- Maximise the recovery of rental incomes;
- Minimise the number of void properties and minimise the level of rent arrears and debt write offs;
- Provide sufficient investment in the current stock to maintain its condition and implement upgrades as necessary;
- Maintain an adequate level of HRA balances and reserves;
- Transfer the HRA balances in excess of the agreed adequate level to the Housing Initiatives Reserve (HIR) to be used for investment in additional properties;
- Undertake prudential borrowing, in accordance with the Council's treasury management policies, where appropriate and there is a business case to do so, for investment in additional properties.

87. At the time of writing, the HRA has 4,311 dwellings, made up of 2,681 houses and 1,630 flats.

88. East Kent Housing is responsible for the management & maintenance of the Council's housing stock.

2020/21 DRAFT BUDGET AND MEDIUM TERM FORECAST

89. The HRA's financial position, detailed at Annex 5, can be summarised as follows:

- HRA balance to be maintained for the period at £1m;
- Projected surplus of £2.46m for 2019/20 to be transferred to the HIR for investment in additional properties;
- Projected surplus of £1.90m for 2020/21 to be transferred to the HIR for investment in additional properties;
- HIR balance fully committed to housing development projects (as detailed in paragraph 91) for the planning period.

90. The major variances between the 2019/20 budget and the 2020/21 proposed budget are:

- Increase in rent of CPI + 1% (2.7%);
- Ongoing increase in major capital works, to include significant building of new properties

91. The future year projections show an increasing income stream from rents. This is due to the ending of the Government's requirement to reduce rents in cash terms by 1% per annum for the period 2016/17 – 2019/20, and so rents can now be increased. The HRA is also facing general inflationary pressures on its expenditure. During 2020/21 the funding for the major HRA projects is forecast to reduce the balance on the HIR to nil. We are expecting to bring in 59 interim housing units, 65 units at William Muge and Snelgrove, 8 units at Noah's Ark Road, 8 units at Folkestone Road as well as a further 12 property buy-backs.

92. Annex 5 provides a draft HRA budget summary & Annex 5A provides an explanation of the main variations from the original 2019/20 budget to the 2019/20 projected outturn and from the 2019/20 projected outturn to the 2020/21 proposed budget. Annex 5B details the 4 year forecast position for the HRA.

93. The planned capital spend on existing council owned stock was supplied by EKH.

BACKGROUND

94. With effect from 1st April 2012 the government replaced the existing subsidy based system of HRA financing with "Self Financing". For DDC this resulted in the replacement of the subsidy that we were paying to Government (£6.3m in 2011/12) with a single payment to them of £90.5m. This was facilitated by DDC borrowing the required sum from the PWLB. Government direction was to plan for long term rent increases of 1% above inflation. Servicing the loan, over 30 years, cost less than the negative subsidy, and so the HRA started to accrue a surplus which could be invested in new housing.

95. Although the borrowing was made on the basis of government direction that rents would increase by inflation +1%, after Councils made the financial commitment to borrow Government then determined that local authority housing rents should reduce by 1% in cash terms for 4 years from 2016/17.

96. With an inflation rate of circa 2%, this means a 12% reduction against Dover's planned rental income by year 4. On a rent roll of £20m, that is an annual shortfall of £2.4m or £6.9m against previous projections. By year 4 the reduction largely offsets the annual surplus that was previously being accrued for additional investment.

97. The HRA budget is in surplus for 2020/21 and continues to contribute to the Housing Investment Reserve. However, it is forecast that the HIR will be fully committed during 2020/21 as we embark on major building projects. It is likely that the Council will need to consider options to undertake borrowing to support the on-going programme of housing development.

98. A stock condition survey was undertaken in 2017, to inform the on-going maintenance and investment requirements. The 2020/21 budget is based on the work programme provided by East Kent Housing incorporating the results of the survey.

99. In May 2017 Dover District Council Jobcentre Plus went live with the Universal Credit Full Service. There has been a significant increase in HRA rent arrears during the period since. The situation is being closely monitored and bad debt provisions of

£250k are included within the 2019/20 and 2020/21 budgets to allow for this increase. The debt appears to be mainly a cash flow issue rather than a bad debt due to the timing delays associated with payment of Universal Credit. However, tenants now directly receive the Universal Credit payment, whereas with Housing Benefit, payments are made direct to the landlord. This is resulting in some cases of higher debt levels from tenants not paying their rent and we are beginning to see some evictions due to this.

Rent Setting

100. Council house rents are effectively controlled by Government. They used to be set using a complex model based on a formula provided by the Ministry for Housing, Communities and Local Government (MHCLG). This was intended to achieve "rent convergence" and the model took into account a number of factors such as:

- Relative property values;
- Local earning levels; and
- Number of bedrooms.

