Draft 2022-23 Budget and 2022-26 Medium Term Financial Strategy

Cabinet Meeting	13 January 2022
Report Author	Chris Blundell, Director of Finance and Acting Section 151 Officer
Portfolio Holder	Cllr David Saunders, Cabinet Member for Finance
Status	For Decision and Recommendation
Classification:	Unrestricted
Key Decision	Budget and Policy Framework

Executive Summary:

This report presents the 2022-23 budget and 2022-26 capital programme for the General Fund

Recommendation(s):

1. The 2022-23 General Fund revenue budget be recommended to Council for approval
2. The 2022-26 General Fund capital programme be recommended to Council for approval

Corporate Implications

Financial and Value for Money

As detailed in the body of the report

Legal

The Council is required to set a balanced budget each year by various pieces of legislation, notably section 31(A) of the Local Government Finance Act 1992. Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. The Director of Finance is currently undertaking this role in an acting up capacity. Section 25 of the Local Government Act 2003 requires the Section 151 Officer to report on the robustness of the estimates made for the purposes of the calculations for the budget, and on the adequacy of the proposed financial reserves. The Council must have regard to the report when making decisions about the budget.

Corporate

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. Introduction

1.1. The Budget Strategy was approved by Cabinet on 18 November 2021 and it informs the approach adopted for this report. This report provides a draft 2022-23 budget for Cabinet's consideration and recommendation to Council for approval. The budget has been produced within the context of our 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 a balanced budget for 2022-23.

1.2. A review of the council's reserves is included and the report further sets out the assumed Council Tax to assist in funding the budget. The report sets out the proposed budget savings to balance next year's budget, taking into account all of the above.

1.3. The report covers the General Fund, both revenue and capital. It also makes reference to the Treasury Management Strategy and the Flexible Use of Capital Receipts. A separate report is included elsewhere on this agenda in regards to the Housing Revenue Account.

2. Background and Context

2.1. Next year's budget will be set within the context of the continued uncertainty of the Covid-19 pandemic. The current financial year has been more stable in financial terms compared to the previous financial year, however the emergence of the Omicron variant has renewed concerns of the on-going impact of covid on society and the economy.

2.2. The on-going impact of the pandemic has translated into financial pressures for the council, most notably for waste collection and the provision of temporary accommodation for homelessness, as detailed in section 3.8. The continuation of the pandemic also has the potential to impact upon our financing if further social and economic restrictions are implemented, which in turn could affect economic growth and potentially the income we receive from fees and charges, council tax and business rate tax.

2.3. The Council has been successful in bidding for funding from the Levelling Up Fund, both for Margate and Ramsgate, and also the Margate Town Deal. These funds offer the opportunity for significant investment in the two of the district's towns and the budgetary impacts are set out in the draft 2022-23 to 2025-26 capital programmes.

2.4. The provisional finance settlement provided a welcomed increase in funding for local government for next year. However, only a one year allocation was provided and the settlement promised more fundamental changes in the distribution of funding could be implemented as early as 2023-24. Work will start "in the coming months" to work out "with the sector" how to update funding distribution and "challenges and opportunities facing the sector ". These changes in funding could be significant, and make forecasting for 2023-24 and beyond very difficult.

3. Draft 2022-23 General Fund Revenue Budget

3.1. Table 1 below sets out a balanced draft 2022-23 General Fund revenue budget for Cabinet's consideration and recommendation to Cabinet to approval.

Table 1 - General Fund Revenue Draft 2022-23 Budget

Factor	£000	£000
Base Budget 2021-22		**16,720**
Spending Pressures		
Pay award, increments, Living Wage, NI premium	687	
Non-pay inflation	276	
Proposed growth (service pressures, etc.)	1,039	
Repayment of debt and interest costs	19	
Sub-total		**2,021**
Savings, Efficiencies and Income Generation		
Fees and Charges	-172	
Savings, efficiencies and income generation	-667	
Sub-total		**-839**
2022-23 Net Service Revenue Base Budgets		**17,902**
Reserve Movements		**136**

2022-23 NET GENERAL FUND REVENUE BUDGET		**18,038**
Funded by		
Government Grants	-1,227	
Retained Business Rates & Section 31 Grants	-6,119	
Business Rates Collection Fund Deficit	354	
Council Tax	-11,160	
Council Tax Collection Fund Deficit	114	
Total Funding		**-18,038**

3.2. The balanced budget position represents a significant improvement on the budget gap of £691k that was included in the budget strategy presented to Cabinet in November 2021. The improved position has been facilitated by a combination of a downward revision in spending pressures, identification of additional savings in conjunction with a better than expected allocation of government grants in the provisional finance settlement.

3.3. Taking all the adjustments into account provides a proposed net service revenue budget of £17.902m. This represents a £1.182m or 7.1% increase on net revenue spending compared to 2021-22. The key aspects of the draft budget reports are set out in detail in the following sections.

Pay and Remuneration

3.4. A 2% pay award has been assumed in the budget estimates and this pay-offer has been communicated with unions. Consequently, the 2022-23 budget has assumed that £687k additional resources are needed to fund increases in pay due to pay awards, increments, the National Living Wage (NLW) and the employer's National Insurance contribution 1.25% increase. It should be noted every 1% increase in the pay-award creates a permanent and cumulative budget pressure of £170k.

3.5. Increases in the NLW now mean that staff on the lowest grade are paid in accordance with it. The NLW rate will increase by 6.6% from 1 April 2022 and the government has accepted the Low Pay Commissions recommendations to increase the NLW to two-thirds of median hourly pay by 2024. This equates to increases of approximately 6% a year over the medium term, with the NLW rising to £10.50 per hour by April 2024.

3.6. At this level, the NLW would significantly impact upon the integrity of the Council's pay structure. Pay differentials would be removed or eroded for roles that had been assessed under the equal pay framework to require different levels of pay because of the requirements of the role. As such, management are currently considering proposals to address this and develop a pay offer for 2022-23 that is both fair and affordable. The expected financial implications of this review have been included in the draft budget.

Contractual and Essential Price Increases

3.7. The draft budget assumes a £276k pressure for non-pay inflation pressure, largely relating to increased utility costs and non-negotiable contractual commitments.

Growth

3.8. The November Budget Strategy identified potential budget growth of £1.117m. Following further review by Cabinet and CMT this estimate has been revised downwards by £78k to £1.039m, and as such the proposed growth items for 2022-23 budget are set out as follows.

3.9. ***Waste Collection £360k -*** Additional resources for two additional waste collection rounds. This is currently in operation during 2021-22, but staffed using agency workers and reported as an overspend.

3.10. ***Temporary Accomodation £400k -*** Homelessness has grown as a challenge for many local authorities over the last year, Thanet included. There are additional pressures on Housing Services as the gap between supply and demand increases and previously plans have been developed to ensure that this pressure is minimised. The council has reviewed and is delivering its homelessness strategy action plan, is regularly monitoring the levels of homelessness and has commissioned new services to address the increasing need for support. This work will continue. The council has also successfully bid for new government funding to support homelessness services locally.

However the Council is seeing another surge of homelessness across the district as a result of Covid and in addition the eviction ban that came to an end on 1 June has added additional service and financial pressures.

The financial pressure shown in-year monitoring is currently estimated as a £444k overspend for 2021-22 based on current homelessness levels. There are a number of savings that have already been delivered in this area, and as such £444k pressure is the net position after taking these savings into consideration.

As such, a budget pressure of £400k has been used as the starting position for 2022-23, with an assumption that the impact will be reduced in future years.

