

## **BUDGET 2020-21**

Cabinet	<b>14 January 2020</b>
Report Author	<b>Tim Willis, Deputy Chief Executive and s151 Officer</b>
Portfolio Holder	<b>Cllr Rob Yates, Cabinet Member for Financial Services and Estates</b>
Status	<b>For Decision</b>
Classification:	<b>Unrestricted</b>
Key Decision	<b>Non-key</b>
Reasons for Key	<b>Budget and Policy Framework</b>
Ward:	<b>All wards</b>

### **Executive Summary:**

**This report presents the 2020-21 budget and 2020-24 capital programme for the General Fund and Housing Revenue Account.**

### **Recommendation(s):**

- 1. Cabinet agrees and recommends to Council the following:**
  - 1.1 That the General Fund revenue budget estimates for 2020-21 are approved, assuming a £4.95 increase in Council Tax for a Band D.
  - 1.2 That the HRA budget estimates for 2020-21 are approved, assuming a CPI+1% (i.e. a 2.7%) increase in social rents and a freeze in affordable rents for relevant council properties.
  - 1.3 That the General Fund and Housing Revenue Account capital programmes (Annexes 1&2) for 2020-24 are approved.
  - 1.5 That the Flexible Use of Capital Receipts Strategy for 2020-21 as shown in Annex 3 is approved.
  - 1.6 That the Section 151 Officer's Assurance Statement as set out in section 14 of this report is approved.

### **CORPORATE IMPLICATIONS**

<b>Financial and Value for Money</b>	The financial implications of the budget are laid out within the body of the report.
<b>Legal</b>	Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Deputy Chief Executive and this report is helping to carry out this function. The requirements of other relevant statute have been referenced within the body of this report, where relevant.
<b>Corporate</b>	Corporate priorities can only be delivered with robust finances. Both the draft budget and the level of reserves recommended in this report are believed to be sufficient to contribute towards meeting those priorities and to deliver services.
<b>Equality Act 2010 &amp; Public Sector Equality Duty</b>	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it. Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.  There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

<b>CORPORATE PRIORITIES (tick those relevant)✓</b>	
Growth	✓
Environment	✓
Communities	✓

## 1. INTRODUCTION

- 1.1 The Government carried out a Technical Consultation on the 2020-21 local government financial settlement in October. This heralded the "biggest year-on-year real terms increase in funding for almost a decade." Leaving aside the political rhetoric, and the fact that it was only a consultation, from Thanet's perspective, the news was not encouraging. Nearly half the proposed additional funding was for social care, a quarter for schools and colleges, and more for public health, none of which is paid to TDC. Continued funding of New Homes Bonus would be good news, but at least for the last two years, there has been insufficient

housing growth in Thanet to qualify for any new New Homes Bonus (apart from a small amount for affordable housing).

- 1.2 The Government published the Provisional Local Government Finance Settlement 2020-21 (the “Settlement”) on 20 December. It set out the Government’s indicative financial plans for each local authority, and so enables authorities to prepare a budget for next year and beyond. The provisional settlement does not deviate very much from the technical consultation in October.
- 1.3 Much of the provisional settlement relates to funding for services that do not affect TDC’s finances as a district council. Funding for children and adult social care and schools will be important to Thanet’s population along with the rest of the country, but is irrelevant in terms of TDC’s own budget. Those areas that apply to TDC are Council Tax, Revenue Support Grant (RSG) and New Homes Bonus (NHB) and are detailed in the relevant sections below.
- 1.4 Fees and charges were examined by the Fees and Charges Advisory Group on 10 October, Overview and Scrutiny Panel on 22 October and approved by Cabinet on 14 November and Council on 5 December. Additional income of £208k will be generated from the changes and has been built into the proposed 2020-21 budget.
- 1.5 The funding gap has been identified, but involves a number of actions and a commitment to deliver the savings for next year. Unless this plan is adhered to, the council could be at significant risk of overspending the proposed budget. Grant Thornton, the council’s external auditor, has commented that the council’s reserves do not provide much room for manoeuvre should savings not be identified. But it is not just the identification of savings, it is the actual realisation of them. This has proved to be challenging in recent years and is reflected in the S151 Officer’s comments in section 14.

## **2. BACKGROUND**

- 2.1 The budget has been prepared against a backdrop of significant funding uncertainty. The provisional financial settlement for 2020-21 represents a rollover settlement, applicable for one year. The Fair Funding Review and review of Business Rates Retention, both previously set for 2020-21, are now due for 2021-22. Coupled with historic reductions in Government funding for many years, and an uncertain economic outlook, the backdrop to setting the 2020-21 budget and 2020-24 MTFS has never been more uncertain.
- 2.2 The objectives of the council’s budget strategy are to:
  - Adequately resource the council’s statutory services and corporate priorities set out within the Corporate Statement.
  - Maintain a balanced General Fund such that income from council tax, business rates, grants and fees and charges is sufficient to meet its expenditure.
  - To keep council tax increases as low as possible so as to avoid triggering a local referendum.
  - To maintain the General Reserve at a level that is sufficient to cover financial risks and provide an adequate working capital.

- To maximise the council's income by promptly raising all monies due and minimise the level of arrears and debt write offs.
- To actively engage local residents in the financial choices facing the council.
- To have due regard to the impact on the general public and business communities from charges levied by the council as set out within its approved fees and charges.

### 3. ASSUMPTIONS OF GOVERNMENT FINANCIAL POLICY FOR 2020-21

- 3.1 The Government's provisional financial settlement covered Revenue Support Grant, Business Rates, New Homes Bonus and the Council Tax referendum threshold. A summary of anticipated funding for 2020-21, compared with 2019-20 actual funding, is set out below:

**Table 1 - 2019-20 Actual and 2020-21 Anticipated Government Funding**

	2019-20 £000	2020-21 £000
Revenue Support Grant (RSG)	97	100
Business Rates Funding (including Pool)	5,545	5,910
<b>Settlement Funding Assessment</b>	5,642	6,010
New Homes Bonus	586	118
<b>Total</b>	6,228	6,128

- 3.2 RSG is proposed to be £100k for 2020-21 which replicates and inflates the 2019-20 figure. This was not expected in the previous medium term plan - no RSG was assumed for 2020-21. This highlights the ad-hoc nature of the 2020-21 settlement, as it represents the first year after the previous four-year settlement 2016-20, but there are no new Government policies yet in place in respect of local government finance that provide the backdrop for 2020-21 and beyond.

### 4. BUSINESS RATES RETENTION

- 4.1 The assumption is that the council will not form part of a business rates pilot, but that the existing arrangements remain in place. This means Thanet will remain part of the Kent business rates pool. The council's anticipated business rates for 2020-21 is £5.91m.

### 5. NEW HOMES BONUS

- 5.1 The New Homes Bonus (NHB) was introduced from 2011-12 as a financial incentive and reward for housing growth. The growth is based on a national

average Council Tax value of additional homes including any properties brought back into use. There is also an additional premium for affordable homes. NHB is payable for four years for growth over the threshold of 0.4%, i.e. no NHB is paid on housing growth up to 0.4%. TDC has not qualified for NHB since 2016-17 apart from small amounts for affordable housing growth, which does not have a threshold. Projected NHB is set out below. Note, 2019-20 NHB includes £13k not reflected in the budgeted figure in Table 1 above.