Rent Levels

101. As the MHCLG has now allowed for rents to be increased from 2020/21 the average increase is 2.7%. Rent levels are calculated on an individual property basis using rent formulas previously prescribed by MHCLG.

102. It is not, therefore, possible to report on the rent to be set for, say, a standard 2 bedroom flat or a standard 3-bedroom house. However, for Members' information the following figures may be helpful:

- The 2019/20 average weekly rent across all properties is £83.22;
- The 2020/21 average weekly rent is forecast to be £85.47;
- The increase in the average weekly rent is £2.25 or 2.7%; and
- Three bedroom houses have rents (for 2020/21) ranging from £86.23 per week to £107.32 per week with an average of £93.78

103. Approval of rent levels is an executive function that has been delegated to the Head of Finance and Housing in consultation with the Portfolio Holder responsible for Housing on the basis of the model described above.

Capital Receipts

104. Like the majority of Councils, Dover has entered into an agreement with Government to retain 100% of the receipts from right-to-buy sales above the anticipated trend level. These excess receipts (known as "1:4:1 replacement") are ring fenced to provide part funding of the cost of new affordable/social housing. This means that there is a cap on the receipts that can be used for general capital purposes. This can be supplemented by the element of excess RTB receipts retained for 'debt repayment' that may be used for other capital purposes if repayment of debt is funded from an alternative source.

105. As at the end of December 2019 there had been 14 RTB sales in the financial year. It is estimated that retained 'excess receipts' will be in excess of £1m by the end of the financial year. This has to be used within 3 years of receipt, or else it must be repaid to MHCLG, and, when applied to a capital scheme, it cannot comprise more than 30% of the scheme costs, so other funding sources must also be available.

106. In order to comply with these rules and avoid claw back by the MHCLG, this funding is normally applied to HRA housing projects, before any other sources are used

Service Charges

107. The Council currently levies service charges to tenants and leaseholders based on the costs of the specific services received by the two groups. Service charges to tenants are made in addition to their weekly rent. Service charges and charges for insurance are made to leaseholders in addition to the ground rent charged.

EAST KENT HOUSING AND FUTURE MANAGEMENT OF HOUSING STOCK

108. East Kent Housing (EKH) was formed in 2011 to provide housing management services for Canterbury City Council, Dover District Council, Folkestone and Hythe District Council and Thanet District Council.

109. Since its formation the basic management fee for EKH has been fixed in cash terms and it has not received any inflationary increases in its funding. EKH had helped to reduce the overall cost of housing management and performed well in some areas, including rent collection and re-let times.

110. However, the additional work involved in collecting rent following the roll out of Universal Credit has seen rent collection performance fall and the four councils and EKH have identified that a number of urgent improvements are needed. Therefore all four partners have agreed to an increase in the fee on the same basis which is circa £200k pa for DDC. This will take the total management fee to £2.566m for DDC for 2020/21. In exchange for this increase in funding an improvement plan has been agreed, covering:

- Better management of contracts with key suppliers;
- Adapting the way they work following the introduction of Universal Credit;
- New people and processes to ensure council homes are improved more quickly;
- Continued investment in complaints handling and EKH staff.

111. Concerns have however arisen over the management of DDC's housing stock by East Kent Housing (EKH). These concerns cover a number of areas, in particular:

- Tenant health and safety (Also referred to as "compliance") – Councils have recently become aware of a serious failure by EKH to maintain compliance for a number of areas including gas certification, electrical testing, asbestos, legionella etc. These failures were self-reported to the Social Housing Regulator by the Councils and, as a consequence, the four East Kent councils are being monitored by the Regulator for delivery of remedial plans and actions to rectify the situation.

- Procurement – there has been an on-going failure to deliver timely and good quality specifications for re-letting of essential contracts.

- Contract management – there have been contract management failures leading to protracted and expensive legal actions with former contractors, in order to protect the Councils' interests.

- Capital programme – repeated and persistent failure to deliver the (much reduced) capital programme.

- Data integrity – data on EKH's various systems and spreadsheets has not been adequately maintained and reconciled. As a result, the data upon which performance reporting and contract negotiations depend has become unreliable.

- Single system – EKH are implementing a single system. This project was launched by EKH to replace the separate housing systems operated by Dover DC, Canterbury CC, Folkestone & Hythe DC and Thanet DC and, on the basis of a business case approved by each of the Councils in 2015, all four councils have made loans to EKH of £223k each (totalling £892k), to finance the system.

  To date the system has been partially implemented in Folkestone & Hythe DC, Canterbury CC and at Dover DC. Thanet DC will be the last authority to implement the rents module. Work will then commence on the repairs and leasehold modules. EKH have received a further £370k in loans (£92.5k from each council) and have also used their own reserves to complete the implementation.

  The project is now over three years late in implementation and approaching 100% overspent.

