BUDGET 2021-22

Cabinet	14 January 2021
Report Author	Tim Willis, Deputy Chief Executive and S151 Officer
Portfolio Holder	Cllr Rob Yates, Cabinet Member for Finance, Administration & Community Wealth Building
Status	For Decision
Classification:	Unrestricted
Key Decision	Budget and Policy Framework
Reasons for Key (if appropriate)	Significant effect on communities
Ward:	All

Executive Summary:

This report presents the 2021-22 budget and 2021-25 capital programme for the General Fund and Housing Revenue Account.

Recommendation(s):

That Cabinet recommends to Council that:

A. The General Fund revenue budget estimates for 2021-22 are approved, assuming a £4.99 increase in the band D equivalent for Council Tax.
B. The HRA budget estimates for 2021-22 are approved, assuming a CPI+1% increase in social rents and a freeze in affordable rents.
C. The General Fund and Housing Revenue Account capital programmes for 2021-25 are approved.
D. The Flexible Use of Capital Receipts Strategy for 2021-22 is approved.
E. The Section 151 Officer's Assurance Statement is noted.

Corporate Implications

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.

Financial and Value for Money

The financial implications of the budget are laid out within the body of the report.

Legal implications

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 statutes have been referenced within the body of this report, where relevant.

Corporate implications

The budget has been prepared with reference to the corporate priorities.

Equality Act 2010 & Public Sector Equality Duty

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. Actions arising from this report - in particular the savings requirements - will each be assessed for equalities implications by relevant managers.

Corporate Priorities

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities

1.0 Introduction and Background

1.1 The Budget Strategy was approved by Cabinet on 19 November 2020 and it informed the approach adopted for this report. This report provides an overview of TDC finances within the context of corporate priorities, Government financial policy and resident feedback. Whilst only provisional information is available regarding Government funding at the time of writing the report, projected funding is presented

along with budget pressures which give rise to the budget gap - the difference between estimated funding and estimated expenditure for 2021-22.

1.2 A review of the council's reserves is included, both leading up to 2021-22 and the impact on reserves of approving the budget. The report further sets out the assumed Council Tax and housing rent increases to assist in funding the budget. The report sets out the proposed budget savings to bridge the gap, taking into account all of the above.

1.3 The report covers both the General Fund and Housing Revenue Account (HRA), both revenue and capital. It also makes reference to the Treasury Management Strategy and the Flexible Use of Capital Receipts.

2.0 Context for the budget

2.1 The impact of Covid-19 on the council's finances has been profound. During the summer of 2020, as the first wave had a major impact on residents and businesses, it also had a major impact on the council's spending (as we attempted to alleviate the worst aspects of the virus) and income (through reductions in fees and charges, Council Tax and Business Rates). For the current year, the council has administered substantial financial support which includes:

- £1.6m of Hardship grants to Council Tax Support claimants.
- £22m of Business Rates relief to small businesses and those in the Retail, Leisure and Hospitality sectors.
- £35m of business grants in the first wave of Covid.
- An estimated £6m of business grants in the second wave.

2.2 Council on 10 September 2020 was presented with an estimated budget overspend for 2020-21 of £5.6m, offset by an estimated £2.6m of Government Covid funding at the time, leaving a net overspend of £3m. Reserves were identified to fund this overspend. The strategy was to treat the cost of Covid as largely one-off in 2020-21, with any longer term effects being addressed in the 2021-22 budget and 2021-25 Medium Term Financial Strategy. When considering the impact of Covid on next year's budget, it is necessary to take a view on the extent to which its effects will have (a) another one-off adverse impact and (b) an impact that lasts for years to come. Any impact will be mitigated by the council's own actions to address budget problems, but an assessment is needed as to the extent that Government Covid funding will reduce the net cost. This is extremely difficult.

2.3 An optimistic view would be that vaccines are now being rolled out, the Spring will start to see a return to some semblance of normality, the wider economy will grow quickly, Thanet's business sector will start to recover, unemployment will fall, and Thanet will become a popular destination in the summer of 2021 for visitors and staycations. Any remaining adverse impact on residents, businesses and the council's finances will be covered by additional Government support and we will be well placed for economic growth, a stabilisation of the council's finances and an ability to replenish reserves.