3.11. ***Your Leisure £160k -*** As part of previous budget decisions Your Leisure's (YL) funding was reduced by £350k, with this being phased over two years and expected to result in £160k in year 1 and a further £190k in year 2. It quickly became apparent that this level of saving was not deliverable and as a result the £190k was removed as a permanent budget saving. This did however leave the residual £160k to be delivered and although the funding was reduced, YL effectively ran at a trading loss of a similar value. Then the pandemic hit, putting leisure services under huge pressure, resulting in an agreed payment of £160k in 2020-21 to help manage the impact. Currently monitoring is assuming the same payment for this year in order to help manage the ongoing impact of covid. As a result of this and ongoing pressures on YL, it is proposed to 'reinstate' this payment moving forward until such time as there may be an opportunity to revisit longer term saving opportunities for the delivery of leisure services.

3.12. ***Building Control £50k -*** Historically the service has not been able to meet its budgeted income targets, management action started to come back on track but Covid has further compounded the issues and the ability to manage this. This is a legacy pressure that now needs to be resolved and it is proposed that income budgets are adjusted downwards by £50,000.

3.13. ***Licensing £50k -*** Previous pressure on service in relation to income streams, with this being further impacted by Covid and the wider economy. This now means that Taxi drivers are finding alternative work and as a result there is no mechanism for managing this impact as this is a significant element of the income. It is proposed that income budgets are adjusted downwards by £50,000.

3.14. ***Regeneration £17k -*** Currently the Director of Regeneration post is included in the base budget at 3 days per week, however to facilitate the work associated with the delivery of the Margate Town Deal and Levelling Up proposals this was increased to 4 days on a temporary basis. It is now requested to move this role to 4 days a week on a permanent basis, in order to deal with the growing regeneration requirements for the district.

Fees and Charges

3.15. The fees and charges paper presented to Council for approval on 12 January 2022 recommends increases and variations to fees and charges for the forthcoming year that will generate an anticipated additional income of £172k.

Savings, Efficiencies and Income Generation

3.16. The priority when identifying proposed savings has been to minimise the impact on council services and also to minimise compulsory redundancies.

3.17. As explained in November's budget strategy, an exercise was undertaken to review vacant posts. Some of these roles have been vacant for a period of time and following an assessment of the suitability for removal by Cabinet and the Corporate Management Team a number of roles have been recommended for removal from the establishment, providing savings totalling £248,000. Details of the posts to be removed from the establishment are presented in Annex 1.

3.18. In addition to the removal of vacant posts, further budget savings, efficiencies and income adjustments have been identified and considered by Cabinet and the Corporate Management Team. It is proposed that savings totalling £395,750 be recommended to Council for approval. These savings are detailed in Annex 2, with the key changes set out below.

3.19. ***Director of Property***

- One redundancy at the KIC £22,000
- Additional rental income from the KIC £50,000 and 38-40 Grosvenor Place £13,400

3.20. ***Director of Finance***

- £30,000 savings from insurance contract retendering
- £20,000 from a service restructure, £20,000 from budgetary review and £30,000 from the reduction in our bad debt provision

3.21. ***Director of Communications***

- Contractual and other efficiencies from digital team totalling £44,000

3.22. ***Director of Housing and Planning***

- £75,000 increase in planning fee income budgets to reflect increase in anticipated income
- £33,000 of additional costs recharged from the General Fund to the HRA

3.23. ***Director of Operations***

- £30,000 of additional income for the bulky waste service resulting from increase in demand for this service.

3.24. It should be noted that there is one compulsory redundancy arising from this saving review. Furthermore, members should note that it is also not anticipated that any of the savings proposed will have a significant equalities impact on any group with a protected characteristic.

4. Funding Allocations

4.1. The Chancellor of the Exchequer, announced his Autumn Budget and Spending Review 2021 (SR) on 27 October 2021 and this brought relatively positive news for the local government sector. As reported in the November budget strategy, local authorities will receive an additional £4.8bn in core grant funding over the next 3 years (roughly an additional £1.6bn in each year). This is equivalent to an average annual increase of 2.8% in cash terms and 0.6% after inflation. Furthermore, after factoring in the Government's assumptions for council tax, the sector's spending power should increase by 3.2% in case terms over the 3 year period, or 1% after inflation.

4.2. The SR was followed up by the Provisional Local Government Finance Settlement 2022-23 on 16 December 2021. It is fair to say that the provisional settlement was surprisingly far more positive for Thanet than expected with new and unanticipated funding allocations. However, there are no projected or indicative numbers for the remainder of the spending review period (2023-24 and 2024-25) and more fundamental changes in local government funding have been clearly signalled for 2023-24 (see section 6).

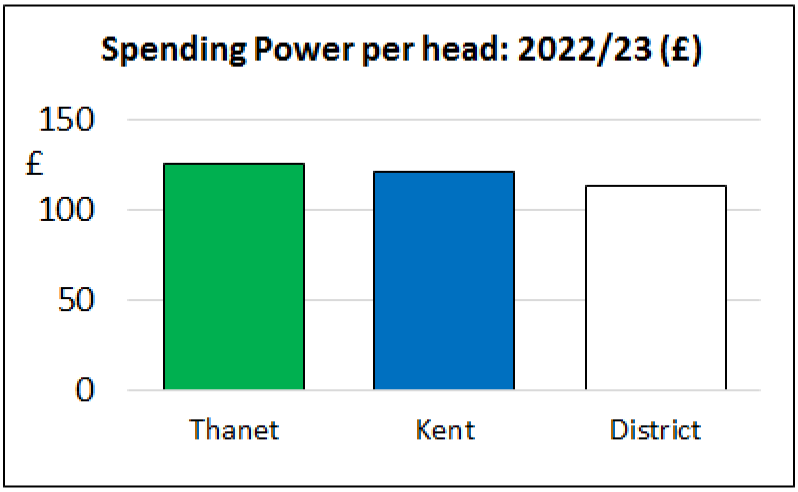
4.3. It is difficult to make accurate like for like comparisons to last year, because of the one-off nature of some of the covid related allocations that were provided, but our provisional core grant funding for 2022-21 is broadly £939k higher or 16.3% than was allocated last year. The government's preferred metric for local authority funding is 'Spending Power', which combines the core grant funding with assumed council tax increases (it should be noted the government always assumed the maximum increase permissible without triggering a referendum), under which funding for TDC is presented as increasing by £1.293m or 7.8% compared to 2021-22.

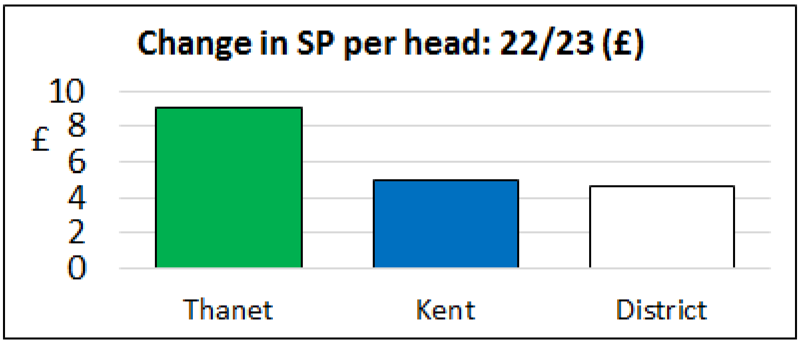
Table 2 - 2021-22 Forecast and 2022-23 Assumed Government Funding

	2021-22 £000	2022-23 £000	Change £000	Change %
Revenue Support Grant	100	103	3	3.0%
Business Rates Baseline Funding Level	5,054	5,054	0	0.0%
Settlement Funding Assessment	**5,154**	**5,157**	**3**	**0.1%**
New Homes Bonus	125	549	424	339.2%
Lower Tier Funding	215	227	12	5.6%
Services Grant	0	348	348	N/A
Compensation for under indexing the BR multiplier	263	415	152	57.8%
Core Grant Funding	**5,757**	**6,696**	**939**	**16.3%**
Assumed Council Tax	10,736	11,090	354	3.3%
Spending Power	**16,493**	**17,786**	**1,293**	**7.8%**

4.4. Thanet's spending power per head is **£125.32**, which gives us a rank of 40 out of 181 district councils and 6th out of the 12 Kent districts.