112. As a result of these various concerns the four Councils have dismissed the EKH board and appointed a new board (comprising the four Council Chief Executives). The Councils have also launched a tenant consultation on the future management of their stock.

113. The results of the tenant consultation will inform decisions on the future of stock management and will be reported to a DDC special Cabinet on 20th February. For the purposes of preparing the 2020/21 budget it has been assumed that the budget will continue on the current basis, but the HRA has significant reserves and therefore provision has been made for the possible transfer of some of these reserves into the 2020/21 revenue budget in order to meet the potential costs of service transfer to the Council, should such a decision be taken.

HOUSING DEVELOPMENT AND INVESTMENT

114. Housing development and investment within the district is taking place on a number of fronts, of which the most significant are:

  - HRA Investment
    - Housing Initiatives Reserve (HIR)
    - 1:4:1 Right to Buy Replacement
    - Acquisition and new build
    - Investment in existing stock
  - Registered Providers Investment
  - Private Sector Housing
  - Commercial housing developments
  - Homelessness strategy

115. These are discussed in more detail below.

HRA INVESTMENT

Housing Initiatives Reserve (HIR) & 1:4:1 Right to Buy Replacement

116. The HIR is funded by the transfer of surpluses whilst maintaining a £1m balance in the HRA. The HIR was established to fund a programme of new house building / acquisition. During 2017/18 HIR funding enabled the re-purchase of 10 former Council properties which have been added to the HRA stock. A further 26 properties were purchased during 2018/19. So far during 2019/20, 8 properties have been purchased and this is expected to increase by the end of the year. The refurbishment of properties in Folkestone Rd to provide 9 flats has also been completed as well as 9 new build properties being purchased in Capel. The refurbishment of Norman Tailyour House, Deal has been completed providing 18 new 1 and 2 bedroom flats. Further projects are being developed to continue to directly provide additional affordable housing in the district; these include:

- A mixed tenure re-development of 65 units at the former Willliam Muge and Snelgrove sheltered housing sites, Dover;
- The development of interim housing on sites in Dover and Deal.
- 8 units being developed at Noah's Ark Road, Dover and a further 8 at Folkestone Road, Dover.

117. Further opportunities are being considered and the business case for each examined prior to a formal a project approval being sought.

118. After allowing for the 2019/20 capital bids the balance in the HIR at the end of 2019/20 is projected to be around £5.6m of which all of is required for "matched" funding against £1.4m of excess right to by receipts retained under the governments 1:4:1 replacement scheme. If the excess right to buy receipts are not used within 3 years of their retention they are repayable to government with interest. The four year HRA forecast (Annex 5C) projects an on-going ability to contribute to the HIR, however the balance will have reduced to nil by the end of 2020/21 due to the major investment programme to deliver new Council stock, particularly in William Muge and Snelgrove site. The forecast of the HIR balance is included at Annex 5B.

Investment in Existing Stock

119. The HRA budget and projects take account of the need to invest in existing stock before establishing a surplus for the HIR. A stock condition survey was undertaken in 2017, to inform the on-going maintenance and investment requirements. The 2019/20 budget is based on the work programme provided by East Kent Housing incorporating the results of the survey and the work required for Decent Homes standards.

Recommendations from this Section

120. It is recommended that Council:

- Approve the HRA budget for 2020/21 and the projected outturn for 2019/20 at Annex 5.

ASSET MANAGEMENT PLAN (AMP)

121. The AMP is used as a management tool to assist in ensuring that the Council's property assets meet the objectives set out in the Council's Corporate Property Strategy. It covers:

- Revenue maintenance requirements;
- Capital works programmes;
- Data on performance of significant corporate assets; and
- Properties identified for disposal.
- During 2020 the AMP will be amended to reflect the commitment of the Council to be a zero-carbon organisation

122. Expenditure on repairs and maintenance forms a direct link with the revenue budget, which contains the resources to meet the programme of repairs and maintenance. Standards of maintenance, and therefore of required expenditure, are to some extent subjective. The Strategic Director (Operations and Commercial) confirms that there are sufficient resources to keep properties generally wind and water-tight but it continues to be a challenge to maintain all buildings without deterioration. Continuing with this approach increases the risk, but it ensures that the limited budget focuses mainly on essential maintenance.

123. There is a growing backlog of planned maintenance required to "Operational Assets". Significant expenditure is needed at:

- Tides Leisure Centre, because of its age, needs work to the external envelope of the wet side buildings. Extensive renewal of worn out and inefficient heating plant for the wet side completed in January 2019. Survey work has indicated that more extensive repairs and replacements than were originally thought are also necessary. Further work is being undertaken to establish the route to achieve a sustainable future for the complex over the next 30-40 years.
- During 2018 Dover District Council secured stage 1 HLF funding for Dover Town Hall, to support a scheme which will provide a sustainable future for the priceless Burgess heritage assets and the Stone Hall. The stage 2 bid is due to be submitted in June 2020.
- Repairs to Deal Pier, including resurfacing of the stem to protect the structure beneath, were undertaken in 2018. Concrete repair works to structural members on the pierhead including the south steps began in October 2019 and will complete in early 2020. These secure the structural integrity in the medium term however more general significant cyclical concrete repairs are again becoming necessary and investigative work to ascertain the extent and cost of such repairs will be undertaken during 2020.