2.4 A more pessimistic view would be that the vaccination programme is slow to roll out and take-up is limited, there continue to be local outbreaks of Covid, there are still restrictions on trading, unemployment remains high, Thanet's business sector is found to have been badly damaged by the economic effect of Covid and slow to recover, Government support is inadequate and the council's finances are in an even worse condition, with reserves being perilously low.

2.5 The view of the S151 Officer is somewhere in the middle of these scenarios in economic terms, but the budget for next year still presents a challenge and reserves are very low. Until there is evidence of recovery, it would not be wise to anticipate a significantly improved financial position. This is being translated into the following approach:

- The budget gap remains, due to largely unavoidable long term growth that needs to be funded through the long-term/permanent budget savings in this report.
- There is no recommendation to increase reserves in 2021-22 as part of the budget strategy as this would place additional burdens on projects and service delivery; but to aim to do so in future years.
- There is a vital need to address underlying and long-standing budget issues that have very little to do with Covid - in Property, Building Control, Licensing, Coastal Development and Land Charges (although the last of these has been subject to some management intervention). The budget presumes these areas will be addressed and if they are not, we will start the year with an inbuilt overspend, which would not be setting a balanced budget.
- The improved financial position in 2020-21 as compared to that reported to Council on 10 September 2020 is largely as a result of higher levels of one-off income (including Government grants). This enables us to make some provision, through reserves, for any adverse financial impact of Covid in 2021-22 that has not been funded by Government.
- This approach steers a line between maintaining a balanced budget by addressing all the non-Covid financial issues, which if not addressed would reappear if Covid disappeared; but providing some capacity for funding further Covid costs in 2021-22, which if not needed could be used to assist in recovery.

3.0 Government financial policy and TDC projected funding

3.1 The Government announced a one-year Spending Review on 25 November 2020. It has been followed by a Provisional Financial Settlement for local government on 17 December 2020. The main headlines insofar as they affect Thanet are:

- A limit of 2% or £5 for Council Tax increases without a referendum.
- A further tranche of emergency Covid funding in 2021-22 of £1.016m.
- A promise of further support for quarter one of 2021-22 for losses in sales, fees and charges due to Covid.
- A Local Income Tax Guarantee scheme to assist with irrecoverable losses of Council Tax and Business Rates in 2020-21, value currently unknown.
- A Local Council Tax Support grant to assist with additional costs of Council Tax Support, worth approximately £300k in 2021-22.

- Revenue Support Grant of £100k rolled over for one more year to 2021-22.
- A Lower Tier Services grant, probably one-off, worth £215k in 2021-22.

3.2 Separately, on 21 December the MHCLG announced a Homelessness Prevention Grant of £862k for Thanet. This is welcome as it will provide funding for the council's continuing work in this area, and helps reduce the financial risk of the 2021-22 homelessness budget. It continues to be a frustration that Government homelessness funding tends to be announced late and on an ad-hoc basis, usually for one year only. This makes it challenging to plan strategically for the service. We also still await news of further funding (if any) for rough sleeping.

3.3 The Government's financial settlement announcements are broadly in line with the expectations built into our Budget Strategy. One change compared to our assumptions is regarding Revenue Support Grant - we had assumed zero in 2021-22 and thereafter, but we should now receive £100k on a one-off basis in 2021-22. A new grant, which is generally viewed as one-off in 2021-22, is the Lower Tier Services grant of £215k. This seems to be a supplementary sum to "level up" funding, in part for those authorities that had lost New Homes Bonus. These will help our reserves position and could help in funding any delays in implementing budget savings, but do not change the budget gap of £840k and savings to this value have been identified and are set out in section 5 below.

3.4 A summary of the funding position is set out below.

Table 1 - 2020-21 Forecast and 2021-22 Assumed Government Funding

	2020-21 £000	**2021-22 £000**
Revenue Support Grant	100	**100**
Business Rates Funding	5,910	**5,910**
Settlement Funding Assessment	6,010	**6,010**
New Homes Bonus	142	**125**
One off Lower Tier Funding	0	**215**
Ctax Support for Losses	0	**300**
Total	6,152	**6,650**

3.5 The Covid Emergency Grant Funding of £1.016m has not been included in the base budget. This is because the budget has been prepared on the assumption that Covid has a minimal direct net impact on the Council's finances, as such this money will be held in reserves to mitigate any adverse effects that may arise in 2021-22.