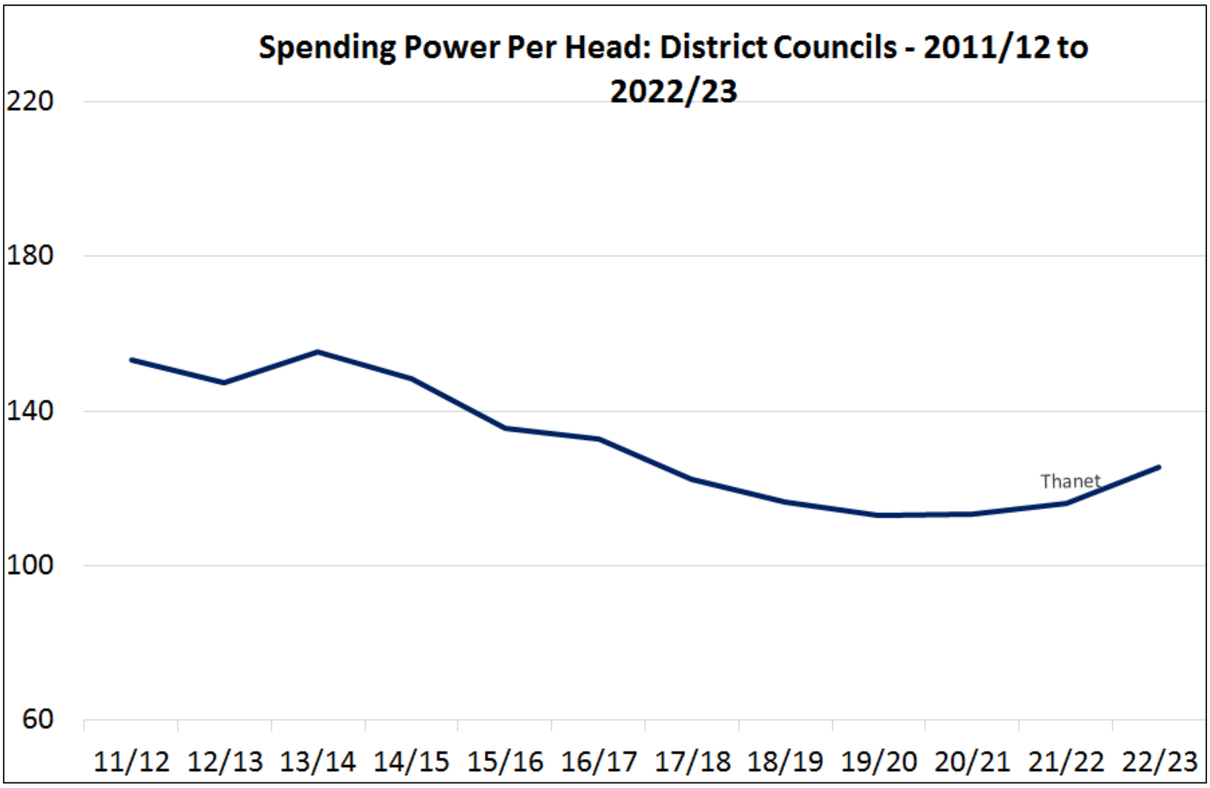
We have received the 27th highest increase spending power per head for 2022-23 with a £9.11 increase on last year, this is the second highest in Kent.





4.5. However, some caution must be taken when comparing Spending Power figures, both in terms of year-on-year increases and also in comparison to other authorities. For instance government funding of approximately £1.3m was provided in 2021-22 to support local authorities losses associated with the pandemic and these allocations are not included in the assessment of Spending Power. If these covid related allocations are taken into account then funding between the two years is relatively flat. This is worthy of consideration due to the emergence of Omicron and the risk it or future waves of the covid pandemic present to the Council's income streams in 2022-23. Spending Power also excludes some sizeable specific grants, such as those for homelessness and also the amount of growth retained from the business rates system, so it does not give a complete picture of the amount of funding each authority has.

4.6. Furthermore, if Core Grant Funding and Spending Power is considered over a long period of time it can be seen that TDC's Core Spending Power was £1.46m higher in 2015-16, this represents a reduction of 7.6% in cash terms. So whilst this additional funding is very much welcome a broader assessment of the funding position would support the Institute of Fiscal Studies commentary that "austerity was over but not undone".



4.7. The most disappointing aspect of the settlement was it provided funding allocations for one year only, as opposed to the multi-year settlements that have been provided in previous years. This means that there remains considerable uncertainty about the shape of local government funding and how much money the Council will receive from central government from 2023-24 onwards.

4.8. In the provisional settlement consultation papers it has indicated that some of the funding received in 2022-23 is intended to be for one-year only, as that the grant streams in their current form will not continue in 2023-24. Consequently, it would not be prudent to include all of this additional funding into our base budget, because its continuation cannot be assumed in later years of our Medium Term Financial Plan. Therefore it is recommended that a significant proportion of this funding is contributed to our reserves, and this prudent approach is reflected in this draft budget.

4.9. More detail on the individual grant allocations included in the settlement are provided in the following sections. There are also various grants that are provided outside of the settlement, most notably for Thanet funding associated with homelessness and cyber security; these allocations are yet to be announced and members will be updated as and when further information is available.

Government Grants

4.10. ***Revenue Support Grant £103k -*** RSG is a non-ring fenced grant that can be used for any purpose and TDC will receive £103k in 2022-23, and a 3% inflationary uplift has been applied compared to 2021-22. RSG has been in decline for a number of years (for example TDC received £4.1m in 2013-14) and is expected to be removed or replaced in the next couple of years.

4.11. ***Lower Tier Support Funding £227k*** - This grant was introduced in 2021-22 and is continued into 2022-23. It is a grant allocation that as its name suggests is just provided to lower tier authorities.

4.12. ***Services Grant £348k -*** This is a new one-off grant that is distributed to every authority in the country. The provisional settlement consultation papers make it very clear that this is a one-off grant. It is likely to be replaced by the more radical changes to funding distribution that are expected for 2023-24.

New Homes Bonus

4.13. The Council will receive a bonus of £549k in 2022-23. The NHB is calculated based upon net movement in the council tax base as at the end of October each year. We understand that our allocation has been based upon the following figures: 343 new homes in the district and 252 empty homes brought back into use between October 2020 and October 2021.

4.14. The end of New Homes Bonus has been expected for many years, following successive years of reform and government's stated intention to replace it with a new scheme to incentivise house building. As such perhaps the biggest surprise of the provisional finance settlement was inclusion of the New Homes Bonus for another and what must surely be its final year. The budget strategy had assumed that the scheme would not continue into 2022-23 and as such this really is a welcome bonus or windfall.