124. An Urgent Works earmarked reserve was established and this is held to fund urgent works on corporate assets if required.

<u>Summary</u>

The key points for Members to note are:

- There are sufficient resources to maintain the Council’s General Fund properties in a basic state of repair but it is a significant challenge to maintain all the buildings without deterioration and this does carry a risk of service failure or an increase in the overall maintenance backlog; The current resource levels preclude wholesale expenditure on initiatives to cut carbon emissions however innovative sustainable projects and solutions will cumulatively and significantly reduce emissions in order to help the Council achieve its organisational zero carbon ambition by 2030.

- The Strategic Director (Operations and Commercial) is reviewing opportunities for realising capital receipts from surplus assets to support financing of the capital programme.

CAPITAL PROGRAMME & SPECIAL REVENUE PROGRAMME

Purpose of the Capital Programme

125. The primary objectives are to:

- Maintain an achievable, affordable capital programme;
- Ensure capital resources are aligned with corporate priorities;
- Identify any requirement for Prudential Borrowing, and ensure that it is only undertaken if it is affordable; and
- Maximise available resources by actively seeking external funding and disposing of surplus assets.

Definition of Capital

126. Capital expenditure is expenditure which increases the capital value, performance, use or life of an asset. It can be financed by a number of means including:

- Capital receipts;
- Capital grants;
- Prudential Borrowing;
- Revenue resources; and
- Leasing.

127. With the exception of revenue resources and the use of external leasing, none of the sources above can be applied to meet revenue requirements.

Content of the Capital Programme

128. Members are referred to the draft Medium Term Capital Programme (MTCP) at Annex 6A. This is a dynamic programme and a formal bidding process is operated every year to identify and plan future projects.

129. However, the speed of developments in relation to major projects such as DTIZ, Aylesham, etc. has shown that if formal approval is required for every minor change in the programme, this will generate delays. In order to manage this, it is proposed that the current practice, as set out below, is continued:

- The programme will be continuously updated to reflect the latest position;
- The latest programme will be included in the budget monitoring report (or a summary of changes will be provided) circulated to Members during the year;
- The latest version of the programme will be displayed on the intranet and internet;
- Whenever changes are required which exceed the overall spend of the programme, Member approval will be required – in effect, approval will be required if officers cannot find savings within existing resources to accommodate changes, or cannot finance them from external sources; and
- Any changes which are expected to have significant policy implications will be discussed with the Leader and relevant portfolio holder and will be reported to Members.

130. To simplify the management of regeneration budgets it has been agreed that they are treated as one major project and virements between them can be authorised by the Strategic Director (Corporate Resources).

131. To facilitate efficient decision making, final approval for projects up to £50k that are included on the Capital and Special Revenue Programmes are delegated to the Strategic Director (Corporate Resources) in consultation with the Portfolio Holder responsible for Finance.

132. In addition, a contingency has been included on the MTCP and Special Revenue Programme in order to allow progression of small projects without significant policy implications. It is proposed that the approval of such projects continues to be delegated to the Strategic Director (Corporate Resources) in consultation with the Portfolio Holder responsible for Finance.

133. All projects will continue to require reports for approval of a Project Appraisal and at evaluation, design and tender stages, where appropriate, in accordance with the Constitution.

134. The structure of the programme is reflected in the format of Annex 6A and is explained below:

- Committed General Fund Projects
  These are live General Fund projects that have been approved by Cabinet through the Project Appraisal process or under the agreed delegated authority, and are committed or in progress.

- Proposed General Fund Projects
  New projects are shown in the programme for approval of funding to the projects. These projects will be subject to the completion of a Project Appraisal for Cabinet or delegated approval before they commence.

- HRA Programme
  Proposed level of expenditure and allocation of funding for HRA Capital projects, as detailed at Annex 5C.

- Financed by
  This table provides a summary of the financing of the proposed Capital Programme. Members will note that there are sufficient resources to finance the projects included in the table. However, Members should also note that:

  - If Members wish to include additional projects in the programme, these can only be resourced by removal of the equivalent value in new bids;
  - Removal of projects financed by specific grants, or within the HRA, will not generate additional resources for other projects in the General Fund programme.