4.0 Resident views and corporate priorities

4.1 A residents survey was undertaken last year, but due to Covid, this year's results won't be available to inform the budget. Last year's survey found that 57% were surprised that the council receives such a small proportion of the overall Council Tax bill. Some 34% of respondents expressed agreement to the statement that the council provides value for money for the Council Tax that is paid. Respondents felt that the three things that most need improving in Thanet were 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.

4.2 The Medium Term Financial Strategy (MTFS) 2021-25 is on the same agenda as this report. It sets out themes to be adopted to address the projected funding gap for 2021-22 and beyond. These were 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.

4.3 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.
- Keep council tax increases as low as possible so as to avoid triggering a local referendum.
- Maintain the General Reserve at a level that is sufficient to cover financial risks and provide an adequate working capital.
- Maximise the council's income by promptly raising all monies due and minimise the level of arrears and debt write offs.
- Actively engage local residents in the financial choices facing the council.

5.0 Budget savings

5.1 A breakdown of the savings is set out below. The key drivers when identifying these savings have been to minimise the impact on council services and to minimise compulsory redundancies.

Table 2 - Savings proposals 2021-22

Service Area	Proposed Savings	£000
Finance & Procurement	Reprocurement of Merchant Acquiring service for card payments	30
Finance & Procurement	Reduction in bad debt annual provision	38
Finance & Procurement	Income and Payments Team 0.5 post	12
Finance & Procurement	Phased Finance & Procurement staffing structure change in anticipation of retirements	21
Finance & Procurement	Reduced interest rate reduces borrowing costs	52
Finance & Procurement	Review of historic recurring underspending budgets	18
Finance & Procurement	Corporate training	10
Finance & Procurement	Other small finance savings	19
Communications & Digital	Savings from digital strategy	14
Housing & Planning	Reduction in B&B as a result of reduced homelessness	84
Housing & Planning	Switch core budget funding to Better Care Fund	93
Housing & Planning	Switch core budget funding to be funded from enforcement/selective licensing	20
Housing & Planning	Reduction in the homelessness service budget by currently uncommitted element	36
Housing & Planning	Other Housing & Planning savings	12
Maritime	Maritime Operations/Technical Services staff saving	34
Maritime	Coastal maintenance	25
Maritime	Other Maritime savings	28
Operational	Coastal Development and Tourism staff saving	19

Operational	Other Operational Services savings	18
Enforcement & Neighbourhoods	Sports and Leisure provision for council contributions to external funding	12
Enforcement & Neighbourhoods	Neighbourhood Services staff savings	80
Enforcement & Neighbourhoods	Other Enforcement & Neighbourhoods savings	20
Property & Asset Management	Facilities management printing, postage, other savings	62
Property & Asset Management	Capital Development/Building Control staff saving	59
Chief Executive	Chief Executive savings	24
	Total	**840**

5.2 It is estimated that approximately eight staff members may be at risk of redundancy, although this depends in some cases on the precise nature of the relevant restructure and subject to consultation. Any staff that are at risk of redundancy will be considered for vacant posts where appropriate.

5.3 The savings above have been as a result of detailed work by managers and a great deal of discussion in order to minimise the impact on services and staff. The list of proposed savings has been shared at budget briefings that all members have had the opportunity to attend. All the proposed savings have been assessed as having a minimal impact on front line services.

6.0 Overview of the budget

6.1 The summary of the General Fund budget is set out below.

Table 3 - Summary General Fund Revenue Budget 2021-22

	£000	£000
Opening Funding Position		16,982
Budget pressures (including inflation but excluding funding)		1,249
Budget savings (£840k + £25k achieved from 2020-21)	-865	
Fees and charges	-200	
Total Savings		-1,065
Contribution to reserve Grants		526
Contribution from reserve Covid NNDR		-527
Net Budget Requirement		**17,165**
Funded by:		
Government funding (including RSG, business rates and New Homes Bonus)		-6,135

Other Grants		-961
Collection Fund deficit		144
Collection Fund Deficit NNDR		527
Council Tax income		-10,740
Net Financing		**-17,165**
Tax Base		**44,156**
Indicative Band D Council Tax		**£243.13**
% Increase on Band D		**2.10%**
£ increase on Band D		**£4.99**
General Reserve b/fwd		**2,011**
Contribution to/from reserve		**-**
General Reserve c/fwd		**2,011**

7.0 Council Tax

7.1 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.

7.2 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.