**Table 2 - New Homes Bonus projections**

	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>
Scheme Year	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Year 6	485				
Year 7	5	5			
Year 8	96	96	96		
Year 9	13	13	13	13	
Year 10		4			
<b>TOTAL</b>	<b>599</b>	<b>118</b>	<b>109</b>	<b>13</b>	<b>0</b>

## **6.0 COUNCIL TAX BASE AND COLLECTION RATE**

- 6.1 Under section 33 of the Local Government Finance Act 1992 (as amended) and supporting Regulations, the council must make an annual calculation of its tax base. The tax base is the total number of properties on which Council Tax will be charged expressed as a band D equivalent, after allowing for discounts, exemptions and losses on collection. The method of calculation is prescribed in the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012.
- 6.2 The tax base is used in the calculation of the Council Tax Requirement, to produce the standard amount of Council Tax for a band D property, in relation to both the District and the major precepting authorities.
- 6.3 As in previous years, the calculation of the tax base has been amended to take account of the Council Tax Support Scheme (CTSS). The replacement of Council Tax Benefit with CTSS effectively reduces the tax base, as CTSS is provided as a discount against the Council Tax liability rather than a rebate which was previously repaid to the Council via Government Subsidy.
- 6.4 The impact of CTSS, has, in part, been offset by the previously approved changes to the council tax discounts. The resultant tax base for 2020-21 is 44,546 and is

being considered by Cabinet for approval on this same agenda. This compares to a figure of 43,763 for 2019-20.

- 6.5 The calculation of the Council Tax Base for a given year includes an assumption of the percentage of amounts due which are actually collected. The forecast collection rate has been assumed as 98.0% and has been included within the budget calculations.
- 6.6 Districts are able to increase Council Tax by the higher of £5 or 2% without a referendum. For Thanet, £5 is slightly more than 2% and is proposed in the report. The Government's funding assumptions presume that TDC will increase Council Tax by £5. The actual proposed increase is £4.95.

## **7. COLLECTION FUND**

### Council Tax

- 7.1 Following a calculation of the income and expenditure in the Collection Fund relating to council tax for this year, it is estimated that there will be an accumulated surplus to be distributed by 31 March 2020. Table 3 shows how this will be distributed. This estimate remains to be finalised.

**Table 3 - Estimated Collection Fund surplus distribution**

<b>Authority</b>	<b>Amount £000</b>
Thanet District Council	120
Kent County Council	669
Kent Police and Crime Commissioner	99
Kent Fire and Rescue Service	40

- 7.2 The distribution is prescribed by legislation. The surplus has to be shared amongst the major precepting authorities in accordance with their original precept value (for Thanet this equates to about 13%). The amount of surplus must then be included within the budget for 2020-21 to reduce the Council Tax Requirement for the year.

## **8. GENERAL FUND REVENUE BUDGET 2020-21**

- 8.1 The MTFs 2020-24 is on the same agenda as this report. It sets out themes to be adopted to address the projected funding gap for 2020-21 and beyond. These are as follows:
- **Growth:** We will continue to ensure we work to consider new ways to generate income and invest our current resources. Delivering a Council that is financially strong to discharge its services and invest in the growth of the District.

- **Environment:** Having a clean and well-maintained environment remains important to us. We will be clear with our residents on what we will do and what our asks of residents are - cultivating a shared responsibility approach. Delivering a clean and accessible living environment, maintaining an emphasis on prevention but where necessary we will use an enforcement approach.
- **Communities:** Through effective partnership working with both the public sector agencies and the community, we will provide leadership and direction across the district and the region to ensure everyone is working to the same goal. Delivering high-quality housing, safer communities and enhancing the health and wellbeing of our residents.

8.2 The proposed budget for 2020-21, which deals with the funding gap identified within the MTFS, is summarised in Table 4 below.

**Table 4 - Summary General Fund Revenue Budget 2020-21**

	£000	£000
<b>Opening Funding Position</b>		16,643
Budget pressures (including inflation but excluding funding)		1,369
Income generation and efficiencies	-522	
Fees and charges	-208	
Total Savings		-730
External Funding		-300
Contribution to/from reserve		86
<b>Net Budget Requirement</b>		<b>17,068</b>
<b>Funded by:</b>		
Government funding (including RSG, business rates and New Homes Bonus)		-6,128
Other Grants		-210
Collection Fund surplus		-120
Council Tax income		-10,610
<b>Net Financing</b>		<b>-17,068</b>
<b>Tax Base</b>		<b>44,546</b>
<b>Indicative Band D Council Tax</b>		<b>£238.14</b>
% Increase on Band D		<b>2.12%</b>
£ increase on Band D		<b>£4.95</b>
<b>General Reserve b/fwd</b>		<b>2,011</b>
Contribution to/from reserve		-
<b>General Reserve c/fwd</b>		<b>2,011</b>

## Addressing the funding gap

- 8.3 Savings, efficiencies and increases in income are proposed to bridge the 2020-21 funding gap and are outlined below in Table 5. There will be no compulsory redundancies as a result of these proposals.

**Table 5 - Income generation and efficiencies 2020-21**

<b>Proposed Savings</b>	<b>£000</b>
Fees and charges - as approved at 14 November Cabinet and 5 December Council	208
Property maintenance - reduction in under-utilised budget	100
Digital transformation - corporate retention of efficiencies arising from systems and applications reviews	25
Treasury management - increase the level of internal borrowing	155
ICT/Digital review - efficiencies from the integration of some ICT function into the Digital team	20
Delete Waste & Recycling Education Officer post - with a proportion of the work picked up by Enforcement Education officer, Community Development and Communications	36
Delete Open Spaces supervisor post	31
Commercial waste income - modest surplus target in its second full year of operation	25
Planning fee income - growth in income arising from more planning activity	40
Corporate promotion and marketing - through collaboration on promotion leading to efficiencies	10
Off-street parking income - generated from enhanced parking facilities funded from decriminalisation reserve	40
Green waste collection - growth in customer base for green waste	40
<b>Total</b>	<b>730</b>

## Investing in front line services

- 8.4 The £730k of income generation and efficiencies shows the net budget movement, but masks the movement of resources within services. The street cleansing service will benefit from the creation of ten new environmental operatives. There will also be two new back-office staff within Operational Services.