Content of the Special Revenue Projects Programme

135. The Special Revenue Projects Programme (Annex 6C) comprises significant projects which are not, in the main, capital, but which are still one-off revenue expenditure in nature and are therefore to be funded from reserves as annual recurrent revenue budgets are insufficient to finance them. As one-off projects they are generally

managed with the same disciplines and controls as capital projects. As they are financed from revenue reserves cancellation of any of these projects would free up resources which could be used to finance capital projects, other revenue projects, or for other purposes.

Financing of the Capital and Special Revenue Projects Programmes

136. In order to maximise the capital resources available to the Council, the detailed decision to apply capital receipts, revenue resources, grants, s106 monies etc. to finance the approved Capital and Special Revenue Projects Programmes is delegated to the Strategic Director (Corporate Resources), in consultation with the portfolio holder responsible for Finance, and capital receipts from particular sources will not be hypothecated to specific projects. Instead they will be treated as one overall stream to finance Capital and Special Revenue projects within both the General Fund and HRA according to the priority of the projects and the availability of financing.

137. The financing of the capital programme will be reported to Members as part of the Outturn Report. This is produced annually and accompanies the final accounts.

138. In addition to financing of capital expenditure, the Council also has to consider what provision, if any, should be made for the repayment of debt. Although new long term borrowing has not yet been undertaken, it is intended that new borrowing, when required, will be repaid by making revenue provisions based, inter alia, on the life of the asset as set out in the Treasury Management Strategy Statement, Annex 7B.

Prudential Code

139. The "Prudential" regime was introduced on 1 April 2004, and since then local authorities have had the freedom to borrow monies that are judged affordable, sustainable and prudent. This enables local authorities to fund new borrowing from savings in revenue expenditure or the generation of additional revenue income. MHCLG have recently consulted on proposed changes to the Prudential Code. Any impact of these changes will be advised in future reports.

Capital Receipts

140. In 2004/05 the Government introduced the pooling of housing capital receipts, from Right-to-Buy sales, for distribution to authorities where there is greatest need. From 1 April 2012 new Right-to-Buy regulations apply. The main change from previous regulation is that receipts in excess of those allowed for under the Housing Finance Reform Debt Settlement may be retained by an authority for 1:4:1 replacement of Affordable Housing.

141. Right-to-Buy (RTB) sales in 2019/20 have been lower than levels in 2018/19. Although the level of receipts available for general capital purposes is capped additional funding is available from the element of excess RTB retained for debt repayment that may be used for other capital purposes.

142. The Council generally retains 100% of non-HRA capital receipts and non-RTB HRA capital receipts, subject to capital allowance regulations.

143. Annex 6B details the level of capital receipts held, expected, committed to projects proposed and to be used for new projects. The balance of receipts after these anticipated receipts and commitments is shown as zero. Future capital receipts are expected to come mainly from housing right to buy sales and amount to circa £500k

per annum at current sales levels, so will not replenish capital funds and will not be sufficient to maintain the current level of activity in the future. No other major receipts are currently expected.

Summary

The key points for Members to note are:

- The Capital Programme operates on a cash funded position with no new projects being approved to commence unless the whole project costs can be financed through additional funding, sufficient capital receipts have been banked, external borrowing is approved or other savings in the programme have been identified. The new projects in the programme have been approved subject to the completion of a Project Appraisal for approval by Cabinet, or the Strategic Director (Corporate Resources) in consultation with the Portfolio Holder responsible for Finance under delegated powers;
- The Capital Programme is partly financed from HRA Right-to-Buy sales. The level of RTB sales in 2018/19 was lower than 2017/18 and the level of sales for 2019/20 is currently showing this trend is continuing. Therefore, the amount of receipts available for general capital purposes remains limited.
- The detailed financing of the Capital and Special Revenue Projects Programmes is delegated to the Strategic Director (Corporate Resources) in consultation with the portfolio holder responsible for Finance;
- There is no provision for making capital grants to other organisations, other than those grants already approved; and
- The lack of headroom in the capital programme for additional projects is a significant constraint and large projects will need to be funded from external borrowing where revenue savings can be identified to offset the borrowing costs (such as the Property Investment Strategy projects).
- Following a number of years during which only patch repairs have been undertaken, there is now a need for significant investment across the authority's assets, parks and ICT to achieve a standard that will enable a programme of rolling works to be introduced.

RECOMMENDATIONS FROM THIS SECTION

144. It is recommended that Cabinet:

- Approve the use of the Property Services (Special Revenue) allocation;
- Approve the use of the provision for internal costs to facilitate new projects.

145. It is recommended that Council:

- Approve the Capital and Special Revenue Projects Programmes;
- Approve that capital resources required to finance new projects are secured before new projects commence.

TREASURY MANAGEMENT AND THE PRUDENTIAL CODE

146. The Local Government Act 2003 introduced new capital accounting regulations, which required Councils to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code when setting their budgets.

147. The new capital system promotes a Council framework to ensure:

(a) That the authority maintains a balanced budget;
(b) That the impact of capital investment decisions is reflected in the revenue budget; and
(c) That performance measurement is implemented in managing and controlling the impact of capital investment decisions.