7.3 The calculation of the tax base has been amended to take account of the Council Tax Support Scheme (CTSS). The resultant tax base for 2021-22 is 44,156 and is being considered by Cabinet for approval on this same agenda. This compares to a figure of 44,506 for 2020-21.

7.4 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.

7.5 The Government has confirmed in its provisional financial settlement for 2021-22 that Council Tax referendum limits will apply, so that any increase above the greater of 2% or £5 on a Band D equivalent will be subject to a referendum.

8.0 General Fund Capital Programme

8.1 This section considers the capital programme and supporting strategy for the period 2021-22 to 2024-25. A summary of the programme is included in Annex 1.

8.2 A minimum level of £15k 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.

8.3 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

8.4 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 £267 million showing as the net book value of all property assets as at 31 March 2020 (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.

8.5 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

8.6 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.

8.7 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.

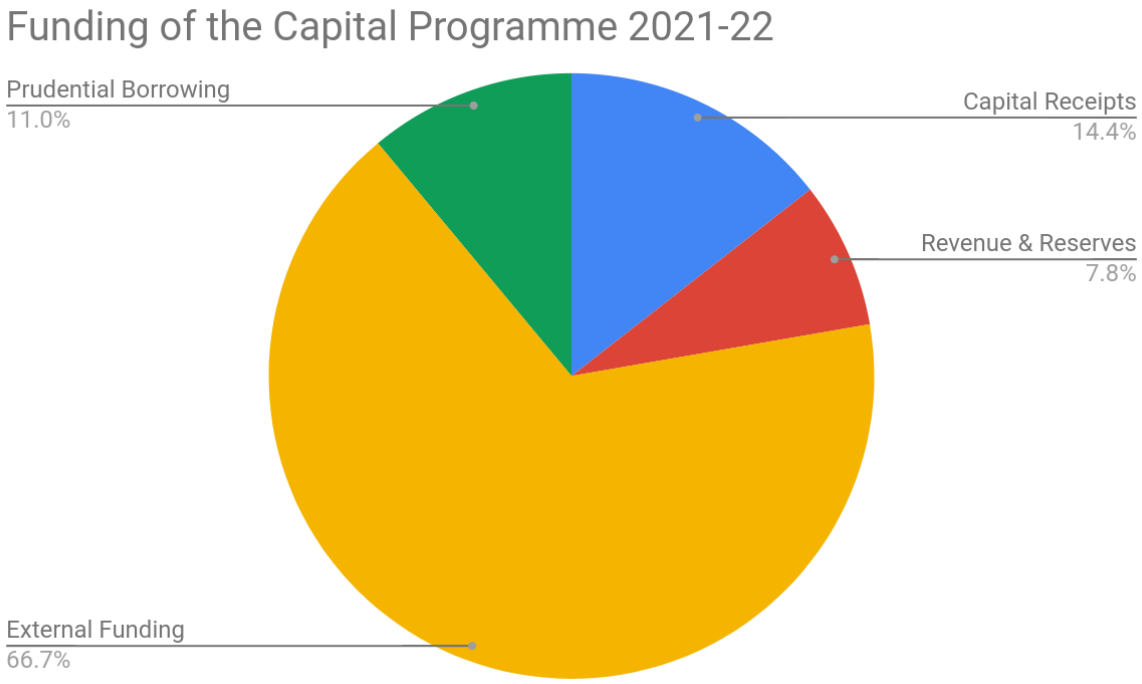
8.8 Applications for capital bids have been reviewed by the Corporate Management Team and scored against a weighted matrix to ensure they focus on the council's core priorities, benefit to the community, environmental impact, health and safety requirements, the generation or protection of income streams 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 2021-22 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.

8.9 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

8.10 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 2021-2025 capital resources utilised to fund the Capital Programme is detailed in Annex 1, but shown graphically below.



8.11 **Capital Grants** – these are offered by external funders to assist with certain types of expenditure. Capital grants include those from the Environment Agency and Lottery Fund. The Better Care Fund allocation for 2021-22 is estimated to be at least in line with the 2020-21 allocation, £3.015m. Some £3.192m (inc. 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 2021-22 capital programme also includes a project to bolster Thanet's sea defences (funded by the Environment Agency).

8.12 **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.

8.13 Before the start of each financial year, a Flexible Use of Capital Receipts Strategy should be prepared as part of the annual 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 2 and details the criteria where this may be considered as per guidance issued by Government.

8.14 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 £0.789m in capital receipts has been forecast to fund the 2021-22 programme. 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.