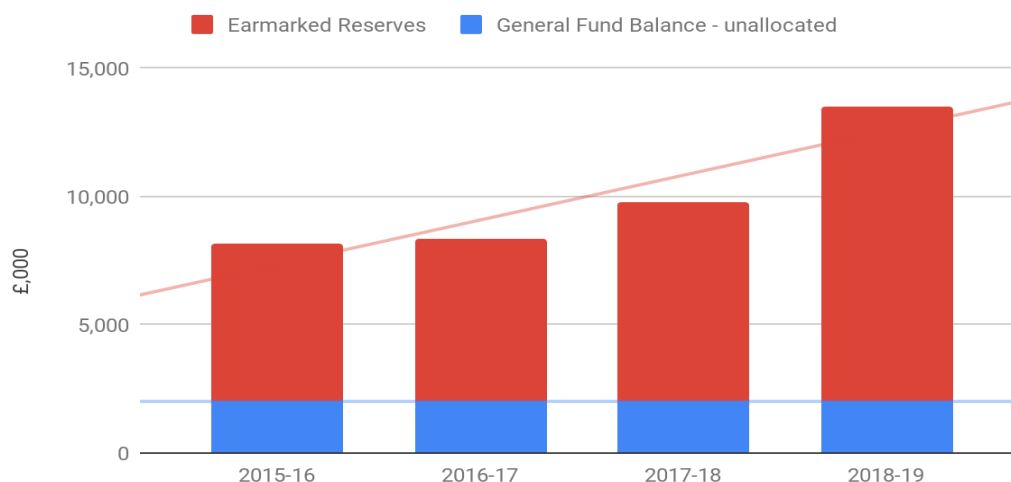


- 8.5 There is an additional £290k built into the budget to reduce the income targets in clinical waste, coastal development, property, building control, licensing and land charges. The £175k saving in toilets, agreed as part of the 2019-20 budget, has been reversed, meaning £175k growth for 2020-21. Finally, exceptional funding of fuel inflation of £56k has been included in Operational Services.
- 8.6 A year ago, the demands upon the Homelessness service had been predicted to begin falling in 2020-21, but there are no signs that this will happen. Therefore for next year, the £250k reduction in funding has been removed and an additional £150k has been added, resulting in £400k being added to the budget for homelessness.
- 8.7 There is a variety of new funding items for climate change:
- A climate change role has been included and is part-funded by the decriminalisation reserve;
  - The grounds maintenance service is committed to exploring increased areas for re-wilding;
  - The grounds maintenance service will reduce the use of pesticides and herbicides;
  - Additional tree planting;
  - The green waste service will be expanded.

### **Working Balances and Reserves**

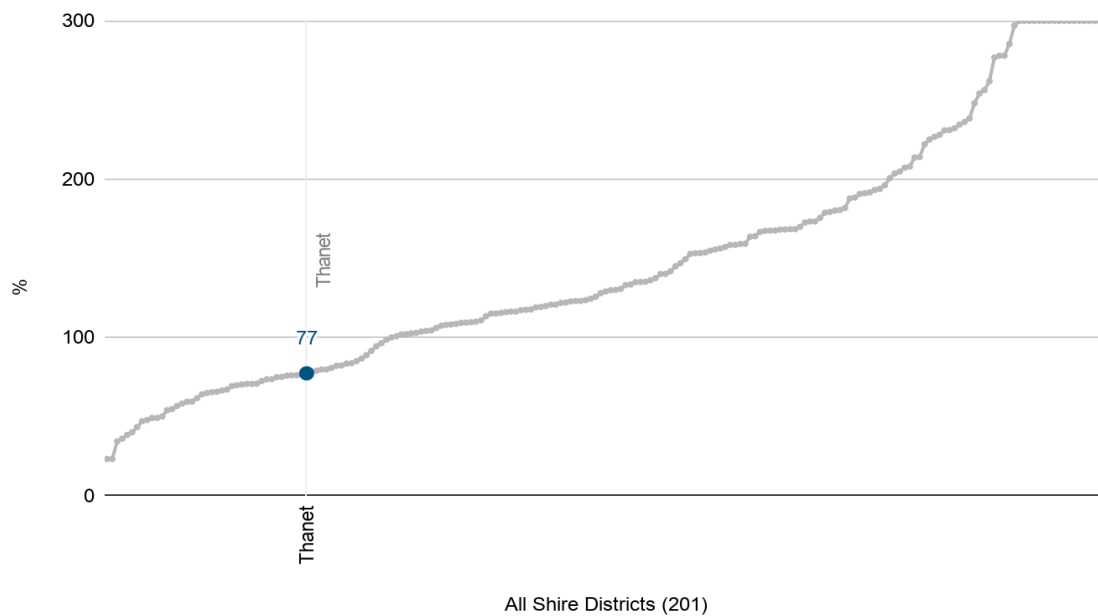
- 8.8 Section 32 of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their Council Tax Requirement. The Section 151 Officer is responsible for providing advice, so that decisions taken on reserves represent proper stewardship of public funds. Reserves should be set and maintained at a level at least sufficient to meet any unexpected increase in expenditure or shortfall in income in the ensuing year that cannot be met from within the approved budget. Any decision that fails to take into account his advice may require a report to be made to the council under Section 114 of the Local Government Finance Act 1988.
- 8.9 From previous reporting, members will be aware that the council has relatively low levels of reserves. This remains true, despite the improvements that have been made in reserve holdings in recent years.

## Change in Reserves 2015 to 2019



- 8.10 The chart above shows the improvement in the council's General Fund reserves over the past four financial years, with reserves and balances rising to £13.5m at the end of 2018-19, compared to the 2015-16 low water mark of £8.1m. This represents a £5.4m or 66% increase over the four year period.
- 8.11 In particular, 2018-19 saw a £3.7m increase in reserves, largely backed by a one-off windfall arising from additional Business Rates income retained in Thanet, as a result of participating in the Kent 100% Business Rates Retention Pilot. However, it should be noted that approximately £2m of this Business Rates funding is proposed in the capital programme to be utilised to finance Parkway railway station. As such, reserves may fall as this money is called upon to finance the scheme.
- 8.12 Despite this improved position, the council continues to face and meet major financial challenges. The council's reserves still remain low, compared to our historical levels, other district councils and the risks we face. This improved but yet still relatively low position is supported by analysis undertaken within the Chartered Institute of Public Finance and Accountancy's financial resilience index.

## Level of Reserves compared to all shire districts



- 8.13 The blue dot on the chart above represents TDC's relative reserve holdings in comparison to other shire districts (41st lowest out of 201), in that our total General Fund reserves of £13.5m represent 77% of our net revenue budget. In comparison, the average for a district council is almost double Thanet's, at 146%. Therefore if Thanet's reserves were at the average level for districts, our reserves would be closer to £24m.
- 8.14 Section 25 of the Local Government Act 2003 includes a duty on the Section 151 Officer to report, at the time the Council Tax is set, on the robustness of the budget calculations as well as the adequacy of the council's reserves and other matters, this is set out at Section 14 'Section 151 Officer's Assurance', within the context of the low reserve position set out above. The level of reserves is also a factor the external auditor will consider when appraising the council's financial standing.
- 8.15 When reviewing medium term financial plans and preparing annual budgets, Members should consider the establishment and maintenance of reserves. These may be held for three main purposes:
- (i) As a working balance to help manage cash flow and cushion the impact of unexpected budgetary pressures (general balances).
  - (ii) As a contingency to cushion the impact of significant unexpected events or emergencies (general balances).
  - (iii) As a means of building up funds to meet known or predicted requirements and again to prevent significant fluctuations in net budget cost between years (earmarked reserves).

Ultimately, reserves and balances are held by the council in order to help it manage risk. This is important as we cannot borrow money over the medium-term, other than for investment in assets, and we are required to balance our budget on an annual basis.