148. Annexes 7A – 7C set out estimates for each of the relevant Prudential Indicators in each of the financial years 2020/21 to 2023/24, and include the latest estimates for 2019/20 aligned with the revised forecast budget. Approval will be sought for the proposed indicators for 2020/21 – 2023/24.

149. The capital programme has been financed to date within existing resources, which include capital receipts, specific capital grants, the Major Repairs Allowance, and useable reserves and internal borrowing. Significant projects, including the Dover District Leisure Centre and Property Investment Strategy, will ultimately be financed by borrowing; however no borrowing has been undertaken at this time. Approval levels for borrowing will be included in annex 9.

TREASURY MANAGEMENT

150. The Council's Treasury Strategy complies with the requirements of the CIPFA Code of Practice on Treasury Management, which was adopted by the Council in September 2002 and the CIPFA Code of Practice on Treasury Management (revised November 2017) that was adopted by this Council in March 2018.

151. Approval of the strategy is a Council decision.

RECOMMENDATIONS FROM THIS SECTION

152. It is recommended that Council:

- Approve the Capital, Treasury Management and Investment Strategies, including the Prudential Indicators and Minimum Revenue Provision statement (Annexes 7A, 7B and 7C).

KEY ASSUMPTIONS & READY RECKONER

Background

153. In order to complete the budget and MTFP in accordance with the timetable it is necessary to make various assumptions. These are based on the most realistic information available at the time of production, but it is important that Members are aware of these assumptions and their implications.

Inflation

154. Salary inflation will be based on the results of the Collective Bargaining process. Contract inflation for 2020/21 is based on the details of the specific contracts, the state of the market for the specific services and any other relevant factors. Contract inflation is assumed to be 3% for future years. Inflation on all other expenditure will aim to be limited to the current budget level; however a small allowance of 2% has been forecast to allow some limited growth.

Staff Numbers

155. The 2020/21 budget includes 306 full time equivalent posts directly employed for DDC plus a further 28 employed by DDC as part of the East Kent Audit Partnership (working for Canterbury, Thanet, Folkestone and Hythe and Dover and recharged accordingly) and East Kent HR (working for Canterbury, Thanet and Dover and recharged accordingly) allocated across services as detailed in Annexes 3A-3C.

Triennial Valuation of the Pension Fund by the Fund Actuaries

156. The triennial valuation took effect from April 2019. It has been assumed that the DDC backfunding contribution will increase by 7% above the 2020/21 level of £1.76m for the planning period.

Interest Rates

157. It is assumed that DDC will maintain the 2020/21 level of income from investments for the remainder of the planning period. Any additional income generated will be transferred to reserves to support future projects.

Revenue Support Grant

158. The current draft settlement provides figures for 2020/21. It is assumed that this will reduce to nil for future years.

Business Rates Retention

159. The current draft settlement covers 2020/21 only and proposes an increase in NDR inflation of 1.629%.

Council Tax

160. Council tax increases have been assumed at £4.95 for 2020/21 and for the remainder of the planning period.

New Homes Bonus

161. New Homes Bonus is a scheme that provides incentives and rewards for councils and communities who support delivery of new homes in their area. It is assumed that the current level of funding (4 years) will be reduced by a year every financial year for the MTFP period, resulting in a nil payment by 2023/24.

Capital Projects

162. There are no material revenue pressures expected from current capital projects as they go live.

Ready Reckoner

- Payroll - 1% increase costs the General Fund approximately £100k;
- Council tax - 1% raises £75k;
- RSG – assumed to be nil for the future;
- NDR – 1% growth in BR income equals £83k (DDC's share @ 40%, less 50% levy, but will be higher under pooling due to reduced levy rates);
- Investment Income - 1% equals approximately £400k (based on investment balances of £40m);
- Contract inflation – 1% equals £100k;
- Business Rates Tariff - Every £100k reduction below the NDR baseline results in £40k reduced income for DDC to a maximum of the safety net value of £278k approx.;
- Business Rates Levy – Every £100k received above the NDR baseline results in £20k additional income, before levy reductions from pooling scheme.