8.15 Every new capital project requires a funding source. This may be external grant funding, or else funded from within the council's own resources. A 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.

8.16 Projects already agreed from previous years within the four year programme are Housing Assistance Policy (including Disabled Facilities Grants), Upgrade of Amenity Blocks, Pontoon Decking Improvements, School Gate Safety Enforcement Partnership, Vehicle & Equipment Replacement Programme, Property Enhancement Programme, End User Computing Refresh of Devices, IT Infrastructure, Stone Bay Sea Wall Work, and Broadstairs Flood and Coast Protection Scheme.

8.17 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.

8.18 **Table 4: New Capital Projects**

New Capital Project	Project Outline
Financial Management System	Replace the current system with an improved one; making greater use of cloud computing and improved compatibility with the council's other IT systems/infrastructure.
Jet-Ski Berths	Instal Jet-Ski berths at Ramsgate Marina for the benefit of the community.
Ramsgate Port - Berth 1 Refurbishment	Refurbishment to ensure the continuing effective operation of this berth.
Boat Wash Separator	Enhancement to the current boat wash service at Ramsgate Harbour.
Thanet District LED Lighting	Convert council owned street/open spaces lighting to LED (also replacing lamp columns where necessary).
Replacement Crematorium Chapel Roof	To make the roof watertight and reduce the need for repairs.
Royal Harbour Multi-Storey Car Park Lift Replacement	To improve the lift facility at this car park and reduce servicing costs through the reduction of plant required and improved resilience of a modern installation.

8.19 The draft General Fund Capital Programme for 2021-22 is £5.461m, which will be funded in the main from capital grants, usable capital receipts and prudential borrowing. This is shown in summary format below.

Table 5: Draft Capital Programme 2021-2025

	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000
Statutory and Mandatory Schemes	3,192	3,000	3,000	3,000
Ongoing Schemes from Previous Years	275	0	0	0
Annual/Regular Enhancement Programmes	739	1,053	739	739
Wholly/Part Externally Funded	450	880	0	0
Construction, Replacement and Enhancement	730	300	80	0
Capitalised Salaries (not yet allocated to capital projects)	75	75	75	75
Total Capital Programme Expenditure	**5,461**	**5,308**	**3,894**	**3,814**
Capital Resources Used:				
Capital Receipts and Reserves	1,216	828	314	314
Capital Grants and Contributions	3,642	3,880	3,000	3,000
Contributions from Revenue	0	0	0	0
Prudential Borrowing	603	600	580	500
Total Funding	**5,461**	**5,308**	**3,894**	**3,814**

8.20 Any slippage from the 2020-21 capital programme will be in addition to the numbers in the above table. For example, the Budget Monitoring Report for the 14 January 2021 Cabinet meeting gives an estimated 2020-21 General Fund capital programme underspend of £11.142m.

9.0 Treasury Management Strategy

9.1 The Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2021-22 were considered by Governance & Audit Committee on 25 November 2020 and are contained in a separate report on this agenda.

10.0 Flexible use of receipts

10.1 In March 2016 the government produced Statutory Guidance on the Flexible Use of Capital Receipts, allowing councils to use capital receipts received in the period 1

April 2016 to 31 March 2019 to fund revenue spending which is forecast to generate ongoing savings to an authority's net service expenditure.

10.2 The above initiative has subsequently been extended by the government for a further three years. Accordingly, capital receipts which have been received from 1 April 2016 to 31 March 2022 may now be used to fund revenue expenditure incurred during this period which is forecast to generate ongoing savings to the council's net service expenditure.

10.3 This provides an opportunity for the council to invest in some significant projects during this period to embed efficiencies for future years. As previously reported, capital receipts have been or are being used to:

A. Fund in 2017-18 a Corporate Restructure that was conducted by the Chief Executive, which will reduce the establishment costs of the council, delivering long-term savings. In 2018-19 and 2019-20 there have been further service reconfigurations and restructures that will deliver long-term savings.

