Folkestone & Hythe District Council

# Agenda

Meeting: **Council**
Date: **24 February 2021**
Time: **7.00 pm**
Place: **Zoom - remote meeting**

To: **All Members of the Council**

**YOU ARE HEREBY SUMMONED** to attend a remote meeting of the Council on the date and at the time shown above. The meeting will be open to the press and public, who can watch the meeting live at: bit.ly/YouTubeMeetings

Anyone who wishes to have information on any matter arising on the Agenda which is not fully covered in these papers is requested to give notice prior to the meeting to the Chairman or appropriate officer.

Dr Susan Priest
Chief Executive

1. **Apologies for Absence**

2. **Declarations of Interest (Pages 5 - 6)**

   Members of the Council should declare any discloseable pecuniary interest or any other significant interests in any item/s on this agenda.

3. **Chairman's Communications**

4. **Announcements of the Leader of the Council**

**Queries about the agenda? Need a different format?**

Contact Jemma West – Tel: 01303 853369
Email: committee@folkestone-hythe.gov.uk or download from our website
www.folkestone-hythe.gov.uk

Date of Publication: Tuesday, 16 February 2021

To receive a report from the Leader of the Council on the business of the cabinet and on matters that the leader considers should be drawn to the council's attention. The leader shall have 10 minutes to make his announcements.

The opposition group will have an opportunity to reply to the leader's remarks. The opposition group leader shall have 5 minutes to respond after which the Leader of the Council will have a right of reply. Any right of reply will be for a maximum duration of 5 minutes.

5. **Opposition Business**

The Labour Group has raised the following matter:

**Council Notes**

- That Napier Barracks was commissioned by the home office for the purpose of accommodating those awaiting the processing of their asylum claims.
- That over 400 people were living in the barracks recently.
- That ClearSprings Ready Homes was commissioned by the home office to run the barracks.

**Council Believes**

- That the residents of the barracks have received limited provisions of food, water, medical supplies and treatment.
- That Covid has severely exacerbated the problems in the barracks and many of the residents have contracted the virus.
- That the additional restrictions in place due to the presence of Covid has turned the barracks into a prison, not its original function.
- That many questions still remain unanswered with regards to the establishment of the barracks, the role of the organisation contracted to operate them and causes of a number of events that have occurred on the site.

**Council Resolves**

- To ask the leader of the council to write to the Home Secretary, Priti Patel, asking for the immediate closure of Napier Barracks as it is not fit for purpose. A sentiment also shared by the local MP, Damian Collins.
- To publish any correspondence sent and received as a result of the letter.
- To refer to the Overview and Scrutiny committee a request to establish an enquiry session where representatives of the home office, ClearSprings Ready Homes, local charities, local residents and residents of the barracks can provide evidence in response to questions from both members and the general public.

Debates on opposition business shall be limited to 30 minutes. If the time limit is reached or the debate concludes earlier, the leader of the group raising the item shall have a right of reply.

The Council shall:

a) Note the issue raised and take no further action;
b) Refer the issue to the cabinet or relevant overview and scrutiny committee, as the case may be for their observations before deciding whether to make a decision on the issue;
c) Agree to examine the matter as part of a future scrutiny programme;
d) Adopt the issue raised by opposition business provided that the decision so made is within the policy framework and budget.

6. **Motions on Notice**

There are no motions on notice.

7. **Corporate Plan - Creating Tomorrow Together 2021-2030 (Pages 7 - 48)**

This report sets out the proposed Corporate Plan which provides strategic direction to the Councils activities for the period 2021 – 2030.

8. **General Fund Budget and Council Tax 2021/22 (Pages 49 - 74)**

This report concludes the budget setting process for 2021/22. It sets out recommendations for setting the council tax after taking into account the district's council tax requirement (including town and parish council requirements and special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity), the precepts of Kent County Council, the Kent Police & Crime Commissioner and the Kent & Medway Fire & Rescue Service.

9. **Housing Revenue Account Revenue and capital original budget 2021/22 (Pages 75 - 88)**

This report sets out the Housing Revenue Account Revenue and Capital Budget for 2021/22 and proposes an increase in weekly rents and an increase in service charges for 2021/22.

10. **Update to the General Fund Medium Term Capital Programme and budget monitoring 2020/21 (Pages 89 - 108)**

This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2026. The report provides an updated projected outturn for the General Fund capital programme in 2020/21, based on expenditure to 30 November 2020. The General Fund Medium Term Capital Programme is required to be submitted to full Council for consideration and approval as part of the budget process. The Finance and Performance Scrutiny Sub-Committee considered this report on 12 January 2021 ahead of Cabinet approving it for submission to full Council on 20 January 2021.

11. **Capital Strategy 21/22 and Minimum Revenue Provision Statement 2021/2022 (Pages 109 - 126)**

This report sets out the Council's proposed strategy in relation to capital expenditure, financing and treasury management in 2021/22 to be approved by full Council. The report also sets out the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement for 2021/22 to be approved by full Council. The report is due to be considered and approved by Cabinet for submission to full Council earlier today.

12. **Investment Strategy 21/22 (Pages 127 - 144)**

This report sets out the Council's proposed strategy for its service and commercial investments in 2021/22 to be approved by full Council. The report is due to be considered and approved by Cabinet for submission to full Council earlier today.