4.15. Despite the unexpected allocation for 2022-23, Thanet still receives relatively low allocations compared to other districts. Our allocation is the lowest in per head terms in the whole of Kent at £3.87 per head (£0.88 in 2021-22), compared to the Kent average of £11.08 per head (£11.71 in 2021-22). The average for all English district councils is £9.47per head (£9.69 in 2021-22).

4.16. Due to the expected termination of the scheme in 2023-24 it is recommended that funding from NHB is not used to support the base budget in 2022-23, but is instead used to reduce the council's indebtedness which will be facilitated by a budgeted contribution to reserves. This approach is reflected in the draft budget.

Business Rates

4.17. The retained business rates system is a highly complex system, which is ripe for reform as explained in section 6. In simple terms, the Council has included £6.119m in next year's budget from business rates related income, in addition to a £354k payment to the collection fund. The breakdown of this budget allocations is set out below.

4.18. ***Baseline Funding Level £5.054m -*** This is a guaranteed allocation that has been determined by a government assessment of relative needs and resources. It has been frozen compared to last year. Across the medium term, this is a relatively secure allocation and as a minimum the council should continue to receive this funding from a reformed system.

4.19. ***Compensation of under indexation £415k -*** Every year business rate bills for local businesses are adjusted by inflation, however this year primarily because of the pandemic the Chancellor of the Exchequer decided to freeze bills. Consequently local authorities are provided with a central government grant to compensate them for the reduction in business rates income that can be collected. It is uncertain as to whether local authorities will continue to receive this compensation in the future.

4.20. ***Business Rates Growth £650k -*** Since the retained business rates system was introduced local authorities have been allowed to retain a proposition of the additional business rates that are generated in their district. TDC also participates in a Kent wide pool that allows Kent authorities to retain a greater proportion of income than operating independently under the national scheme.

The Council could retain as much as a maximum of £1.1m from this component of the system in 2022-23, however this strand of income is the most uncertain element and is highly volatile; both in terms of in-year allocations and also for future reform.

As such, the budget strategy for the number of years has been to only include approximately half of possible growth in the base budget. Accordingly, for 2022-23, £650k of possible retained growth is included in the base budget, which is equivalent to 59% of potential growth. Any amount received over and above this budgeted amount will be reported to members as part of the budget monitoring and accounts closure process.

4.21. ***Collection Fund Deficit £354k -*** The council must budget to make a £354k payment to the business rates collection fund in 2022-23. This is to make good the deficits on the collection of business that were incurred during 2020-21 due to the pandemic. This cost has been partly funded by central government and an allocation from reserves is being made to fund it in full.

Council Tax

4.22. The Government has confirmed in its provisional financial settlement for 2022-23 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. For TDC a £5 increase in the Band D equivalent is the maximum permitted and this is the proposed increase for 2022-23.

4.23. The combination of the 1.86% increase in the council tax base and a £5 increase in the Band D equivalent annual charge will provide a £420k increase in income for the authority. Included elsewhere on this agenda is a report setting out the 2022-23 council tax base for Cabinet's approval.

4.24. Similarly to Business Rates, a budgeted payment of £114k must be made to the Council Tax Collection Fund to make good the pandemic related deficits incurred during 2020-21. Again, a government grant was made to cover part of this cost and a contribution from reserves is budgeted to cover this in full.

5. Reserves

Reserves

5.1. ***General Fund Reserves****:* The Local Government Finance Act 1992 specifies that precepting authorities, such as Thanet District Council, must have regard to the level of reserves needed for estimated future expenditure when calculating the budget requirement. In order to comply with this requirement each year the council reviews its level of reserves, taking account of the financial risks that could pose a threat to the Authority over the medium term. The general reserve, or contingency, of £2m is considered to be the minimum required for the planning period.

5.2. ***Earmarked Reserves:*** In addition to the General Reserve, a number of earmarked reserves are set aside for specific purposes. Local Authorities generally hold reserves for three purposes:

- working balance to help cash flow
- contingency for unexpected events or emergencies
- building up funds to meet known or predicted requirements

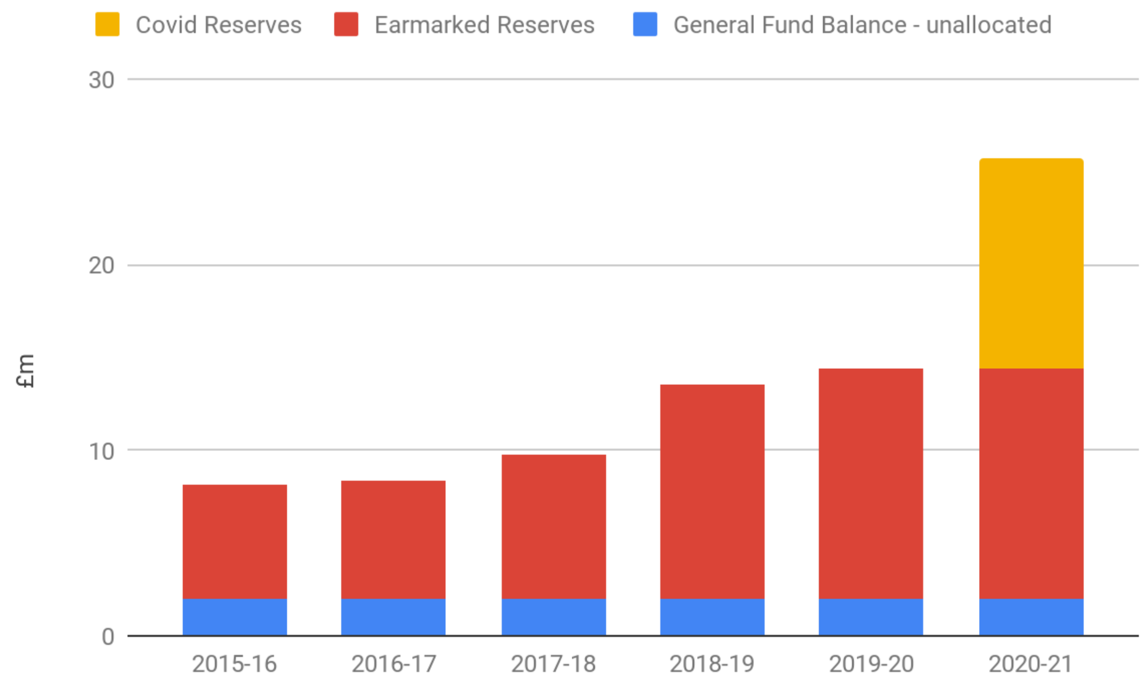
5.3. Ultimately they are held to help the Council manage risk. This is important as we cannot borrow money over the medium-term, other than for investment in assets, and we are required to balance our budget on an annual basis.

Reserve Levels

5.4. 2020-21 was a peculiar or exceptional year for reserves, with our General Fund reserves and balance levels rising to £25.7m at the end of 2020-21, an £11.3m increase compared to the previous year.

5.5. However, it can be seen in the following chart that this is solely due to monies held in reserves relating to future expenses or the mitigation of risk associated Covid-19 (as shown on the yellow bar in the chart). These reserves mainly hold s31 grant payments made to us from government in order to compensate for lost business rate income due to pandemic related business rate reliefs. All districts had a similarly inflated reserves position at 31 March 2021, which should not be considered to be available to spend on anything other than budgeted council tax and business rates deficits. In 2022-23 we will be budgeting £468k from these reserves for this purpose.

5.6. After accounting for and excluding all Covid-19 related reserve movements, the Council's other earmarked reserves total £12.4m (see red bar in the chart), representing only a £24k increase compared to 2019-20.