B. Deliver Digitally Enabled Services (which will reduce costs and also improve customer service).

10.4 Expenditure on these two projects has been as set out in the table below.

Table 6: Flexible Use of Receipts

Budget and Expenditure	**Corporate Restructuring and Service Reconfiguration £'000**	**Digitally Enabled Services £'000**	**Total £'000**
Original Budget	800	200	1,000
2017-18 spend	(287)	(32)	(319)
2018-19 spend	(23)	(95)	(118)
2019-20 spend	(437)	(60)	(497)
Forecast 2020-21 spend	(53)	(73)	(126)
Previous budget transfer (from End User Computing refresh of Devices)	0	60	60
Requested budget transfer (from IT Infrastructure)	0	100	100
Total - estimated budget remaining to the end of March 2022	**0**	**100**	**100**

10.5 Expenditure for the 2020-21 financial year will be reflected in monitoring reports.

10.6 The updated strategy requests that £100k of the 2020-21 capital budget for IT Infrastructure be transferred to Digitally Enabled Services, as shown in the table above. This is also reflected in the Budget Monitoring Report No.3 included elsewhere on this Cabinet agenda.

10.7 Cabinet is asked to consider and agree this revised strategy (see Annex 2) and recommend it to council.

11.0 General Fund reserves

11.1 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.

11.2 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. The level of reserves is also a factor the external auditor will consider in appraising the council's financial standing.

11.3 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:

- As a working balance to help manage cash flow and cushion the impact of unexpected budgetary pressures (general balances).
- As a contingency to cushion the impact of significant unexpected events or emergencies (general balances).
- 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.

11.4 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.

11.5 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.

11.6 The council's policy is for a minimum General Fund reserve of £2.0m. In accordance with best practice, an annual risk assessment is undertaken to check the level required for 2021-22. Revised calculations show that the assessed level should remain at £2.0m. Although this report on adequacy of reserves is specific to 2021-22, the council should bear in mind that adequacy should also be judged against longer-term plans.

11.7 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 the table below for information.

Table 7: Council Reserves

Reserves	**31 Mar 20**	**Movement**	**31 Mar 21**	**Movement**	**31 Mar 22**
	£000	**£000**	**£000**	**£000**	**£000**
General Fund	2,011	0	2,011	0	2,011
HRA - Balances Reserve	8,645	(1,348)	7,297	(1,145)	6,152
Earmarked - GF	12,453	(1,700)	10,753	(1)	10,752
HRA - New Prop/ Repairs Reserve	1,075	(1,075)	0	0	0
Capital receipts	8,544	(3,649)	4,895	(1,300)	3,595
HRA - Major Repairs Reserve	15,469	(7,409)	8,060	(7,676)	384
Total	**48,197**	**(15,181)**	**33,016**	**(10,122)**	**22,894**

12.0 Analysis of Reserves and S151 Officer view

12.1 The council's reserves were low before Covid-19 and as with other local authorities, Covid had an impact on the accounts that resulted in a further reduction. Council on 10 September 2020 agreed the use of £3m of earmarked reserves in order to fund the one-off impact of Covid in 2020-21. Subsequently, the overall budget forecast reduced from a £5.6m overspend to a £5.2m overspend, and the Government funding projection has increased by £900k. This gives rise to an improved projected position

on reserves of £1.3m. Based on some broad assumptions, only £1.7m of reserves will be needed to fund the in-year overspend.

12.2 There remain a number of uncertainties. Our 2020-21 forecast overspend of £5.2m may worsen, particularly as the impact of Covid has probably continued for longer than previously thought. The country entered a second national lockdown in November. Thanet was in tier 4 of Covid restrictions from 20 December 2020 and at the time of writing this report, the Government has just announced a new national lockdown until at least mid-February 2021. Government funding of £2.9m has been welcome and has been supplemented by a variety of other funding pots. The funding to support income loss from fees and charges will also assist - this was forecast at £800k in September but is now forecast at £600k to reflect lower forecasts of income loss.

12.3 The 2021-22 service budgets have been set on the basis of Covid having a minimal impact. The council is taking a strategic view, aiming to hold reserves as protection against unfunded Covid losses in 2021-22. Therefore it is recommended not to reverse any of the previous decisions regarding the use of earmarked reserves, but instead to wait until the financial picture is clearer for 2020-21 and to assess the level of reserves at 31 March 2021. During 2021-22, reserves will be supplemented by £100k in Revenue Support Grant and £215k Lower Tier Services grant which had not been planned, as well as further Covid funding.