## Declarations of Interest

### Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

### Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

### Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:
Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

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Folkestone & Hythe District Council

This Report will be made public on 16 February 2021

Report Number **A/20/10**

| | |
|---|---|
| **To:** | **Council** |
| **Date:** | **24 February 2021** |
| **Head of Service:** | **Charlotte Spendley, Director of Corporate Services** |
| **Cabinet Member:** | **Councillor David Monk, Leader** |

**SUBJECT: CORPORATE PLAN – CREATING TOMORROW TOGETHER 2021 - 2030**

**SUMMARY:** This report sets out the proposed Corporate Plan which provides strategic direction to the Councils activities for the period 2021 – 2030.

**REASONS FOR RECOMMENDATIONS:**
Full Council is asked to agree the recommendations set out below because:
- It is essential that the Council has determined it strategic plan so that it can inform operational plans, financial plans, strategies and policies.
- The Council has limited resources and therefore requires a plan to direct activities to key areas to ensure the primary needs of the district and residents are met.
- The Council has a key role to play in the recovery of the district from the pandemic and the plan focuses on recovery actions over its initial three year term.

**RECOMMENDATIONS:**
1. **To receive and note Report A/20/10.**
2. **To approve the Corporate Plan – Creating Tomorrow Together 2021 – 2030.**

## 1. BACKGROUND

1.1 The Corporate Priorities Task & Finish Group first met on 23 September 2019 (subsequently renamed the Corporate Plan Working Group in November 2019) to discuss the development of a new Corporate Plan for the Council. The work of the cross party group was necessary as the existing Corporate Plan ran from 2017 – 2020, and a new plan was required to reflect the Councils priorities and aspirations for the District over the coming years.

1.2 The 2017 – 2020 Corporate Plan had 6 strategic objectives under a vision of "Investing for the next generation - delivering more of what matters'. The strategic objectives were:

- More Homes – Provide and enable the right amount, type and range of housing
- More Jobs – Work with businesses to provide jobs in a vibrant local economy
- Appearance Matters – Provide an attractive and clean environment
- Health Matters – Keep our communities healthy & safe
- Achieving Stability – Achieve financial stability through a commercial and collaborative approach
- Delivering Excellence – Deliver excellent customer service through commitment of staff and members

1.3 The Corporate Plan Working Group had a scope of :

- To contribute to the drawing up of the Council's ten – year Corporate Plan.
- To advise on how best to engage citizens in the process.
- To consider the views of third parties to the Council's proposals.
- To keep councillors informed about progress on the development of the Plan.

1.4 The Working Group is advisory and has considered a number of areas during its time including organisational visions; the golden thread; the term of the plan; objectives for the plan; emerging corporate priority ideas & themes; work already underway within the Council that contributes towards the proposed priorities; discussed and agreed the approach for public consultation; considered trends in economic data to inform priority areas and considered the outcomes of the public consultation of the draft plan.

1.5 Additionally the Overview and Scrutiny Committee considered the draft Corporate Plan and Recovery Plan in June 2020.

1.6 Cabinet met on 24 February 2021 to consider the draft Corporate Plan and were asked to recommend to Full Council its adoption.

## 2. Corporate Plan Alignment to the COVID-19 Recovery Plan

2.1 During the development of the new Corporate Plan the global pandemic occurred. The impact of COVID-19, the Councils response to and its resulting recovery actions will be a significant focus for the authority for the next 2-3 years. It was therefore agreed that it was essential that the Corporate Plan and Recovery Plan were aligned.

2.2 The proposed plan ‘Creating Tomorrow Together’ incorporates both the service ambitions and guiding principles that will span the nine year life of the plan, but also provides a three year focus on recovery through our priorities in each service area. The intention is that our approach to recovery be embedded in our operational activities as well as our strategic framework. It provides an opportunity to ensure alignment between the plans for recovery and to maximise the quality and impact of outcomes for residents and businesses.

## 3. Consultation

3.1 Consultation on the Council’s draft Corporate Plan for 2021 to 2030 took place between 2 November and 30 November 2020. Different methods were used to seek the views of residents and stakeholders.

3.2 A resident’s survey was undertaken during this time. To ensure we sought views from a representative sample of residents, 5,200 households were written to, inviting them to respond. This equates to 10.8% of all occupied properties in the district.

The sample was identified by calculating what proportion of households across the district as a whole are in each parish or town council area and Acorn category and inviting 10.8% of households from each parish or town and Acorn category. Acorn is a segmentation tool which categorises the UK population into types based on social factors and population behaviour.

Using this methodology allowed us to ensure the households invited to respond were proportionate to the spread of the district’s population as a whole.

The residents’ survey received 404 replies, equating to a response rate of 7.8%. The results of the residents’ survey are statistically valid.

3.3 Additionally an open survey was available to all residents & stakeholders. The open version of the survey, containing the same questions as the residents’ survey, was available on the council website for all residents and stakeholders to complete.

This version of the survey was also emailed to key stakeholders such as Kent County Council, parish and town councils and local businesses.

The open survey received 143 replies. In addition to these methods written submissions were also welcomed, either by email or in writing, and 14 such submissions were received.