5.7. Despite the relatively healthy looking balance of our earmarked reserves, much of these are fully committed to specific projects, purposes or risks (e.g. £2m is committed to part fund Thanet Parkway). A full breakdown of our reserves is set out at Annex 3.

Planned reserve movements

5.8. To balance next year's budget, the following reserve contributions are proposed.

5.9. ***Collection Fund Movements £448k -*** A £270k contribution will be taken from the Equalisation reserve and £198k from the Covid Reserve to fully fund the budgeted collection fund deficits on Business Rates and Council tax as referred to at sections 4.20 and 4.23 respectively.

5.10. ***Homelessness £125k -*** As set out in section 3.8 the council is forecasting £400k of additional financial pressures in 2022-23 associated with homelessness. At the end of 2020-21 the Council held £330k in a specific earmarked reserve for homelessness, with the purpose of the reserve being to hold unspent homelessness grant and recovered rent deposit monies to draw down on depending on the Economic Climate and homelessness projects. Given the increasing demand being placed on the service it is considered appropriate to make a £125k contribution from this earmarked reserve in 2022-23 to support the base budget. Moreover, it is proposed to use the residual balance on the reserve across the duration of the Medium Term Financial Strategy.

5.11. ***Governance £180k -*** On 2 November 2021 Council approved the statutory recommendations made by external auditors, Grant Thornton, which included the recommendation that the Council:

> *"Revisit the financial plans and identify additional savings plans to address the further cost pressures created in resolving the grievances and whistleblowing complaints."*

Therefore, a £180k contribution to reserves is proposed to be included in the 2022-23 budget and also over the next four years of the medium term financial plan, in order to restate the reserve balances that were used to fund the anticipated costs associated with the conclusion of governance and disciplinary matters. This contribution helps the council improve its financial health and resilience.

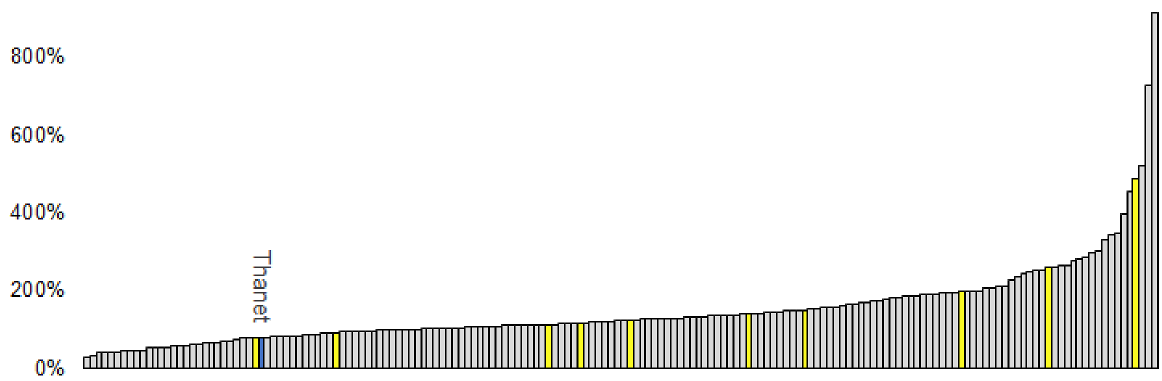
5.12. ***New Homes Bonus £549k -*** As set out in section 4.15, the unexpected NHB allocation for 2022-23 should be viewed as a windfall and not included in the base budget. As such, it is recommended that a new reserve is established, titled NHB Reserve, and a £549k contribution is made, with this balance used to reduce debt.

Adequacy of Reserves

5.13. The Council is committed to replenishing reserves. This position is shared by the external auditor as set out in their statutory recommendations, as approved by Council on 2 November 2021, and also referred to and concluded within their Audit Findings Report for 2019-20. Therefore, it is reassuring that the Council is able to contribute the proposed budget amounts as set out above.

5.14. It has been well reported in recent years that the Council holds relatively low reserves, compared to other district councils, to historic levels and our risk profile. This is supported by analysis undertaken within the Chartered Institute of Public Finance and Accountancy's financial resilience index, as shown in the two following charts.

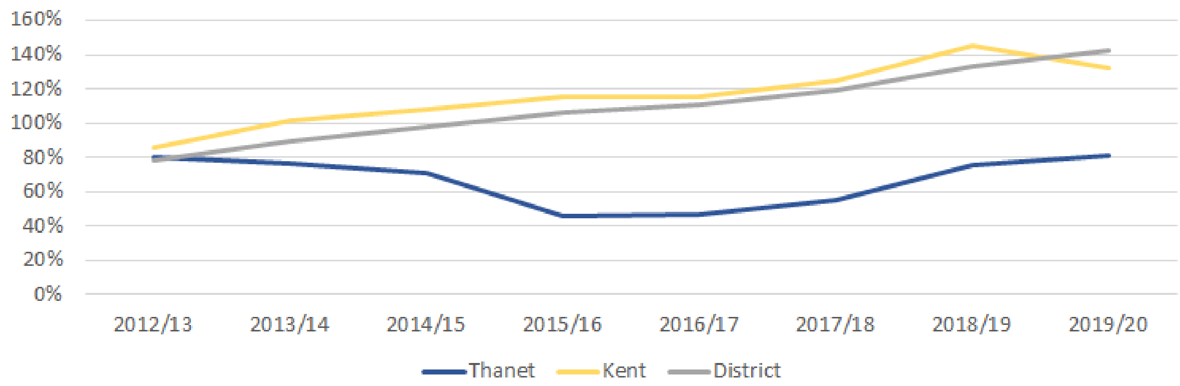
Usable Revenue Reserves as at 31 March 2020 as proportion of 2019-20 Budgeted Net Revenue Expenditure



TDC - Blue bar
Other Kent Districts - Yellow Bars

5.15. The blue bar on the preceding chart represents TDC's relative reserve holdings at the end of 2019-20 (2020-21 data is not yet available) in comparison to other shire districts. Other Kent districts are highlighted in yellow. We are the 29th lowest out of the districts in England and the second lowest in Kent, in that our total General Fund reserves of £14.5m, at that time, represented 81% of our net revenue budget. In comparison, the average for a district council is almost double Thanet's, at 152%. Therefore if Thanet's reserves were at the average level for districts, our reserves would be more than £27m.

Usable Revenue Reserves as % of Net Revenue Expenditure: 31 March 2013 to 31 March 20 compared with County and all districts average



5.16. The chart above shows that our relative reserve position (as shown in the blue line) was close to the all district (grey line) and Kent district (yellow line) averages at approximately 80% of net revenue spending at the end of 2012-13, but that our relative reserves position deteriorated over a three year period to a low point of only 46% in 2015-16. Since then our reserve position has improved, as we have repaired the damage done over that three year period and by the end of 2019-20 we were approximately back to a position comparable to 2012-13. However, we are now positioned significantly below the Kent and all district averages.

5.17. Looking longer term, the Council is still working to identify the £2m of savings, which have been agreed by Cabinet, that are anticipated to be needed to balance the budget over the life of the Medium Term Financial Plan. Our current reserves position doesn't provide much room for manoeuvre should the full range of savings not be identified.

6. Local Government Funding Reform

6.1. The provisional finance settlement promised more fundamental changes in the distribution of funding could be implemented as early as 2023-24. Work will start "in the coming months" to work out "with the sector" how to update funding distribution and "challenges and opportunities facing the sector ". These changes in funding could be significant, and make forecasting for 2023-24 and beyond very difficult. Potential reforms include:

6.2. ***Fair Funding Review (FFR)*** to examine the relative needs and allocation of resources between authorities. This was initially planned for introduction in 2019-20, but was first delayed due to the Brexit impasse and secondly due to Covid. This could result in more or less funding being allocated to Thanet depending on the outcome of this review.