- 8.16 General Fund reserves consist of a number of earmarked reserves, together with the unallocated general reserve. All reserves and balances form part of the General Fund but the Housing Revenue Account balance is specifically 'ring fenced' for use in connection with that account.
- 8.17 In addition to the cash-backed reserves described above, local authorities maintain a number of other reserves in the balance sheet. Some are required for statutory reasons and other reserves are required to comply with proper accounting practice. In either case these balances are not available for investment.
- 8.18 As part of a Council decision in February 2017, a minimum General Fund reserve of £2.0m was agreed. In accordance with best practice, an annual risk assessment is undertaken to check the level required for 2020-21. Revised calculations show that the assessed level should remain at £2.0m. Although this report on adequacy of reserves is specific to 2020-21, the council should bear in mind that adequacy should also be judged against longer-term plans.
- 8.19 The council is currently predicting a funding gap and significant uncertainty after 2020-21. Until the budgets for each year are balanced it is prudent for the council to plan on maintaining a level of reserves in excess of the minimum recommended level.
- 8.20 In addition to the General Fund reserve, the council keeps a number of earmarked reserves on the Balance Sheet. These reserves are required in order to comply with proper accounting practice, whilst others have been created to earmark resources for known or predicted liabilities. A summary of the projected reserves, allowing for the budget proposals, is shown in Table 6 below for information. As part of the earmarked GF reserves, there will be £100k set aside as a contingency against overspends due to exceptional circumstances in Operational Services. The source for this contingency will be identified once the 2019-20 outturn is known, and the £100k could be higher if more is available as a result of underspends.

**Table 6 Council Reserves**

<b>Reserves</b>	<b>31 Mar 19</b>	<b>Movement</b>	<b>31 Mar 20</b>	<b>Movement</b>	<b>31 Mar 21</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
General Fund	2,011	0	2,011	0	2,011
HRA - Balances Reserve	9,308	-419	8,889	69	8,958
Earmarked - GF	11,471	207	11,678	-2,952	8,726
HRA - New Prop/ Repairs Reserve	2,526	-1,909	617	-617	0
Capital receipts	9,437	-6,635	2,802	-1,050	1,752

HRA - Major Repairs Reserve	12,765	-1,410	11,355	-3,794	7,561
<b>Total</b>	<b>47,518</b>	<b>-10,166</b>	<b>37,352</b>	<b>-8,344</b>	<b>29,008</b>

### **Residents Survey 2019**

- 8.21 A residents survey was undertaken during October and November 2019 covering a range of questions about the local area, the services the council provides and feedback on the council's performance. It also asked for views on the future budget and what residents would do if a service they cared about was at risk of being cut.
- 8.22 The council received 856 responses, a response rate of 14% which was an improvement on the 2018 survey response rate of 12%.
- 8.23 It was found from the responses that 57% were surprised that the council receives such a small proportion of the overall Council Tax bill. Some 34% of respondents expressed agreement with the statement that the council provides value for money for the Council Tax that is paid. Residents were more likely to support transferring services to parish/town councils and reducing councillor numbers if a service was at risk of being cut. However, they would be less likely to support an increase in council tax or make one off donations in such a case.
- 8.24 Respondents felt that the three things that most need improving in Thanet are clean streets, feeling safe and thriving towns. The council's budget and Medium Term Financial Strategy supports the corporate priorities set out within the Corporate Statement which very much focuses on delivering in these areas of concern.

### **9. Council Tax Referendum and Council Tax**

- 9.1 As part of the 2011 Localism Act, Council Tax capping in England has been abolished and replaced by new powers for residents to approve or veto excessive tax increases through a referendum. If the residents vote against the increase, the council will have to revert to a Council Tax level that is compliant with the Government's proposed increase.
- 9.2 The provisional Local Government Finance Settlement proposes a Council Tax referendum principle of the higher of £5 or 2% will apply for 2020-21. A £5 or 2% rise in council tax would generate around £200k for Thanet.
- 9.3 The provisional settlement shows that the Government will continue to defer the setting of referendum principles for towns and parishes.
- 9.4 To hold a referendum is a costly exercise to undertake, with estimates in excess of £50,000, and would have to come from the council's budget. This means that other savings would have to be identified to fund it. In addition, the council would have to

have justifiable cause to put to the electorate for what is regarded as an excessive increase.

## **10. GENERAL FUND CAPITAL PROGRAMME**

- 10.1 This section considers the Capital Programme and supporting strategy for the period 2020-21 to 2023-24. A summary of the programme is included in Annex 1.
- 10.2 A minimum level of £15k (£10k for 2019-20) has been set for capital expenditure on a fixed asset which is expected to be in use for more than one year. Expenditure below this value is not treated as capital and is therefore not recorded on the asset register or funded from capital resources. Capital expenditure also includes qualifying grants and loans, such as those provided for the enhancement of buildings to increase the extent to which they can be used by a disabled or elderly person. Capital expenditure can be met from borrowing, capital receipts, capital grants or revenue contributions.
- 10.3 Due to the complex and large scale nature of capital projects, the original budgets have to be based on estimations that often need revising as the project advances. This in turn leads to re-phasing of the capital programme, in order to keep the overall costs within the agreed bottom line.

### **The Asset Management Plan**

- 10.4 By far the largest element of the council's capital worth (as represented by the fixed asset values on the balance sheet) is in its property holdings, with a total of £264 million showing as the net book value of all property assets as at 31 March 2019 (after depreciation has been applied). In line with Government and best practice guidelines, the council is required to have prepared and published an Asset Management Plan (AMP) which outlines its approach to its material asset holdings. This is to ensure that it acts responsibly in terms of undertaking a stewardship role over valuable public assets whilst deriving the maximum use from them in terms of service delivery so that value for money is able to be evidenced.
- 10.5 The council's Asset Management Plan outlines the principles, criteria and processes that form the cornerstone of the Capital Programme. This requires a continuous assessment of the relative value of an asset (both financial and non-financial) in order to ensure that the council's investment in its assets is working to optimum effect. This is especially important in the current financial climate, where assets that are no longer viable or surplus to requirements need to be disposed of in order to reduce the council's liabilities and to generate capital receipts to fund new developments or be transferred for community benefit.

### **The Capital Budget Strategy**

- 10.6 Although the Asset Management Plan is used to inform the contents of the capital budget, it is only one element. In order to ensure that the capital budget is able to meet the council's needs in the wider sense and to manage the impact on the revenue budget, the development and use of the capital programme is underpinned by a Capital Budget Strategy as follows:

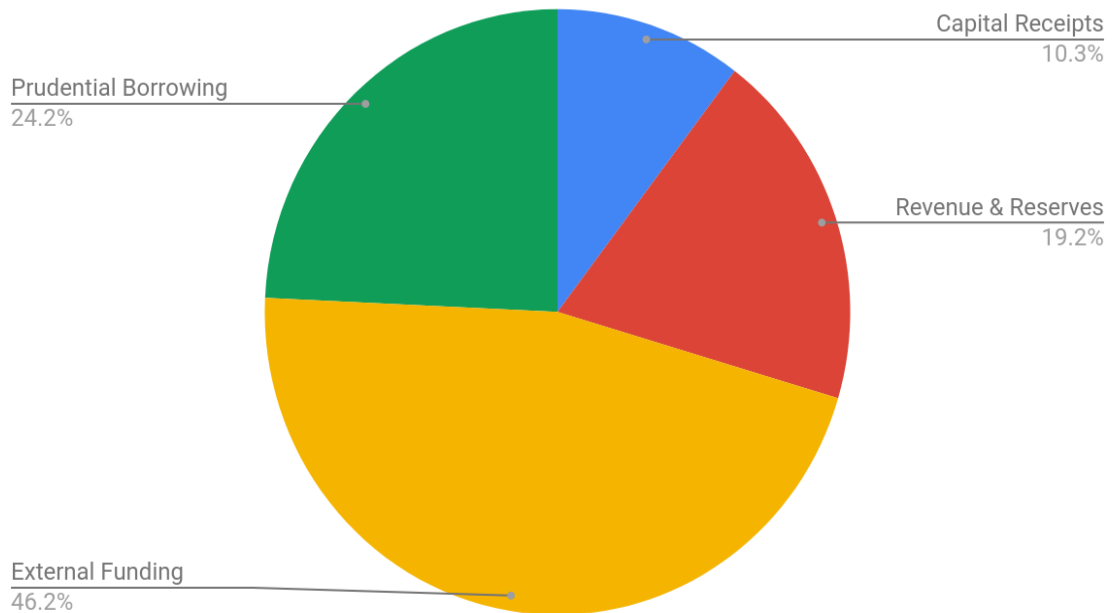
- To maintain an affordable four-year rolling capital programme.
  - To ensure capital resources are aligned with the Council's strategic vision and corporate priorities.
  - To undertake prudential borrowing only where there are sufficient monies to meet in full the implications of capital expenditure, both borrowing and running costs.
  - To maximise available resources by actively seeking external funding and disposal of surplus assets.
  - To engage local residents in the allocation of capital resources where appropriate.
- 10.7 Due to the limited availability of capital receipts and the need to contain the level of borrowing undertaken to minimise the revenue impact, it has been necessary to review the capital programme. This is to ensure sufficient funding is available for existing schemes that have commenced and that any new projects are of the highest corporate priority and/or reduce the pressure on the revenue account.
- 10.8 Applications for capital bids have been reviewed by the Corporate Management Team and scored against a weighted matrix to ensure they focus on the council's core priorities, health and safety requirements, the generation or protection of income streams and affordability. The level of resources available raises a number of issues and risks for future years, which need to be addressed. Over the past few years the council has seen significant constraints in its available capital receipts. It is difficult to estimate the funding level achievable as a number of changes often arise to the asset disposal programme once the consultation process has been completed. In the event that sufficient disposals cannot be realised in 2020-21 onwards this will result in a need to reduce or defer the capital programme or to borrow, thus increasing the revenue pressure on the General Fund. Regular monitoring will need to be reported back to members and the capital programme adjusted accordingly.
- 10.9 There is limited scope for future investment in new assets or making improvements to existing buildings. The Asset Management Plan is key in delivering resources to the capital programme and rationalising the council's asset and property portfolio. It is imperative that limited resources do not damage the council's ability to maintain its significant income streams as assets deteriorate from lack of investment. It is likely that over the next four years some difficult decisions will need to be made on some of the asset holdings. There are limited capital resources to fund any overspends/new requirements which could occur during the financial year. Any additional schemes during the financial year are likely to require an existing scheme to be deferred or funds re-allocated unless there is a strong case to borrow.

### **Available Capital Funding**

- 10.10 Capital expenditure can be financed from revenue resources, capital grants, usable capital receipts and borrowing. The General Fund can only be used to fund General Fund related capital expenditure, and the Housing Revenue Account (HRA) can only finance expenditure on HRA assets; there can be no cross subsidisation between accounts. In both cases, the revenue resources are limited.

A summary of the 2020-2024 capital resources utilised to fund the GF Capital Programme is detailed in Annex 1, but shown graphically below.

### Funding of the Capital Programme 2020-21



- 10.11 **Capital Grants** – these are offered by external funders to assist with certain types of expenditure. Capital grants include Environment Agency and Lottery funding. The Better Care Fund allocation for 2020-21 is estimated to be at least in line with the 2019-20 allocation, £3.015m. Some £3.193m (including b/fwd) has been set aside to fund the Housing Assistance Policy within the capital programme. This is made up of funding from the Better Care Fund and recycled Regional Housing Board monies. The 2020-21 Capital Programme also includes projects to bolster Thanet's sea defences (funded by the Environment Agency) and the restoration, refurbishment and modernisation of Ellington Park, Ramsgate (funded by the National Lottery Heritage Fund).
- 10.12 **Capital Receipts** – When a fixed asset is sold, provided that the sale receipt is over £10k, the income has to be treated as a "capital receipt", which means that it can only be used to fund capital expenditure. All of the monies received from the disposal of General Fund assets are available to the council for use.
- 10.13 Before the start of each financial year, a Flexible Use of Capital Receipts Strategy should be prepared as part of the budget documents. This sets out the rare occasions the council can apply to Government to capitalise expenditure that would normally be deemed as revenue. Government has advised that the council can apply to capitalise the costs of transformational revenue reform projects. The Flexible Use of Capital Receipts Strategy is set out in Annex 3 and details the criteria where this may be considered as per guidance issued by Government.



- 10.14 The level of capital receipts available from the sale of surplus assets has been very constrained over the last few years. Reasons for this have included the economic situation, assets being removed from the disposal list following consultation, and capital funding being switched from reserves to capital receipts wherever possible due to significant pressures on the council's revenue budget. Members should note that an estimated £1.294m in capital receipts has been forecast to fund the 2020-21 programme derived in part from the asset disposal report present to Cabinet on 16 December 2019. This will be monitored closely during the financial year, as it may be necessary to adjust the programme in year depending on asset disposal and funding outcomes.
- 10.15 Every new capital project requires a funding source. This may be external grant funding, or else funded from within TDC's own resources. The major source of funding the capital programme for some years has been capital receipts. The policy has been to dispose of some of the council's assets to enable investment in other of the council's assets. The council needs to be sure that the assets that benefit from investment offer a return of some sort, whether that be a financial return, additional social value or an enhanced operational capability to deliver better/more efficient services. Only in exceptional cases does the council consider funding a capital project from borrowing, as this creates a long term liability that requires debt repayments, the cost of which has to be funded from the same source as for service delivery.
- 10.16 The following budget amounts have been re-profiled from the 2019-20 capital programme to 2020-21: Westbrook to St Mildred's Sea Wall Work (£600,000).
- 10.17 Projects already agreed from previous years within the four year programme are Ellington Park, End User Computing Refresh of Devices, IT Infrastructure, Property Enhancement Programme, Vehicle & Equipment Replacement Programme, Louisa Bay to Dumpton Gap Sea Wall Work, Westbrook to St Mildred's Sea Wall Work, Stone Bay Sea Wall Work, Broadstairs Flood and Coast Protection Scheme, New Air Conditioning for Server Room, and Parkway Railway Station. The Northdown Road Townscape Heritage project previously agreed has been removed as external funding was not granted. The Royal Harbour (Leopold Street) Multi-Storey Car Park project previously agreed has been reprofiled to 2025-26.
- 10.18 Capital bids for the forthcoming years have been reviewed and scored. Where projects require prudential borrowing further details can be found within the attached Annex 1.
- 10.19 Cost-benefit appraisals have not yet been fully completed for the following projects, which may be subsequently removed from the capital plan depending on the outcome of these appraisals: Thanet District LED Lighting, Ramsgate Port & Harbour - Completion of Smart Metering System, and Manston Road Depot - Infrastructure and Ground Work.