3.4 Furthermore a staff consultation exercise was undertaken with a workshop facilitated by the Organisational Development team to ensure staff views were considered.

3.5 The consultation responses were reviewed and considered by Working Group Members and a number of amendments were made to the draft plan. These changes included:

- Wider reference to key partnerships and stakeholder groupings;
- Addition of a 6th cross cutting guiding principle of 'working in partnership';
- Increased emphasis on:
  - the district already being locally distinctive and seeking to build on this platform;
  - skills development through recovery;
  - mental health and wellbeing;
  - the role and value of arts and creative sector:
  - digital inclusion, not just connectivity
  - infrastructure first at Otterpool Park
- Clearer reference to democratic input through working with ward members;
- Balance across the geographies of the district;
- Increased reference to supporting businesses with our investment, in particular on:
  - Encouraging shopping local; and
  - Using local supply chains;

## 4. Creating Tomorrow Together 2021 - 2031

4.1 It is proposed that the new Corporate Plan is built on 4 key service ambitions and 6 guiding principles. Each service ambition has a number of priority areas identified within it, these priorities will be the focus of Council activity over the coming three years to 2024.

4.2 Our Service Ambitions focus on positive community leadership, our thriving environment, a vibrant economy and quality housing & infrastructure. The plan is available in full in Appendix 1 and it sets out our wide ranging ambitions for the next nine years, the priorities that we will focus on over the next three years, and how these will directly support the district's medium-term recovery from the pandemic.

4.2 The plan has been summarised into an infographic below which outlines the:

- 4 Service Ambitions
  - Positive Community Leadership
  - A Thriving Environment
  - A Vibrant Economy
  - Quality Homes and Infrastructure
- 6 Guiding Principles
  - Sustainable Recovery
  - Locally Distinctive
  - Greener Folkestone & Hythe
  - Transparent, Stable, Accountable & Accessible
  - Working Effectively with Partners
  - Continuous Improvement

4.3


## 5. Next Steps

5.1 Full Council are asked to adopt the Corporate Plan – Creating Tomorrow Together. Work is already underway within Directorates to develop a detailed action plan with a shorter term focus, led by the three year priorities identified within the plan. The Action Plan will provide focus for departmental service plans, key performance indicators and individuals objectives for the coming year, creating the essential golden thread throughout the organisation.

5.2 The plan is proposed to be reviewed fully in 2024. Progress on the priorities will be reported to Cabinet annually and the plan will inform future strategies once adopted.

## 6. RISK MANAGEMENT ISSUES

6.1

| Perceived risk | Seriousness | Likelihood | Preventative action |
|---|---|---|---|
| The Council fails to set a clear strategic direction for its future | High | Low | The drafting of the new Corporate Plan is concluded having had cross political input throughout it development and awaiting adoption by Council. |
| The Council has insufficient resources to deliver the proposed plan | High | Low | The service ambitions have been developed and priority areas identified to minimise the risk. The plan will also be aligned to the MTFS in due course. |
| The Council fails to consider what the District want from its plan | High | Low | The draft proposals were subject to consultation with a wider range of stakeholders and the feedback has been incorporated within the plan. |
| The Council fails to consider the impact of COVID-19 in its future strategic planning | High | Low | The proposed plan incorporates the identified priority actions to aid the recovery of the district. |

## 7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

### 7.1 Legal Officer's Comments (AK)

There are no direct legal implications of this report.

### 7.2 Finance Officer's Comments (CS)

There are no direct financial implications of this report.

### 7.3 Diversities and Equalities Implications (CS)

An equalities and diversities impact assessment has been undertaken by officers. It does not identify any negative impacts through its evaluation of the proposed Corporate Plan and indeed notes the positive impact the plan seeks to make with regards to addressing inequalities. The plan was also subject to an extensive consultation exercise as noted within the report.

## 8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

*Charlotte Spendley, Director of Corporate Services*

*Telephone: 07935 517986*

*Email: charlotte.spendley@folkestone-hythe.gov.uk*

The following background documents have been relied upon in the preparation of this report:

None

**Appendices:**
Appendix 1 Creating Tomorrow Together 2021 - 2030

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# CREATING TOMORROW TOGETHER

## Corporate Plan 2021-30

Folkestone & Hythe District Council

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# CREATING TOMORROW TOGETHER

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“This is a plan both for recovery in the medium term and for our resilience and prosperity through the next decade.”

# Welcome

Welcome to Creating Tomorrow Together, Folkestone & Hythe District Council’s Corporate Plan for 2021-30.

We want to focus our resources on what matters to our residents, investors and visitors. That’s why we’ve developed this Corporate Plan – Creating Tomorrow Together – which sets out our far-reaching and long-term ambitions for Folkestone & Hythe over the next nine years.

This plan has been written in unusual times. Apart from its direct health impacts, the Covid-19 pandemic has led to uncertainty and hardship for many residents and businesses. At the time of writing, it appears unlikely that recovery will be swift, and the next couple of years are likely to be extremely challenging.

The current crisis has also demonstrated the strength and resilience of our communities. During the pandemic we rose swiftly to the challenge to ensure support for our most vulnerable citizens while offering grants and advice to our businesses – and we have rapidly changed the way we work to ensure that we continue to provide high-quality services. We will continually adapt and improve – but we are proud of our response to date, and there is much that we have learnt.