6.3. ***System Reset*** This will in effect remove and redistribute the business rate growth that authorities' have generated since the system was introduced in 2013-14.

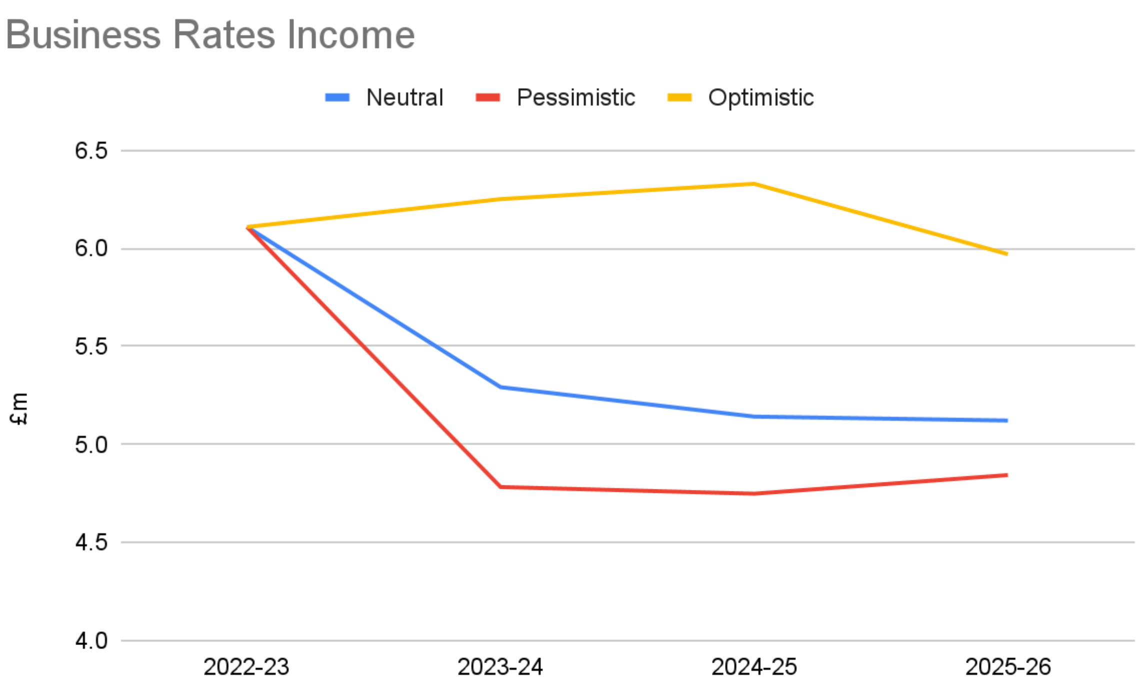
6.4. ***Fundamental review of Business Rates*** - The government committed to conduct a fundamental review of business rates, with the objective of:

- reducing the overall burden on businesses
- improving the current business rates system
- considering more fundamental changes in the medium-to-long term

6.5. The implications of this review for Local Government are uncertain, but have the potential to be profound. Initial signs from the 2022-23 local government finance settlement, based on a change in the direction or composition of allocations, indicate there may be more funding available for authorities with higher levels of deprivation, which would be constituent with the Government's levelling up agenda.

6.6. Nonetheless, the risks to TDC's finances associated with the reform of the local government finance system are significant. To avoid going into too much technical detail surrounding these reforms, in simple terms the outcome of these reforms mainly puts at risk the amount of funding the council can retain from business rates.

6.7. To illustrate this the following chart below shows the amount of business rates income that could be included in our budgets depending on different outcomes and timing of the reforms, as modelled under three different scenarios.



6.8. The starting point in 2022-23 is the assumed budget position, which is the same for all three scenarios because the assumptions for the forthcoming financial year have now been finalised. The budget position of **£6.1m** was based on a baseline funding level (retained income that is guaranteed based on a formula) of £5.055m, £415k of government compensation for freezing business rates nationally with a further £608k of income included from additional income retained from growth in our business rates base. In simple terms the more business premises that are established in Thanet, the more our business rates base grows and the more of this income we are allowed to retain under the Business Rates Retention system. Our budget strategy has allowed for 50% of this expected growth to be included in our base budget, the remainder has not been budgeted for because of the uncertainty and volatility associated with its collection. The lines then diverge from 2023-24.

6.9. Moving forwards across the medium term the three scenarios vary depending on the timing and scale of local government reform. Under the neutral and pessimistic scenarios the reform occurs in 2023-24, as illustrated in the chart with steep reductions in income in these years. However, in the more optimistic scenario, the reform comes much later in the spending review period at 2025-26, however it can be seen that it still has an impact on our income, albeit later and not as significant.

6.10. In summary, current modelling is indicating that TDC is expected to be a net loser from funding reform even under the most optimistic scenario, but also should relatively benefit from delayed implementation of reform. However, it must be stressed that these are only three possible scenarios in a wide range of varied and possible outcomes. It is of course possible that the reform may provide a significantly different outcome to any of the three scenarios presented and that our income could be much higher or lower as a result. These forecasts are therefore intended to illustrate the extent our business rates income may vary over the medium term and assist with planning for possible and differing eventualities.

6.11. Please note, these forecasts have been informed by modelling undertaken by the independent funding advisory service that the council subscribes to.

7. Risks and Uncertainty

7.1. In addition to the residual Covid-related risk, there are a number of other risks and variables that officers and members must consider when approving the 2022-23 budget. The other key risks that will be considered within the budget setting environment are:

- Non-delivery of savings
- Pressure on service delivery, in particular rising demand for homeless services
- Local political stability
- Ability to fund climate change demands and pressures
- Ongoing impact of Brexit
- Level of government financial support
- Underestimates of inflation, especially that of energy.

7.2. It will be necessary to continue to manage and monitor key budgetary, service and corporate risks through our risk management processes and strategy.