12.4 Overall, the changing impact on reserves and forecast for 2020-21 is set out below:

As at 10 September 2020:

	£000
Forecast overspend	5.6
Government Covid expenditure funding estimate	(1.8)
Government Covid income funding estimate	(0.8)
Net use of reserves	3.0

As at December 2020:

	£000
Forecast overspend	5.2
Government Covid expenditure funding estimate	(2.9)
Government Covid income funding estimate	(0.6)
Net use of reserves	1.7

12.5 The council is committed to replenishing reserves over the medium term. The reduced need to use reserves in 2020-21 can help the council manage the risk of Covid in 2021-22 and should hopefully enable reserves to be returned to at least their pre-Covid levels, starting in 2022. The Section 151 Officer is of the opinion that the proposals in this report are based on realistic assumptions and represent

a balanced approach of supporting services to residents and businesses now, whilst managing risks and protecting the council's financial resilience.

13.0 Housing Revenue Account (HRA)

13.1 Following consultation, Cabinet on 17 February 2020 decided that future provision of Tenant and Leasehold services will be via an in-house model. This new service came into effect from 1 October 2020 after Council had agreed the revised budget in September. As a result of this decision, this budget represents the first full budget cycle for the new in-house service.

13.2 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 and long term.

13.3 Covid has had a significant effect on the housing service and on the HRA. At the time of writing this report it is still too soon to know the full extent of the impact. A reduced level of rent income is forecast in 2020-21 as a result of Covid, partly as a result of non-payment but also because of delays in completing new-build projects which then delay the date from which rent income can be collected.

13.4 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 provide opportunities for tenants and leaseholders to become involved in the management of their homes.
- To provide safe, well maintained and energy efficient homes.
- To invest in long-term improvements to the council's housing stock and provide homes that people choose to live in.
- To increase the council's housing stock through programmes of new build and refurbishment.
- To review the alternative options for homes that cannot be maintained to meet current and future standards.
- To maintain a rent and charging policy that is both affordable for residents and ensures the resources needed for investment in homes and services.
- To maintain a minimum level of HRA reserves of £1m.

13.5 Details of the HRA expenditure estimates

13.5.1 **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.

13.5.2 **Repairs and Maintenance -** The net revenue budget has increased by £152k to reflect the increased costs of water safety risk assessments and contractual inflation.

13.5.3 **Supervision and Management General** – This area of expenditure includes the costs of the majority of staff in the new in house tenant and leasehold service. As such the costs in this section have risen slightly as a result of the higher cost of the in house service.

13.5.4 **Bad or Doubtful Debts Provision** – The provision for bad or doubtful debts for 2021-22 has been increased slightly as it is now set at 1.75% of expected rental income, so it will increase in line with rental income increases. Covid-19 continues to impact on rent arrears, but it is impossible to separate the true impact from other arrears. The overall arrears have not increased as much as anticipated in 2020-21 and therefore it is hoped the bad debt provision proposed for 2021-22 will be sufficient going forward. However, this is one area that will continually be monitored closely through quarterly monitoring.

13.5.5 **Depreciation for Fixed Assets** – The estimated depreciation charge for dwellings and other assets is calculated at £4.31m in 2021-22. This is an increase of £260k over 2020-21 as a result of new units being built and purchased and the increase in housing stock valuations.

13.5.6 **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 December 2020 the HRA had £15.9m of loans outstanding.

13.6 Details of the HRA income estimates

13.6.1 **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. Members have raised concerns about the impact of the rent increase on current tenants and as a result, the budget presented has been set based on a CPI+1% increase for social rent tenants and a freeze for affordable rent tenants. Based on the proposed increase across the whole stock the average rent is £84.94, this is an average increase of £1.89p per property per week. For 2022-23 to 2024-25 an estimated 2% inflationary increase has been assumed. The average rents for 2021-22 per property type can be found in section 15.

13.6.2 The proposed average rent of £84.94 is substantially below the Local Housing Allowance levels - LHA rents are in the order of 50% higher - and actual private sector rents are higher still. It should also be noted that approximately three quarters of council tenants are in receipt of either Housing Benefit or Universal Credit. Whilst

individual cases may vary due to specific circumstances, it is reasonable to assume that in general, increased rent will be matched by increased benefit.

13.6.3 **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.

13.6.4 **Service Charge Increases** – Service charges are calculated based on actual cost. Tenant service charge increases continue to be capped at £3 a week.

13.6.5 **Heating Charges** – Heating charges will be recovered on actual cost based on usage and contract price and then apportioned across the block dependent on bedroom size.

13.6.6 **Investment Income** – This consists of interest accruing on HRA balances. The budget for 2021-22 of £15k is based on achieving an average interest rate of 0.1%.