Over the next three years the council will have a key role in leading our recovery from the current crisis. This plan therefore sets out four service ambitions and six guiding principles. These ambitions and principles are intended to aid recovery while underpinning our longer-term ambitions: this is a plan both for recovery in the medium term and for our resilience and prosperity through the next decade.

The plan recognises the excellent services, strength in partnerships and resilience in our communities that exists, to build on that strong platform in creating a welcoming, safe and distinctive district. The plan will be supported by a more detailed action plan, operational service plans, as well as our Medium Term Financial Strategy. We will regularly review the plan to ensure that activities are on track, and we will report on progress.

We look to the future with optimism. The next decade will bring even more significant opportunities for the district, as the renewal of Folkestone town centre and seafront proceeds at pace, more affordable and new council housing is delivered, development of a new garden town starts at Otterpool Park, and we continue to benefit from our outstanding natural environment and our excellent connectivity to London via High Speed One and links to continental Europe.



This plan was open for public consultation in late 2020 and I was delighted that a number of residents, businesses and stakeholders engaged and shared their views with us on a draft of this document. A number of changes were made as a result of this feedback and I hope you agree with me that the resulting plan will help us make our district an even better place to live, work and visit.

Best wishes

**Cllr David Monk**
Leader of Folkestone & Hythe District Council

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# Priorities, delivery and partnership

# Priorities, delivery and partnership

We are extremely ambitious and positive about the future of our exceptional district. However, pressure on council budget is likely to intensify in the years ahead and we will not always be able to do everything that we have in the past. Over the next three years, we will listen to our residents and will focus on the priorities that matter most.

Within this plan we have not set out every action that the council will take: we have focused on the main service priorities and themes. A more detailed action plan and operational service plans will be prepared to guide the use of council resources, and many actions will be delivered in partnership with others. Where we can influence others to act in support of our communities, we will continue to do so.



We also recognise that we don't have all the answers. The council has a central role developing, commissioning and delivering vital services in housing, planning, environmental protection, community services and more. However, we also need to work closely with our colleagues at Kent County Council, our neighbouring districts, town & parish councils, education, health and the private and voluntary sectors to build communities that work for everyone. We all have a positive contribution to make in **Creating Tomorrow Together**.

The plan incorporates the key points raised during the public consultation undertaken in late 2020 to reflect the needs and ambitions of our residents, businesses and key stakeholders across the district.

The plan provides a strategic direction for the coming nine years and a stronger emphasis on the service priority actions for the initial three year period with a focus on recovery. Once adopted the service priority actions will be further developed into an action plan, progress against the plan itself will be undertaken annually, and the plan will be comprehensively reviewed in 2024 to ensure it remains appropriate for the district.

*Interior of F51 urban sports park - photo courtesy of Shepway Sports Trust*

**2021**
Detailed action plan

**2024**
Next comprehensive review

**2030**
When the plan runs until


*Plinth project - photo courtesy of Creative Folkestone*

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# Plan framework

# Plan framework

Our plan is focused on four service ambitions which are priority areas of action that relate to the key services that the council plans, delivers and commissions and six guiding principles that guide everything that we do. These are illustrated in the diagram on the right and the following sections explain them in greater detail:

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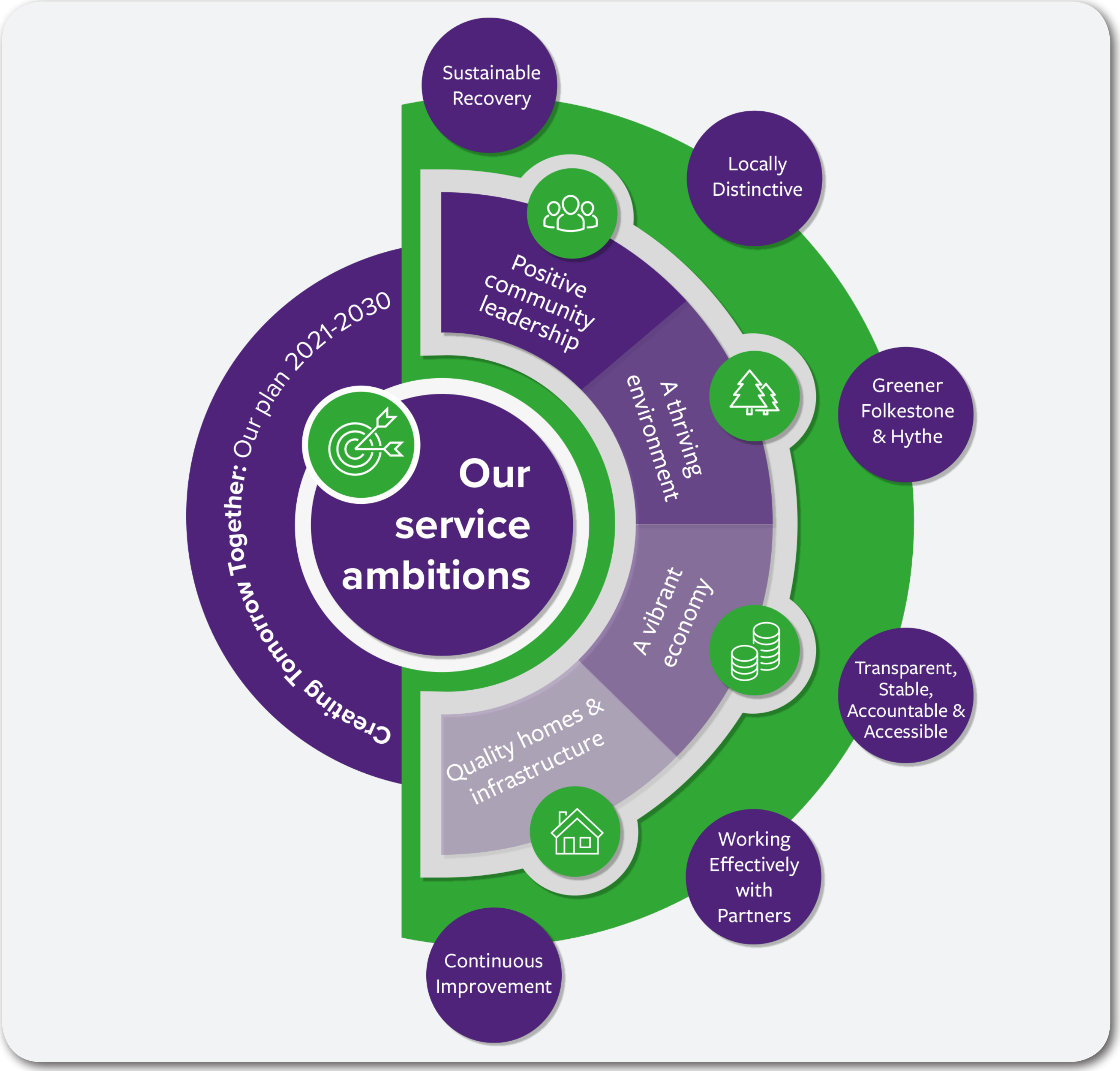