SIGNIFICANT BUDGET RISKS

163. Budgets, by their nature, involve an element of forecasting which entails uncertainty and hence risk. The schedule below highlights the main strategic / high value budget risks:

164. Income risks:

- Business Rates
- New Homes Bonus
- Fair Funding Review
- Council Tax
- Treasury Management
- Property Investment
- Capital Receipts
- Housing rent collection

165. Expenditure risks:

- Repairs and Maintenance
- Brexit
- Pension Funding
- Homelessness
- Contract renewals
- East Kent Housing

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
1	Business Rates	The key challenges are: • Changes to the overall Business rates retention (BRR) regime including the future level of BRR – 50%, 75%, 100%? • Future re-sets of the DDC baseline, sacrificing some / all of the gains made to date. • The next revaluation – will it be fiscally neutral or negative and who will make up the shortfall? • Class action appeals such as ATMs and hospitals. • Individual appeals such as Channel Tunnel. • The difficulty in forecasting future BR taxbase changes. • Operation of the Collection Fund and the timing of recognition of income. • Unexpected revaluations and errors by the VOA • Errors in the MHCLG settlement • Changes in the Enterprise Zone and / or renewables schemes. • Weak BR performance by other Kent districts leading to an impact on the Kent pool. • Poor understanding of the regime by the MHCLG. • The Fair Funding Review leading to changes in the baseline or other aspects of the regime.	£8.4m pa.

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
		The opportunities for Councils individually or collectively to mitigate the above impacts are limited other than through the management of their own finances, smoothing reserves etc. and individual lobbying and response to consultations. Collective lobbying and response to consultations will also take place where possible, but the impacts of changes are often re-distributive and do not fall evenly across the sector and so it is difficult to create consensus.	
2	New Homes Bonus	Government have indicated that they wish to change (again) their commitment to New Homes Bonus, or even to scrap the income stream altogether. This is a core part of DDC's funding stream, generated in recognition of recent planning decisions, which were taken in part on the understanding that the NHB pledge would be honoured by government and may be used to mitigate the impacts of those decisions. The 2020/21 settlement is secure but the legacy payments of the 2020/21 award are not secure. Local government have lobbied to raise awareness in MHCLG that NHB has become an essential core income stream in many councils. However, the impact of the NHB top slice from RSG has made NHB redistributive both within and between tiers of local government and so there isn't a unified consensus on what should happen next.	£1.7m pa.
3	Fair Funding Review	The government has consulted on a Fair Funding review which will re-calibrate the local government settlement. Pressure from upper tier and unitary authorities may reduce the resources available to district councils. As with the current settlement, the Council can take part in Kent wide lobbying on the settlement, but has limited ability to influence the settlement.	Unable to forecast at the time of writing.
4	Council Tax Base & Collection Rates.	Realistic performance targets for collection of Council Tax have been set to reflect the system of local Council Tax Support now in place. EKS undertake regular monitoring of collection rates, trends on non payments and bad debt analysis. The collection rate for new payers is being monitored very closely and collection is in line with projections. Reasonable arrangements to pay are put in place by staff where appropriate.	£7.6m pa

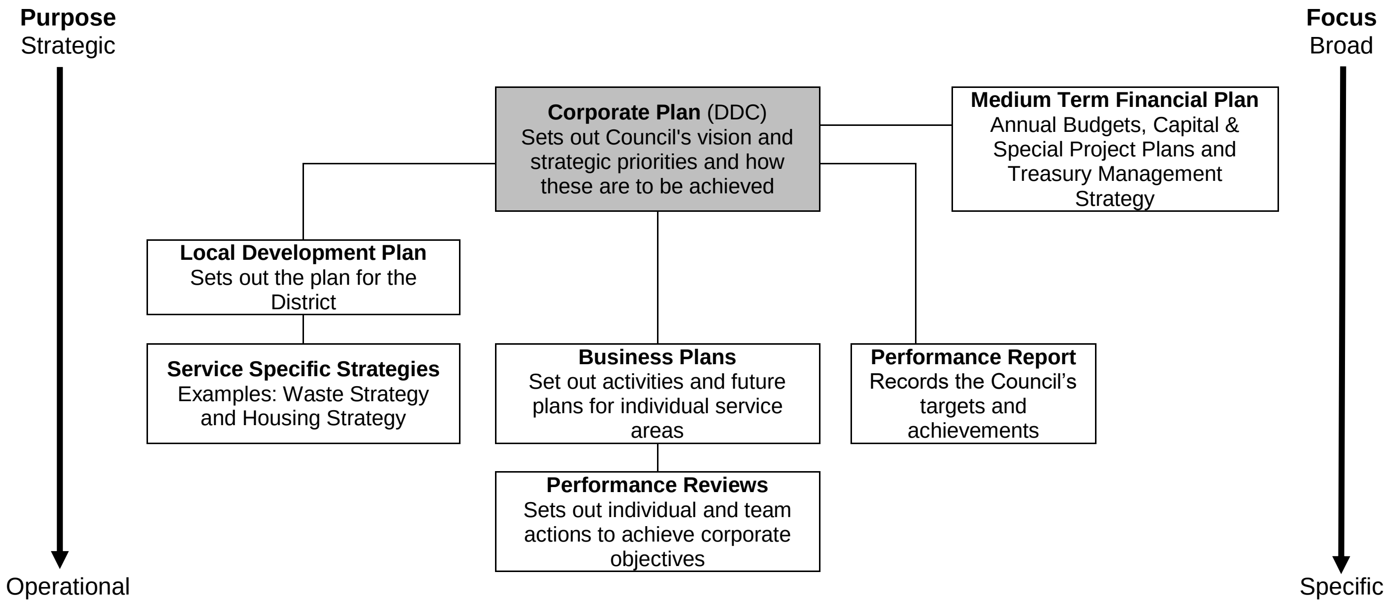
Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
5	Treasury Management	Of the current forecast £1.75m treasury management income £600k is being transferred to earmarked reserves to support future projects and reduce the GF risk of over-reliance on the income stream. Reductions in capital values would only impact the GF if the funds were realised when the values were low. Due to the breadth of investments held it is unlikely that this would become necessary as other funds could be realised or short term borrowing undertaken if cash flow shortages occur.	£1.75m pa
6	Property Investment Income	Property Investment decisions are made following a thorough due diligence process considering the strength of the leases, income streams and tenants. An element of the income is currently being set aside to provide an allowance to offset the risk of future reductions in income and to avoid over-dependence on this income stream.	£570k pa
7	Capital receipts	Capital receipts come from housing and other asset sales. Any drop-off in the level of receipts will lead to reduced resources available to complete projects. The reduced receipts could arise from lower sales, lower prices or both. We cannot mitigate against market movements or reduced levels of sales. To some degree lower values may increase the level of demand, but this will also be dependant on interest rate movements.	£500k pa (average level)
8	HRA rent arrears	The roll out of Universal Credit has been mirrored by a significant increase in housing rent arrears. A bad debt provision is included within the budget and arrears levels are being monitored and reported to EKH to support their collection plans.	Annual HRA rent £19.5m Current arrears £800k
9	Repairs and maintenance	Any shortfall in repairs and maintenance to corporate and service (not residential) properties may result in asset deterioration and potential service failure. A corporate budget is held for repairs and maintenance of assets enabling the Strategic Director (Operations and Commercial) to allocate the resources appropriately according to need. This does not include historic assets such as Maison Dieu which are subject to specific projects to maintain / restore structural integrity.	GF corporate maintenance budget £466k