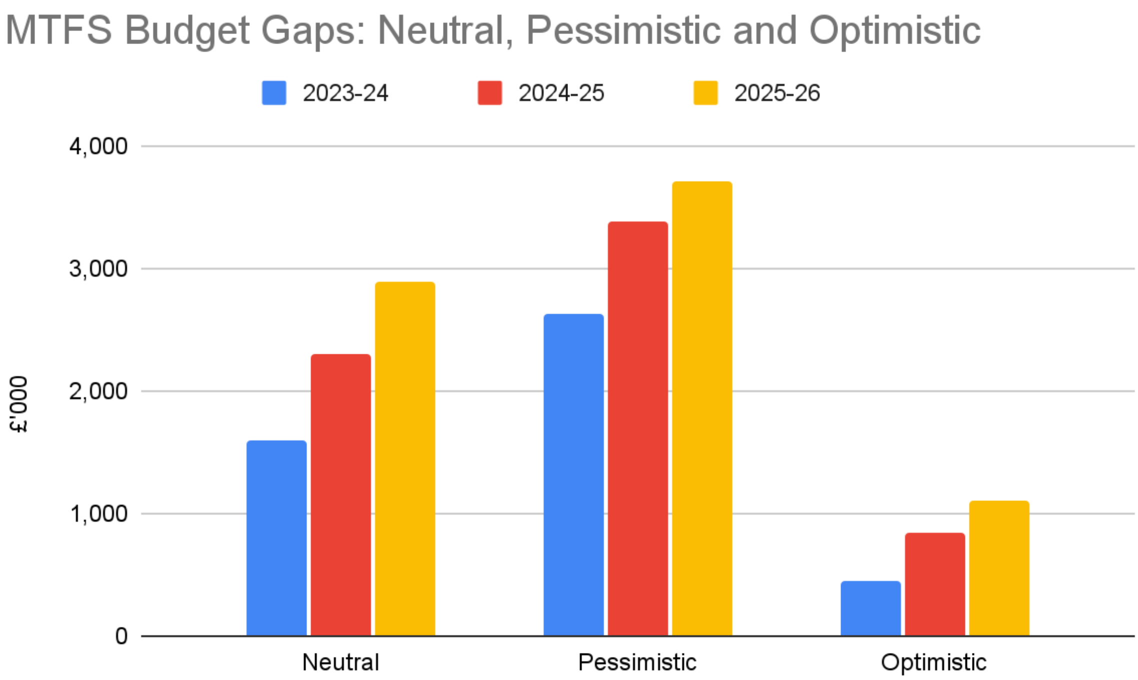
8. Medium Term Financial Strategy

8.1. As stated at above, the expected changes in the local government funding system make forecasting for 2023-24 and beyond very difficult. However, despite this uncertainty it is prudent to plan for a number of different eventualities including those that are more pessimistic.

8.2. The Council's MTFS has been built factoring the business rate modelling assumptions explained in section 6 and the other key assumptions that have been applied to neutral, optimistic and pessimistic scenarios. Table 3 and the chart below sets out the budget gaps forecast across the medium term as varied under the different scenarios.

Table 3: MTFS

	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000
Neutral	0	1,591	2,305	2,895
Pessimistic	0	2,621	3,389	3,710
Optimistic	0	447	837	1,103



8.3. Table 3 and the chart show under the neutral scenario the budget gap increases to above £1.5m from 2023-24 onwards and climbs to £2.9m in 2025-26, mainly due to the aforementioned funding reforms. Under the pessimistic scenario the gaps have a similar profile but are bigger in size across the timeframe, compared to the central forecast, with a gap of £3.7m in the last year of the MTFS. Whereas under the optimistic scenario the budget gaps are relatively modest even up to 2025-26 when funding reform is assumed in this model.

8.4. In November 2021 Cabinet approved the recommendation that the Council identifies longer-term budget savings in excess of £2m, which can be implemented if and when necessary to close the forecast budget gaps presented above. This exercise has already begun and will be undertaken at pace, to ensure the Council is prepared to react proactively to the financial challenges we face over the medium term. CMT are currently considering and developing proposals that will be discussed further with Cabinet in the first quarter of 2021.

8.5. Initial discussions indicate that reform and repositioning of our property estate will provide a significant proportion of this £2m target, with a number of propositions being considered, including a review of corporate accommodation and the Manston Depot. In addition to this, other areas for consideration include but are not limited to:

- In-line with the identified areas requiring growth to support continued service delivery in housing and waste the Cabinet is committed to continuing to ensure the services are delivered as efficiently as possible within the MTFS.
- Continued digitalisation and transformation of front facing and back office services
- A review of ICT with consideration of whether the service should be removed from the East Kent Shared Service partnership and brought back in-house.
- Implementation of a new public toilet strategy, working closely with town and parish council's.
- In-line with the Margate Town Deal prospectus, a review of the provision and delivery of leisure and cultural services in the district, including the Theatre Royal and Winter Gardens.
- Consideration of using the Minor Works team to generate income from selling handyperson services.
- A review of printing services income and expenditure including scope to in-source more printing.

9. Resident Views and Corporate Priorities

9.1. Every year the council conducts a residents' survey to capture the feedback of a random selection of local people. The survey is carried out to understand the priorities of residents and to ask for feedback on a range of key council services. Results are used to help inform the annual budget setting process and to ensure that resources can be directed towards the areas that matter most to local people. Feedback regarding satisfaction with key council services is also used as part of the way that the council monitors its overall performance to understand trends in satisfaction.

9.2. The 2021 survey was conducted at its usual timeframe of the Autumn, in order to feed into the budget process. This follows the delayed 2020 survey which took place in February - March 2021 having been impacted by the temporary hold on business as usual activities during the council's response to the COVID-19 pandemic.

The budget

9.3. This year's survey found that 58% were surprised that the council receives such a small proportion of the overall Council Tax bill. Some 37% of respondents expressed agreement to the statement that the council provides value for money for the Council Tax that is paid. When respondents were asked whether they were aware that the council had seen an £8 million (60%) drop in funding from central government, the majority (70%) said they were aware, compared to 30% who were not. This is a 10% increase in awareness when compared to 2020.

Residents' priorities

9.4. When invited to select three responses from a given list of priorities, feeling safe (43%) remains the top response in making Thanet a good place to live. The number of people who selected this increased slightly (by 2%) compared to last year.

9.5. This year, thriving towns (40%) is the second most commonly selected priority for respondents - previously third. Quality of beaches (38%) has shifted from second into third priority and clean streets (35%) remains fourth. Despite this change in order of priorities, it is worth noting that there are only five percentage points between the second, third and fourth priorities.

9.6. When asked to select three responses from the same list of priorities, which reflect areas within the council's control that most need improving, clean streets (50%) remain the top and thriving towns (34%) remain second. Affordable, decent housing (32%) is now third above feeling safe (29%) which is once again fourth, however this is slightly higher (by 3%) than it was in the 2020 survey. Job prospects (28%) has fallen to fifth place having been third in the 2020 survey.

9.7. Despite some of the changes in order of priority, when considering the responses of 'most important' together with those 'most in need of improving', clean streets, thriving towns and feeling safe once again remain the overall priority areas.

Service Cuts and Savings

9.8. Respondents were asked, if a service they cared about were at risk of being cut, how likely or willing would they be to support eight different suggestions. The most popular suggestion was that of the council moving to cheaper and smaller offices which received the support of 83% of respondents. Transferring appropriate services to town/parish councils (63%) and the move to digital delivery of services (62%) were second and third respectively. The sale of assets no longer required was supported by 57%. Although respondents were less likely to support paying a new or higher charge each time they use the service (45%), volunteering some of their time (41%), paying more Council Tax (32%) or making a one off contribution (31%), support for each of these options has increased slightly or stayed the same when compared to the 2020 survey.

Corporate Priorities

9.9. 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. The Medium Term Financial Strategy (MTFS) 2021-25 was approved by Cabinet on 14 January 2021. It set 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.

10. General Fund Capital Programme

10.1. This section considers the capital programme and supporting strategy for the period 2022-23 to 2025-26. A summary of the programme is included in Annex 4.

10.2. 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, 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 budget.

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 £257 million showing as the net book value of all property assets as at 31 March 2021 (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.