# Our service ambitions

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Our service ambitions relate to leadership in community-focused services, the quality of our environment, the economy, housing and infrastructure. In the pages that follow, we set out our wide ranging ambitions for the next nine years, the priorities that we will focus on over the next three years, and how these will directly support the district's medium-term recovery from the pandemic.

## Service ambition 1: Positive community leadership

### By 2030

Local leadership in community services will be recognised for the vital contribution in creating a sense of place, health and wellbeing. This will be a shared ambition with partners across our communities. Local leadership will address many of the inequalities that exist between our communities and we will have improved access to services in our most deprived neighbourhoods. A strong and distinctive sense of place will prevail.

# Our service ambitions

## Service ambition 1: Positive community leadership

### Overview

Folkestone & Hythe District Council provides a wide range of statutory and discretionary services, from leisure and recreation services through to vital benefits and assistance for some of the most vulnerable in our community.

The Covid-19 pandemic highlighted the importance of the support we provide and the ‘added value’ that the council brings in local leadership in communities. Trusted relationships with voluntary and community organisations have been built up over many years. During the pandemic, along with partners, we established three Community Hubs within the district, ensuring that vulnerable and ‘at risk’ residents were able to access essential support ranging from the collection of food and medical supplies through to befriending calls.

There is much that we have learnt from leading this process: we developed stronger, deeper relationships with partners and our communities, mobilised more volunteers, shared information, provided better signposting to the public and used technology in new ways to engage with our residents. We have also learnt from our colleagues in other districts and will seek to collaborate when opportunities arise.

As we enter the next Corporate Plan period, we will build on our experience to deliver enhanced community support. This will mean doing things differently – but we have proved that we can address this challenge, and it is likely that there will be a need for ongoing community support as we move through recovery.

> “A strong and distinctive sense of place will prevail.”

## Priorities in the next three years

Over the next three years, we will:

### Improve physical and mental health & wellbeing

Our community services will support health and wellbeing across a range of fronts. This is closely aligned with the physical and mental health benefits associated with the quality of the environment and our community and environmental services will work closely together.

In planning for the future, we will work closely with the Clinical Commissioning Group (CCG) to identify sites for **new health facilities** which are modern and fit for purpose, including Folca within Folkestone town centre and at Otterpool Park.

**We will** invest in leisure facilities, including the development of a new leisure centre for the district located at Princes Parade in Hythe; we will invest in a range of high quality new facilities as part of our Play Area Strategy; and we will seek to offer additional leisure opportunities for residents.

**We will improve our support to people to help them access more information** and provide an increasingly integrated approach to supporting vulnerable people. This will include ensuring that all staff in the council are able to identify and support people who may be vulnerable – and we will work with our partners to ensure that they do the same.

Physical and mental health & wellbeing are intrinsically linked with economic outcomes. The district contains significant concentrations of deprivation, especially in Folkestone, which require a multi-agency approach to address. We will work with partners to identify and address poverty, financial exclusion and deprivation wherever it is found.

> **"Physical and mental health and wellbeing are intrinsically linked with economic outcomes."**


*Exterior of F51 urban sports park -picture courtesy of Shepway Sports Trust*

## Safer Communities

Community safety will be at the heart of everything we do. We recognise that ensuring that residents, businesses and visitors will flourish and enjoy a place which looks, feels and is safe.