**Table 7: New Capital Projects**

New Capital Project	Project Outline
Housing Company	On 25 July 2019 Cabinet agreed the principle of establishing a wholly owned housing

	company; subject to the approval of detailed proposals, controlling documents and funding.
Housing Assistance Policy (incl Disabled Facility Grants)	This is the framework governing the award of disabled facilities grants and other types of grants and loans to householders
Welfare Unit for Margate Cemetery	Install a welfare unit, containing drying room facilities, at Margate Cemetery.
Completion of Pontoon Decking Improvement: East and West Inner Marinas	Complete the replacement of decking at Ramsgate marina, which is coming to the end of its working life and regularly being repaired, with slip resistant and low maintenance decking.
Ramsgate Harbour - Additional Self Storage Containers	Cater for excess demand for vacant container storage at Ramsgate Harbour, generating additional income.
Public Toilet Refurbishment	Programme of replacement and refurbishment of coastal toilets.
School Gate Safety Enforcement Partnership	Improve safety outside schools by using CCTV to enforce no-parking zones.
Thanet District LED Lighting	Convert council owned street/open spaces lighting to LED (also replacing lamp columns where necessary).
Ramsgate Port & Harbour - Completion of Smart Metering System	Further implementation of the smart metering system, enabling the council to advance-charge customers for their electricity usage.
Manston Road Depot - Infrastructure and Ground Work	Improve the delivery of front-line services by infrastructure and ground-work improvements at the Manston Road Depot.

10.20 The draft General Fund Capital Programme for 2020-21 is £12.507m (including 2019-20 re-profiling identified below), which will be funded in the main from capital grants, usable capital receipts and prudential borrowing. This is shown in summary format below.

**Table 8: Draft Capital Programme 2020-2024**

	Reprofilin g up to Q2 2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000
Statutory and Mandatory Schemes	0	3,192	3,192	3,000	3,000
Annual/Regular Enhancement Schemes	0	3,242	739	1,037	739
Wholly/Part Externally Funded Schemes	600	2,030	1,515	0	0

Construction, Replacement and Enhancement	0	3,368	2,150	1,200	1,110
Capitalised Salaries	0	75	75	75	75
<b>Total Capital Programme Expenditure</b>	<b>600</b>	<b>11,907</b>	<b>7,671</b>	<b>5,312</b>	<b>4,924</b>
<b>Capital Resources Used:</b>					
<i>Capital Receipts and Reserves</i>	0	3,402	1,154	612	314
<i>Capital Grants and Contributions</i>	600	5,172	4,707	3,000	3,000
<i>Contributions from Revenue</i>	0	300	250	250	250
<i>Prudential Borrowing</i>	0	3,033	1,560	1,450	1,360
<b>Total Funding</b>	<b>600</b>	<b>11,907</b>	<b>7,671</b>	<b>5,312</b>	<b>4,924</b>

10.21 The following are highlighted concerning the above table:

- a) Any slippage from the 2019-20 capital programme will be in addition to these numbers. For example, the Mid Year Review 2019-20 Treasury Management and Annual Investment Strategy Report indicated that, as at 30 September 2019, there had not yet been any significant spend on Office Accommodation (£3.0m), Homelessness Accommodation (£1.6m), Berth 4/5 Replacement (£1.5m) or Vehicle & Equipment Replacement Programme (£0.9m); with the combined spend on these four 2019-20 capital projects being only £0.061m against an aggregate budget of £7.0m. As at 30 November 2019, the combined spend on these four projects was £0.616m.
- b) In addition to these numbers, it is possible that the council may require certain capital spend in relation to car park improvements, subject to funding being made available. If so, Member approval will be sought in due course.

## 11. Housing Revenue Account Revenue Budget

- 11.1 The council's responsibilities in respect of the need to keep a Housing Revenue Account (HRA) are contained within Section 74 of the Local Government and Housing Act 1989 ('The Act') and its use is heavily prescribed through statute. The HRA records all of the revenue expenditure and income relating to land, dwellings and other buildings provided under Part II of the Housing Act 1985 and corresponding earlier legislation. It must be kept separate from the General Fund Revenue Account and therefore is to all intents and purposes ring-fenced. Although the HRA for an individual year may result in a deficit, it is a requirement of 'The Act' that overall it must maintain a surplus, which means that expenditure

must be carefully planned to remain within the limits of the anticipated income streams over the medium term.

11.2 The main strategic objectives of the Housing Revenue Account, which provide the underlying principles for financial planning, and allow the council to remain within the legislation, are as follows:

- To maintain a Housing Revenue Account that is self-financing and reflects both the requirements of residents and the strategic visions and priorities of the council.
- To maintain current Housing Stock at Decent Homes Plus standard.
- To increase or improve the council's housing stock through new build and bringing empty properties back into use.
- To consider the disposal of stock that is not viable to generate capital receipts for re-investment in new or existing stock.
- To maximise the recovery of rental incomes by moving void properties to "target rent", reducing the number of void properties and minimising the level of rent arrears and debt write offs.
- To maintain a minimum level of HRA reserves of £800k but with a target level of reserves of £1m.

#### **Details of the HRA expenditure estimates**

- 11.3 **Contract and Price Inflation** - For direct expenditure budgets, price increases have been included at 2%, which is the best estimate of the level of inflation at this point in time, unless there is a known inflation factor within a specific contract, in which case this has been used.
- 11.4 **Repairs and Maintenance** - The net revenue budget has increased by £90k to reflect the increased costs of inspections and contractual inflation.
- 11.5 **Supervision and Management General** – This area of expenditure includes the management fee paid to EKH. 2019/20 has seen significant increases in the management fee as a result of the Improvement Plan agreed between the council and EKH (Cabinet 15/01/2019) and more recently to increase the resources available to complete health and safety checks in council homes. These amounts have been included in the draft budget for 2020/21 as service improvements are still needed in these areas. The proposed fee, developed with EKH, includes funding for additional staff, mainly in relation to rent collection, additional compliance and universal credit support. Provision has also been made for a new Landlord Services Transition Manager to support the implementation of any decisions made by Cabinet about the future of EKH in February 2020.
- 11.6 **Bad or Doubtful Debts Provision** – The provision for bad or doubtful debts for 2020-21 will remain at £200k.
- 11.7 **Depreciation for Fixed Assets** – The estimated depreciation charge for dwellings and other assets is calculated at £4.05m in 2020-21.
- 11.8 **Debt charges** – Since the self-financing settlement, the council has operated a two loan pool approach whereby the HRA and GF are each responsible for the repayment of their own apportionment of loans. As part of the self-financing settlement, the HRA had its debt capped at £27.792m, with this cap being

abolished from 29 October 2018. As at 1 October 2019, following the repayment of £3.311m HRA debt on that date, the HRA had £15.9m of loans outstanding.