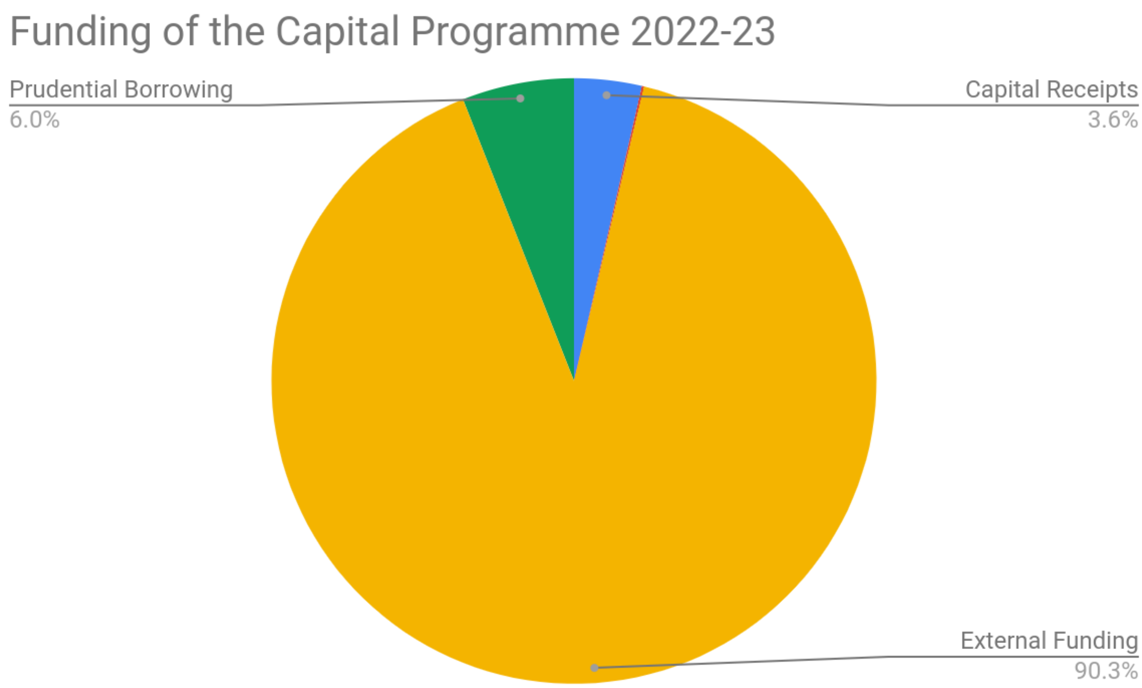
10.7. Due to the limited availability of capital receipts and the need to contain the level of borrowing undertaken to minimise the revenue impact, it has been necessary to review the capital programme. This is to ensure sufficient funding is available for existing schemes that have commenced and that 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 Capital 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 2022-23 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, 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 2022-2026 capital resources utilised to fund the Capital Programme is detailed in Annex 4, but shown graphically below.



The remaining 0.1% is funded from Revenue & Reserves

10.11. ***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 2022-23 is estimated to be at least in line with the 2021-22 allocation, £3.015m. Some £3m 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 2022-23 capital programme also includes the Margate Town Deal, Ramsgate Future High Street Fund and projects to bolster Thanet's sea defences.

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 has been prepared as part of the annual budget documents. This sets out the circumstances when the council can capitalise expenditure that would normally be deemed as revenue. The Flexible Use of Capital Receipts Strategy is set out in Annex 5 and details the criteria where this may be considered as per guidance issued by Government. The Flexible Use of Capital Receipts scheme ends on 31 March 2022.

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 £0.661m in capital receipts has been forecast to fund the 2022-23 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.

10.15. 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; such as 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. Projects already agreed from previous years within the four year programme are:

- Housing Assistance Policy (including Disabled Facilities Grants),
- Vehicle & Equipment Replacement Programme,
- Property Enhancement Programme,
- End User Computing Refresh of Devices,
- IT Infrastructure,
- Stone Bay Sea Wall Work,
- Broadstairs Flood and Coast Protection Scheme,
- Ramsgate Port - Berth 1 Refurbishment,
- Financial Management System,
- Thanet District LED Lighting,
- Royal Harbour Multi-Storey Car Park Lift Replacement,
- Margate Town Deal, and
- Ramsgate Future High Street Fund.

10.17. 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 4.

10.18. **Table 4: New Capital Projects**

New Capital Project	Project Outline
Walpole Coping and Sea Wall 22-23	Coast protection improvements to Walpole sea wall and pool.
Ramsgate Port & Harbour Truck 22-23	Replacement of truck for the continuing effective operation of Ramsgate Port & Harbour.
Ramsgate East Pier Building Structural Improvements 23-24	To enhance both the building’s useful life and visual appearance, while reducing future maintenance costs.
Ramsgate Harbour - Dock Office on Eastern Crosswall 23-24	Replacing the existing office, which is at the end of its useful life, and reducing future maintenance costs.
Ramsgate Port & Harbour - Plant & Equipment (Vehicle Barrier, Marina Access Gates & CCTV, Signal Light Repeaters, Berth 2/3 Catwalk) 23-24	Construction, replacement and enhancement to ensure the continuing effective operation of Ramsgate Port & Harbour.
Ramsgate Port & Harbour - Additional Self Storage Containers 22-23	Extra containers to help meet excess demand, benefiting both the community and service provision.
Crematorium Memorial Garden 22-23	Creation of a memorial garden for cremated remains in an unused area at Thanet Crematorium.
Crematorium Cloisters 22-23	To refurbish and extend the cloisters at Thanet Crematorium, providing an improved structure and reducing future maintenance costs.
Royal Harbour Multi-Storey Car Park 25-26	To purchase this car park, of which the council is currently the lessee.

10.19. The draft General Fund Capital Programme for 2022-23 is £18.710m, which will be funded in the main from grants, usable capital receipts and prudential borrowing. This is shown in summary format below.

Table 5: Draft Capital Programme 2022-2026

	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000
Statutory and Mandatory Schemes	3,000	3,000	3,000	3,000
Ongoing Schemes from Previous Years	365	0	0	0
Annual/Regular Enhancement Programmes	1,518	814	1,089	749
Wholly/Part Externally Funded	13,537	5,755	2,060	600
Construction, Replacement and Enhancement	215	501	0	3,000
Capitalised Salaries (not yet allocated to capital projects)	75	75	75	75
Total Capital Programme Expenditure	**18,710**	**10,145**	**6,224**	**7,424**
Capital Resources Used:				
Capital Receipts and Reserves	681	314	314	314
Grants and Contributions	16,934	8,755	5,060	3,600
Contributions from Revenue	0	0	0	0
Prudential Borrowing	1,095	1,076	850	3,510

10.20. Any slippage from the 2021-22 capital programme will be in addition to the numbers in the above table. For example, the Budget Monitoring Report for the 18 November 2021 Cabinet meeting gives an estimated 2021-22 General Fund capital programme underspend of £5.731m.

11. Options

11.1. Cabinet could choose not to recommend to Council some or all of the proposals presented in the report. This could include the proposed budget growth or saving proposals, the Council Tax increase or planned contributions to or from reserves. However, Cabinet would also need to identify alternative ways of bridging the budget gap, if the changes gave rise to a budget shortfall.

12. Next Steps

12.1. If approved, this report will be considered by Overview & Scrutiny Panel on 18 January 2022 and if the Panel makes recommendations to Cabinet, the Cabinet meeting on 27 January 2021 will consider them. Council on 10 February 2021 will approve the budget and Council on 24 February 2021 will approve the Council Tax.

Contact Officer: *Chris Blundell (Director of Finance)*
Reporting to: *Madeline Homer (Chief Executive)*

Annex List

Annex 1: Vacant Posts
Annex 2: Other Savings
Annex 3: *General Fund Earmarked Reserves*
Annex 4: General Fund Capital Programme 2022-23 to 2025-26
Annex 5: *Flexible Use of Capital Receipts*

Background Papers

Title: Budget and Medium Term Financial Strategy 2022-26, Cabinet 18 November 2021
Title: Fees and Charges 2022-23, Cabinet 18 November 2021

Corporate Consultation

Finance: *Not applicable*
Legal: *Estelle Culligan (Director of Law and Democracy)*