The district's Community Safety Partnership will be at the forefront of this through continuing to develop proactive and responsive services to address crime and anti-social behaviour.

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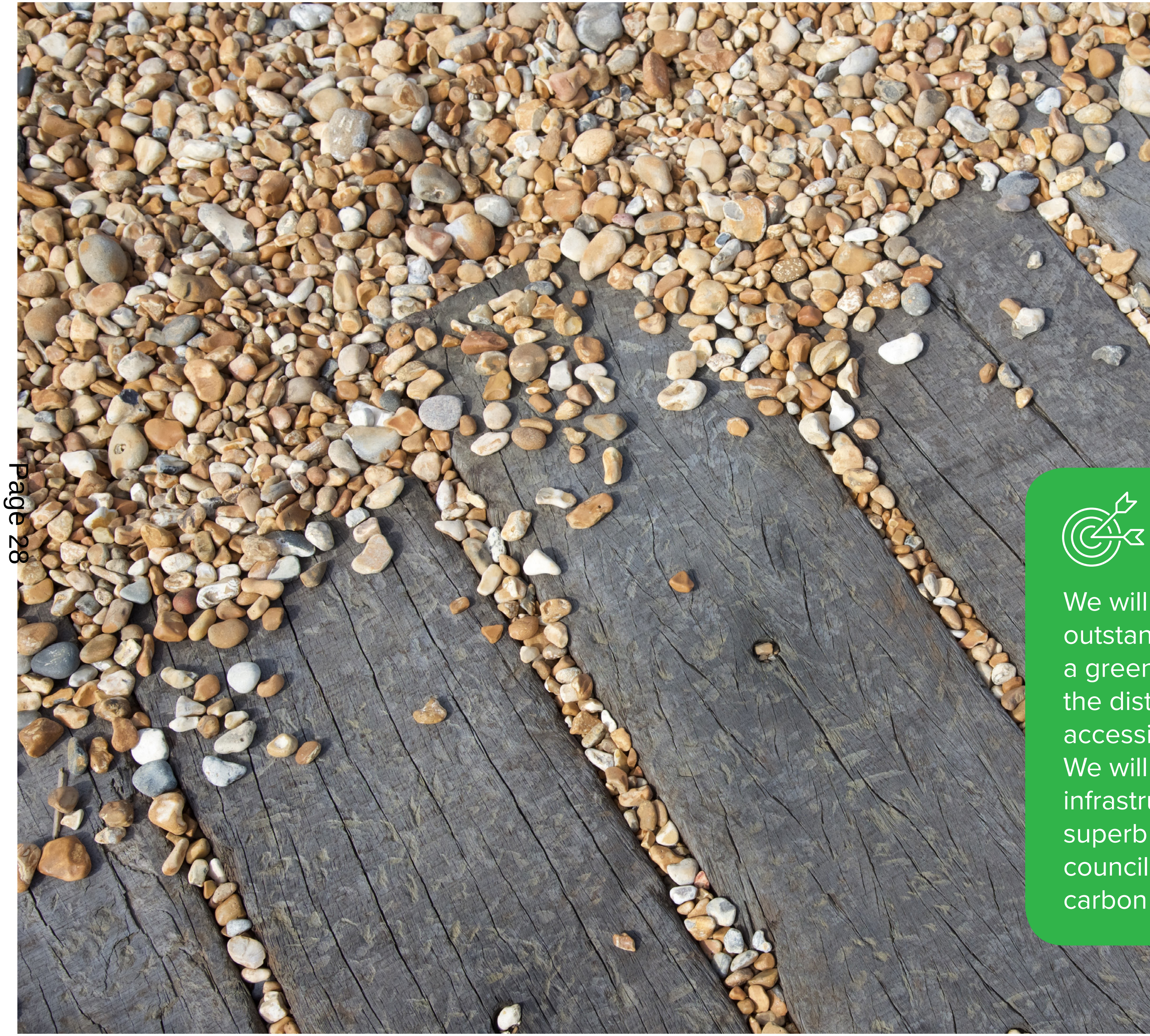
## Supporting & empowering our communities

We will work with our partners and communities to ensure greater resilience across the district's many varied communities. This will seek to build on the success of the community hub model. We will explore how a 'hub and volunteer' approach can be embedded in existing communities and in new developments (such as at Otterpool Park).

We will seek to secure external funding to continue this valuable initiative, adapting it to changing community needs.


All of these actions rely on strong partnership working with people using our services, communicating effectively and by collaborating with partner agencies, such as members of the Community Safety Partnership and those in the health sector. We already have many excellent relationships and networks which we will expand further for the benefit of our residents.



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## Service ambition 2: A thriving environment

### By 2030

We will be recognised as an outstanding place and known as a green exemplar council. Across the district, we will ensure excellent accessible open spaces for all. We will have invested in green infrastructure to enhance our superb natural environment and the council itself will generate net zero carbon emissions.

## Service ambition 2: A thriving environment

In Folkestone & Hythe we have a unique natural environment embracing Romney Marsh, the Kent Downs and our distinctive and accessible coastline. Our unique towns and villages have clear identities and many heritage assets which new development should complement and enhance. We already have an exceptional place, winning national recognition for the quality of our open spaces; but more can be done. Leading on from these superb assets, our residents will benefit from improved access to green space and more opportunities for active travel - the importance of which has been especially highlighted during the pandemic.