#### **Details of the HRA income estimates**

- 11.9 **Rent Increases** – Social rents have been set based on government rent guidance. Affordable Rents are linked to local market rents and to the Local Housing Allowance for the area. Rents are applied to individual properties at the lower of either 80% of the local market rent or the Local Housing Allowance.
- 11.10 Analysis of current tenants shows that approximately 76% of affordable and social housing tenants are in receipt of either housing benefit or Universal Credit.
- 11.11 The figures in the budget report currently assume for 2020-21 social rents to be increased by CPI + 1% in line with the government rent guidance and affordable rents will be maintained at 2019-20 levels.
- 11.12 Based on the proposed rent increase detailed above, across the whole stock the average rent would be £82.95 per week, this is an average increase of £2.41 per property. A 1% increase in social rents equates to an average £0.83 per property. The proposed increase in housing rent is in line with revised Government rules that have in recent years required a real reduction in rent levels. This has placed substantial pressure on the HRA to set a Business Plan that delivers an adequate management and maintenance service and the necessary investment in the stock. Table 9 sets out the history of social rent increases - it should be noted that over this period, the council has always approved rent increases in line with Government Guideline.

**TABLE 9: 10 year history of social rent increases**

<b>Year</b>	<b>% change</b>	<b>Legislation - denotes Maximum increase allowed</b>
2011/12	+5.10%	Government Guideline - September RPI + 0.5%
2012/13	+6.10%	Government Guideline - September RPI + 0.5%
2013/14	+3.10%	Government Guideline - September RPI + 0.5%
2014/15	+3.70%	Government Guideline - September RPI + 0.5%
2015/16	+2.20%	Government Guideline - September CPI + 1%
2016/17	-1.00%	Government Guideline - 1% reduction year on year
2017/18	-1.00%	Government Guideline - 1% reduction year on year
2018/19	-1.00%	Government Guideline - 1% reduction year on year
2019/20	-1.00%	Government Guideline - 1% reduction year on year
2020/21 Proposed	+2.70%	Government Guideline - September CPI +1%

- 11.13 A rent increase of CPI+1% on social rents will enable funding of the transition costs of bringing the stock, currently managed by EKH, in house. Additionally, it will also provide the substantial investment needed in the council's tower blocks and other accommodation in regard to health and safety works. It will also help to support the council's affordable housing new build programme. It is worth noting

that Thanet's social rents are substantially below even the Local Housing Allowance levels - LHA rents are in the order of 50% higher. For example, a 3-bed house has a proposed social rent of £92.74 and the LHA of a 3-bed house is £144.36. A 3-bed private rental would have an average rent of over £200.

For 2021-22 to 2023-24 an estimated 2% inflationary increase has been assumed. The average rents for 2020-21 per property type are set out in table 10 below.

**TABLE 10: Average rents by property type**

AVERAGE RENTS 2020-21		
PROPERTY TYPE	SOCIAL RENT	AFFORDABLE RENT (inclusive of service charges)
BEDSITS	£57.23	-
1 BED HOUSE	£78.23	£76.17
1 BED FLAT	£67.56	£73.78
2 BED HOUSE/BUNGALOW	£85.08	£103.21
2 BED FLAT	£76.42	£106.93
3 BED HOUSE	£92.74	£132.80
3 BED FLAT	£90.67	£135.03
4 BED HOUSE	£102.46	£154.20
4 BED FLAT	£90.54	£159.72
5 BED HOUSE	£111.48	-

- 11.16 **Non Dwelling Rents** - Garage rents are to remain at £12 per week. All sites are being reviewed for development and regeneration opportunities, as well as a new planned maintenance programme.
- 11.17 **Service Charge Increases** – Service charges are calculated based on actual cost. Tenant service charge increases continue to be capped at £3 a week.
- 11.18 **Heating Charges** – Heating charges will be recovered on actual cost based on usage and contract price and then apportioned across the block dependant on bedroom size.
- 11.19 **Investment Income** – This consists of interest accruing on HRA balances. The budget for 2019-20 of £160k is based on achieving an average interest rate of 1%.

#### **The Housing Revenue Account Reserves**

11.20 The council operates three HRA reserves: a HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties Reserve:

11.21 **Housing Revenue Account Major Repairs Reserve** – An amount equivalent of the actual depreciation charge for dwellings is transferred to the Major Repairs Reserve to fund capital works to the existing stock. The estimated transfer to the Major Repairs Reserve for 2020-21 is £4.05m.

This funding, together with previous allocations of supported borrowing and revenue contributions, with good management, has enabled the council to maintain the housing stock in a good condition. The council currently maintains its social housing to Decent Homes Plus standard.

11.22 **Housing Revenue Account Balance Reserve** – This reserve holds the balance of the HRA and is used to draw down to balance the revenue budget and smooth out any peaks and troughs within the 30 year business plan. It is maintained by annual contributions from the HRA. As at 1 April 2019 this reserve balance was £9.3m.

11.23 **HRA New Properties Reserve** – This reserve holds funds set aside to fund either new build properties or the acquisition of suitable properties for use within the HRA. Earmarked match funding for the Margate Intervention, New Build Programme and 141 Acquisition Programme has been set aside in this reserve as agreed by Cabinet. As at 1 April 2019 this reserve balance was £2.53m and is due to be drawn down during the 2019-20 and 2020-21 programmes. Income generated from affordable rents will continue to be set aside in this reserve for re-investment.

11.24 The HRA revenue budget for 2020-21 is set out below.

**Table 11: 2020-21 HRA Budget**

<b>DRAFT - HOUSING REVENUE ACCOUNT BUDGET</b>	
	<b>2020-21</b>
	<b>£'000</b>
<b>Income</b>	
Dwelling Rents (gross)	-12,911
Non-dwelling Rents (gross)	-227
Charges for services and facilities	-531
Contributions towards expenditure	-386
<b>Income Sub Total</b>	<b>-14,055</b>
<b>Expenditure</b>	
Repairs & Maintenance	3,451
Supervision & Management – General	3,487
Supervision & Management – Special	779
Rents, rates, taxes and other charges	250
Bad or doubtful debts provision	200

Depreciation/impairment of fixed assets	4,050
Capital Expenditure funded from HRA	1,172
Debt Management Costs	9
<b>Expenditure Sub Total</b>	<b>13,398</b>
<b>Net Costs of Services Sub Total</b>	<b>-657</b>
Share of Members and Democratic Core	148
HRA Investment Income	-160
Debt Interest Charges	997
Government Grants and Contributions	-300
Adjustments made between accounting basis and funding basis	-97
<b>(Surplus)/Deficit on HRA</b>	<b>-69</b>
<b>Housing Revenue Account Balance:</b>	
Estimated Surplus at Beginning of Year	-8,889
(Surplus)/Deficit for Year	-69
Estimated Surplus at End of Year	<b>-8,958</b>

## 12. The HRA Capital Programmes for 2020-21 to 2023-24

- 12.1 The major works capital programme budgets have been allocated according to the latest stock condition survey report.
- 12.2 Following recent reviews of the council's tower blocks, additional resources are proposed to fund a programme of major upgrade works. These include upgrades to fire safety arrangements, such as fire compartmentation works, fire doors, fire alarms, smoke vents, and flat entrance doors, as well as upgrades to electrical installations, CCTV installation and other linked works such as redecorations. The programme also includes proposals to re-provide external wall insulation on five of the council's tower blocks with a fully non-combustible system. Full structural, electrical and mechanical surveys are also planned so that any additional essential works can be identified and planned for. Fire safety works have already started at Invicta House and these will be replicated at all remaining blocks as part of the proposed programme.
- 12.3 The current new build programme is progressing well. Phase 1 completed in November 2018, delivering 11 affordable homes. Phase 2 and 3 started on site in 2019-20, which will deliver a total of 40 units. 5 affordable homes are due to complete in 2019-20 and the remaining 35 in 2020-21. There remains funding in the programme for a further project in Cliftonville.