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
10	Brexit – Macro Economic	The final Brexit settlement and arrangements within Great Britain and Northern Ireland are still uncertain. There maybe a mix of impacts, favourable and adverse, upon the value of the £, inflation, gilt yields, interest rates, employment and economic growth. Where possible the Council is mitigating these impacts through measures to make the budget and treasury management as robust as possible, but the Council's scope for action is limited.	Unable to forecast the impact at the time of writing.
11	Brexit – Port and East Kent impact	We continue to work with our partners on the Kent Resilience Group to plan for a range of eventualities.	Unable to forecast the impact at the time of writing.
12	Pension Funding	The latest triennial valuation increased the overall DDC annual pension fund contribution from £3.6m to £3.8m pa. The Kent scheme is now at the highest overall level of funding since the 1980's and has made significant progress towards 100% funding. However, DDC's share of the scheme is heavily impacted by staff demographics and the maturity of the scheme and is therefore significantly less well funded. There remains a risk that contributions for DDC will increase again at the next triennial valuation in 3 years time.	£3.8m pa contribution
13	Homeless expenditure	Expenditure may continue to increase due to the impact of the Homeless Reduction Bill and the continued implementation of Universal Credit in the district Close monitoring of the impact of the Bill and the in-year budget. Investigating innovative options to support homeless requirements in the district.	Unable to forecast at the time of writing.
14	Major Contract Renewals	When major recurrent contracts are up for renewal the price achieved by the council depend upon the functioning of the market in the particular sector and the attractiveness of the package assembled by DDC.	Unable to forecast at the time of writing.

Ref	Risk Description	Explanation and Mitigation	Budget Sensitivity
15	East Kent Housing	Concerns have arisen over a number of areas of EKH activity including tenant health and safety, procurement, contract management, the capital programme, data integrity and the "Single System". As a result, a tenant consultation on the future management of the Councils' housing stock has been undertaken. Should the 4 participating Councils decide to return housing management to their own individual control, then the transition process is likely to be high risk. A report on this matter will be considered by the Cabinet and the main implications considered before any change can commence, but any undertaking of this scale will include a significant level of financial and operational risk which will require close and detailed management.	Unable to forecast at the time of writing.

RELATED STRATEGIES AND PLANS

The relationship between the Council's major plans and strategies is set out below. Members are reminded to consider these plans when approving the allocation of resources as set out in the MTFP.



Notes: The Corporate Plan sets out the vision and strategic priorities of the Council and provides the context for other strategies and plans that we may produce. The outcomes contained in this Plan are cascaded throughout the organisation, with targets to keep us on track. Each service has its own Business Plan, which sets out the service specific activity carried out and plans for delivering the services into the future.