The council will reduce its energy consumption and across the district as a whole, we will support opportunities for more sustainable development. We are committed to playing our part in tackling the climate crisis: the council declared a climate and ecological emergency in 2019.

Folkestone & Hythe is already in the top third of authorities for recycling rates. We are committed to the 'circular economy', to re-using goods where it is viable to do so and recycling them where it isn't, and we will continue to work with partners who share these objectives.

> "Our residents will benefit from improved access to green space and more opportunities for active travel - the importance of which has been especially highlighted during the pandemic."

## Priorities in the next three years

Over the next three years, we will:

### Ensure an excellent environment for everyone

We will ensure a **clean, attractive and safe** environment for residents, visitors and businesses.

We recognise the connection between a quality environment and health and wellbeing (both mental and physical) and we will embed this in service provision and planning. That means providing more opportunities for active travel and recreation, **improving cycling and walking routes** and working with colleagues in the health and the voluntary sector to join up the benefits.

We will take positive measures to **encourage biodiversity**, both by adapting existing practices (e.g. in relation to grass cutting) and by ensuring a net biodiversity gain in new developments.

### Grow the circular economy & reduce waste

We will seek to **drive up recycling rates** and we will work with partners to highlight the benefits from reducing, rethinking, recycling and reusing materials.

Education will be a vital part of this. We will work with schools and community groups to raise awareness of the many environmental challenges and we will take measures to raise pride in the district.

### Increase our resilience to climate change

Internally, we will **improve the council's energy and resource efficiency.** We will reduce our use of electricity and gas (yielding a financial return to the council as well as an environmental benefit), we will reduce the impact of our fleet and where possible replace with electric vehicles as they become due for replacement, and we will encourage greater use of walking and cycling by our staff. Over the longer term, we will adapt our operating model to become increasingly environmentally sustainable.

Across the district as a whole, we will support **higher sustainability standards** in new developments including solar power, rainwater harvesting and electric vehicle charging points. Otterpool Park presents a unique opportunity to embrace sustainability principles.

We will take advantage where possible of initiatives to retrofit energy efficiency measures in existing homes and commercial properties, and working with partners we will promote these actively.

**"We recognise the connection between a quality environment and health and wellbeing (both mental and physical)."**

## Service ambition 3:
## A vibrant economy

### By 2030

Folkestone & Hythe will have a thriving, distinctive and dynamic economy. It will have capitalised on major investment, will have responded positively to the structural challenges facing high streets, and will enjoy a diverse range of economic opportunities in its towns and rural areas. Building on its excellent connectivity it will attract more, higher-value employment, driving aspiration and demand for skills.

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# Service ambition 3: A vibrant economy

## Overview

Folkestone & Hythe contains unique economic assets. Access to London is faster than from any other point on the Kent coast and this, combined with major investment in Folkestone town centre and seafront (largely from the private sector) and the continuing growth of the town's distinctive leisure, cultural and creative economy, has led to a significant renaissance in recent years. The district also has an important internationally renowned visitor and rural economy and hosts extensive infrastructure linked with Eurotunnel. There is the prospect of major new economic opportunities led by the council beyond the focus of Folkestone town centre as Otterpool Park, Biggins Wood and Mountfield Road employment hub developments come forward.

However, the district faces some challenges. Workforce qualifications and pay are substantially below the national and regional averages, and unemployment generally tracks slightly higher than the national picture. The Covid-19 pandemic has also raised the prospect of a significant employment crisis: between March and August 2020, the claimant count in Folkestone & Hythe rose by 107% to over 5,000 people (this is equivalent to 7.6% of the workforce, the highest level in the district for 24 years).

The pandemic has also had a major impact on business, especially in the hospitality, travel, leisure and cultural sectors, which are all important to Folkestone & Hythe's economic prosperity. It is likely that for many firms recovery from the pandemic will be protracted, and some sectors may face structural challenges. We will also see wider economic change over the next few years, driven by technology and by policy factors such as the UK's exit from the European Union.

In that context, the council has an important role in promoting confidence and supporting local business as it adapts and recovers from recession and manages change. During the peak of the pandemic, we played a vital role in distributing grant support to business on behalf of central government: we did so quickly and efficiently and built up new partnerships with business in the process. Going forwards, we want to make sure that businesses get the support they need. We are 'open for business' to firms with the attitude and capacity for growth and we will work proactively with partners to address the long-term skills challenges that can help our communities reach full potential.

**"The continuing growth of the town's distinctive leisure, cultural and creative economy, has led to a significant renaissance in recent years."**

## Priorities in the next three years

Over the next three years, we will:

### Reinvigorate the high streets

Structural changes in retail demand have impacted high streets everywhere: although this has been accelerated by the Covid pandemic, we will reconsider the role of our town centres and build on a more diverse range of assets.



We will investigate **opportunities for diversification**, drawing on experience elsewhere and attracting investment into non-retail uses, such as creative workspace, leisure, housing, cultural and heritage-related activities.