- 12.4 The Margate Housing Intervention is also continuing to make progress. Godwin Road and Warwick Road developments incurred delays, however both projects are now scheduled to complete in 2020-21.
- 12.5 The New Build Phase 4 Programme will be delivered by a combination of acquisitions of land and property to unlock housing delivery of newbuild schemes and bringing forward infill sites in council ownership.
- 12.6 The draft HRA Capital Programme for 2020-21 that is proposed for Members' approval is £13,323k, which will be funded from the HRA reserves, revenue contributions to capital, grant, prudential borrowing and 141 receipts. A summary of this programme and the proposed funding sources are shown in Annex 2.

### **13. Treasury Management 2020-21**

- 13.1 The Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2020-21 were considered by Governance and Audit Committee on 3 December 2019 and are contained in a separate report on this agenda.

### **14. Section 151 Officer's Assurance Statement**

- 14.1 Section 25 of the Local Government Act 2003 requires that, when the council is considering next year's budget and Council Tax levels, the council's Section 151 Officer (the Deputy Chief Executive) must report on:
- The robustness of the estimates.
  - The adequacy of the proposed financial reserves.

#### **Budget Estimates**

- 14.2 The estimates are considered to be robust and have been subject to significant review and scrutiny by the Corporate Management Team, Heads of Service and Financial Services Officers.
- 14.3 A risk based approach has been taken to focus and target resources at budget areas that are subject to the greatest amount of volatility and uncertainty. For example, services with a demand led nature, such as the provision of temporary accommodation for homeless people, present a greater challenge when devising budget estimates due to the number of variables the budget is subject to, many of which are outside the council's control, and as such more focus and resources are applied to the estimation on such budgets.
- 14.4 Some of the specific challenges that had to be overcome in delivering a balanced budget for 2020-21 actually corresponded to issues surfacing in the 2019-20 budget, such as shortfalls in income, or non or partial delivery of savings. In these instances a prudent and realistic approach has been taken in formulating budget estimates, accepting that some of these issues are unlikely to be resolved in full within the 2020-21 budget. As such, budget holders have been set realistic but

challenging targets to address these aforementioned issues within the 2020-21 budget.

- 14.5 A detailed review of Operational Services budgets has also been completed. This has enabled the redeployment of resources and allowed for 10 additional Environmental Operatives, 2 additional admin posts and increased resources for bin deliveries to be added to the establishment for 2020-21. This has allowed for resources to be directed where they are most needed and aligns directly with feedback received via our most recent resident consultation.
- 14.6 In general, realistic assumptions have also been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and fees and charges income.

### **Adequacy of Reserves**

- 14.7 The council has made significant progress in increasing and stabilising its reserve holdings over the last few years. Much of this has been the product of sound financial management, demonstrated by tight financial management controls and a prudent approach to decision making, to curb overspending against budgets. However, some of the improvement in our reserve holdings has also been the result of one-off windfalls such as from the 100% Business Rates pilot, which mask the council's underlying financial performance and cannot be relied upon in future years.
- 14.8 Despite this improvement, the council reserves remain low, both in terms of the risks we face and the level of our reserves relative to other similar local authorities. As such, the council carries significant risk by holding such low levels of reserves.
- 14.9 The Chartered Institute of Public Finance & Accountancy have published a financial resilience index that shows a council's position on a range of measures associated with financial risks. The measure associated with reserve holdings indicates that Thanet's relatively low reserves presents a high risk to the council's financial management and sustainability. This measure shows the relative level of reserves held across the country and it is shown that a local authority the size of Thanet would normally hold in excess of £24m of reserves. However, Thanet currently holds £2.0m general reserves plus £11.5m earmarked reserves, i.e. a total of £13.5m which represents just over half of the reserves typical of a similar authority, based on the CIPFA analysis. This level of relative reserves is also mirrored amongst neighbouring districts in Kent, with only one other Kent district holding lower relative reserves and many holding more than double.
- 14.10 Comparing Thanet to other districts carries a degree of uncertainty, as every local authority has its own set of risks. However, the Council has suffered a number of unexpected, unbudgeted events in recent years, including Transeuropa, live animal exports, HAVS and a sizeable overspend on Dreamland heritage park. Coupled with this, the council has an unfavourable record of overspending against expenditure budgets and non-delivery of saving targets. This suggests Thanet carries certain inherent risks – it owns and runs a port, it issued a CPO on a heritage theme park and it retains an in-house direct labour workforce. No other

district has all these characteristics. This implies Thanet carries far more risk than average and so, even the £24m average reserves of a typical district may be on the low side.

### **Housing Revenue Account (HRA)**

14.11 Section 25 of the Local Government Act 2003 also requires that, when the council is considering the HRA budget and rent levels, the council's Section 151 Officer (the Deputy Chief Executive) must report on:

- The robustness of the estimates.
- The adequacy of the proposed financial reserves.

14.12 As with General Fund, the HRA estimates are considered to be robust and have been subject to significant review and scrutiny. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and income.

### **Adequacy of HRA Reserves**

14.13 The level of HRA reserves remain healthy with HRA balances far in excess of the targeted £1m. However there are forecast one off pressures of East Kent Housing services potentially coming back in house, which would require drawdowns from this reserve.

14.14 The New Properties Reserve is likely to be fully utilised by the end of 2020-21 due to further progression of the Council's new build housing and refurbishment schemes. This is as expected, although in future years, the reserve will continue to be replenished with affordable housing rents.

14.15 The Major Repairs Reserve is under considerable pressure over the medium term due to the large capital programme spend forecast in 2020-21 and 2021-22. This spend is forecast to reduce the reserve to £750k at the end of 2021-22, although over the following years the reserve is forecast to be replenished.

## **15. Council Tax Requirement 2020-21**

15.1 The full Council Tax resolution will be included within a separate report to Full Council on 27 February 2020.

## **16. Options**

16.1 The scenario presented in this report, and the recommendations following, have been drafted to meet the requirements of agreed budget strategies and to take account of prevailing economic conditions. Any of the assumptions could be varied; however, there would be too many possible permutations to present in this report.

Contact Officer:	Tim Willis, Deputy Chief Executive and s151 Officer
Reporting to:	Madeline Homer, Chief Executive

## **Annex List**

Annex 1	General Fund Capital Programme
Annex 2	Housing Revenue Account Capital Programme
Annex 3	Flexible Use of Capital Receipts Strategy

## **Background Papers**

<b>Title</b>	Held in Financial Services
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## **Corporate Consultation**

<b>Finance</b>	N/A
<b>Legal</b>	Tim Howes, Director of Corporate Governance