13.7 Summary HRA Budget 2021-22

Table 8 - Summary HRA Budget 2021-22

	£000
Income	
Dwelling Rents (gross)	-13,346
Non-dwelling Rents (gross)	-227
Charges for services and facilities	-540
Contributions towards expenditure	-397
Income Subtotal	**-14,510**
Expenditure	
Repairs & Maintenance	4,160
Supervision & Management – General	4,103
Supervision & Management – Special	781
Rents, rates, taxes and other charges	259
Bad or doubtful debts provision	233
Depreciation/impairment of fixed assets	4,310
Capital Expenditure funded from HRA	300
Debt Management Costs	9
Expenditure Subtotal	**14,155**

Net Costs of Services Sub Total	**-355**
Share of Members and Democratic Core	148
HRA Investment Income	-15
Debt Interest Charges	888
Government Grants and Contributions	0
Adjustments made between accounting basis and funding basis	479
(Surplus)/Deficit on HRA	**1,145**
Housing Revenue Account Balance:	
Estimated Balance at Beginning of Year	**-7,297**
(Surplus)/Deficit for Year	1,145
Estimated Balance at End of Year	**-6,152**

13.8 HRA Business Plan

13.9 The HRA is currently running at a deficit which is putting pressure on previously built up reserves, this trend will continue to at least 2030-31 when the business plan is set to generate a surplus.

14.0 The HRA Capital Programmes for 2021-22

14.1 The major works capital programme budgets have been allocated according to the latest stock condition survey report.

14.2 The key budget in the 2021-22 Capital Programme which remains unchanged for that reported previously, is that for tower block works. Following reviews of the council's tower blocks, a programme of major upgrade works is required. 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, 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. Fully 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.

14.3 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 and will deliver a total of 40 units which will complete in 2020-21. In 2020-21 further property acquisitions have been made through Phase 4 of the programme which will deliver 12 units and future acquisition/development is planned and

budgeted in the programme although unit numbers cannot be confirmed until specific sites have been identified.

14.4 The Margate Housing Intervention is also continuing to make progress. Godwin Road and Warwick Road developments incurred delays, however both projects are now completed. There remains funding in the programme for a further project in Cliftonville.

14.5 The draft Housing Revenue Capital Programme for 2021-22 that is proposed for Members' approval is £16,518k, which will be funded from the HRA reserves, revenue contributions to capital, prudential borrowing and 141 receipts.

14.6 A summary of the programme and proposed funding sources are shown in Annex 3.

15.0 Proposed Average Rents

Table 9: Average rents 2021-22

AVERAGE RENTS 2021-22		
PROPERTY TYPE	SOCIAL RENT	AFFORDABLE RENT (inclusive of service charges)
BEDSITS	58.03	82.32
1 BED HOUSE	79.40	76.17
1 BED FLAT	68.57	80.28
2 BED HOUSE/BUNGALOW	86.35	113.93
2 BED FLAT	77.54	119.99
3 BED HOUSE	94.21	144.14
3 BED FLAT	92.03	143.94
4 BED HOUSE	104.04	158.61
4 BED FLAT	91.90	217.85
5 BED HOUSE	113.15	n/a

16.0 Options

16.1 Cabinet could choose not to recommend to Council some or all of the proposals. This could include the proposed budget savings, the Council Tax increase or the housing

rent increases. However, Cabinet would also need to identify alternative ways of bridging the budget gap, if the changes gave rise to a shortfall.

17.0 Next Steps

17.1 If approved, this report will be considered by Overview & Scrutiny Panel on 19 January 2021 and if the Panel makes recommendations to Cabinet, the Cabinet meeting on 28 January 2021 will consider them. Council on 11 February 2021 will approve the budget and Council on 25 February 2021 will approve the Council Tax.

Contact Officer: Tim Willis, Deputy Chief Executive & S151 Officer
Reporting to: Madeline Homer, Chief Executive

Annex List

Annex	Title
1	General Fund Capital Programme
2	Flexible Use of Receipts Strategy
3	HRA Capital Programme

Background Papers

Budget Strategy 2021-22, approved by Cabinet on 19 November 2020.
Fees and charges 2021-22, approved by Cabinet on 19 November 2020 and by Council on 10 December 2020.

Corporate Consultation

Finance: n/a
Legal: Estelle Culligan, Deputy Monitoring Officer