We will seek to **reinvigorate all district town centres**, particularly investing in Folkestone town centre. Here we will build on the high-quality place-led regeneration achieved to date, particularly in the Old Town, and the town's growing strength in leisure and cultural activities and the creative economy. To achieve this we will work with our partners and communities to develop a **Folkestone Place Plan** which will set out a vision and direction for Folkestone town centre including necessary infrastructure investment required to achieve sustainable change.

We will actively promote and encourage residents to "shop local", seeking to increase footfall into towns and high streets in order to maximise local spending and support businesses.

### Support a vibrant & diverse business community

The pandemic has meant that far more businesses have accessed public sector support than would normally be the case. As the government financial support packages wind down, we will take a **targeted approach to supporting businesses**, focused on:

- Providing a clear 'front door' to the district via Folkestone Works, our investment and business advisory website.
- Working to ensure the right level of creative and innovative workspace provision, especially in the light of demand for more flexible working.
- Developing and promoting access to business support programmes and funding sources from government and partner organisations.
- Ensuring that local firms have access to public procurement opportunities and using the council's 'procurement pound' to support local jobs, businesses and supply chains.
- Appropriate support for residents and businesses following our departure from the EU.
- Working with partners including Locate in Kent to attract businesses and investment into the district.
- Delivering a business hub at Mountfield Road, New Romney securing vital new jobs for the district.

> "Working with partners including Locate in Kent to attract businesses and investment into the district."

## Help people access jobs & opportunity

In the short term, unemployment is likely to rise substantially. We will seek to add value to government and county-wide schemes to mitigate the impacts of unemployment, both as an employer ourselves and in supporting and signposting businesses and individuals to training, education & other programmes that could benefit them. We will work proactively with, for example, the Department for Work and Pensions (DWP) to consider how access to public support can best be provided, particularly in Folkestone town centre. We will foster ever closer links with employers and continue the Folkestone Community Works programme to support the communities of east Folkestone with targeted employability and skills training.

## Grow the skills we need for the future

We will work closely with East Kent College and other agencies to ensure that they are aware of and respond to the skills needed by our businesses in their changing demands and as new opportunities present themselves.

We will work with relevant skills and education partners to support the development of building skills within the district in renewable energy and retrofitting to support our aspirations to tackle climate change.

More directly, we will lead the development of an employment strategy for Otterpool Park, identifying how local people (and local contractors) can be engaged in the construction process while understanding potential longer term employment demand.

“We will support the development of building skills within the district in renewable energy and retrofitting to support our aspirations to tackle climate change.”

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## Service ambition 4: Quality homes and infrastructure

### By 2030

Residents in Folkestone & Hythe will have better access to a wider choice of homes. New development will embrace high standards of sustainability and the district will be delivering planned, high quality housing with the necessary infrastructure to meet identified need, anchored by an ambitious new Garden Town at Otterpool Park.

# Service ambition 4: Quality homes and infrastructure

## Overview

Folkestone & Hythe is a great place to live, and we want to ensure that there are opportunities for all our residents to find a range of good quality housing in the district. We are committed to providing additional affordable housing: over the next 10 years we will invest in our council housing stock to deliver 1,000 new homes as well as refurbishing existing housing.

We will support this through a new approach to housing management. In 2020 we brought our housing management services back in-house. Over the period of this Corporate Plan we have a new opportunity to design housing services around the needs of our tenants, creating a better service for the people of the district. Linked with leading our community service ambitions set out earlier, we are also committed to enhancing support for homeless people with housing forming a key part of our support for health and wellbeing, and we will launch a new Homelessness Prevention Strategy shortly.

Over the period of the Local Plan to 2036/37, over 700 new homes per year are required to meet identified need. To accommodate future growth over the longer term up to 10,000 homes will be accommodated at Otterpool Park, a new garden town on the site of the former Folkestone Racecourse. Otterpool Park is an exciting and very significant opportunity for the district which will contribute to many of the other objectives set out in this plan. It will generate new job opportunities and it will offer high-quality, sustainable development in a new town with extensive accessible green space, complementary to that available elsewhere in the district. Otterpool Park will be developed with key infrastructure commissioned and in place during early phases of development.

## We have a clear picture of what we want Otterpool Park to deliver

Sustainable development is about maximising the environmental, social and economic benefits that development can bring, enhancing the environment, building strong communities and providing jobs; not trading one benefit against another but building in a way that delivers gains across all three and enables us to invest in communities across the district.

## Priorities in the next three years

Over the next three years, we will:

### Improve outcomes & support for homeless people

As well as ensuring a supply of good quality **sustainable homes**, we will invest in additional support for those who are homeless or vulnerable to homelessness. We will deliver our new Homelessness Prevention Strategy, focused on our priorities of ending rough sleeping, ensuring that we provide early intervention and support, and maximising access to affordable and suitable accommodation.

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### Deliver sustainable, affordable housing

We will seek to deliver a range of high-quality and **new affordable housing**, using Housing Revenue Account resources to support new build and the acquisition of empty homes, and we will reinvest in our existing stock using local suppliers wherever possible.

"As well as ensuring a supply of good quality sustainable homes, we will invest in additional support for those who are homeless or vulnerable to homelessness."

## Deliver a safe, accountable housing service

We will deliver a housing service where tenants will be at the heart of everything that we do. Health and safety and full transparency will be at the core of the housing service enabling our residents to feel safe in their homes and communities. Our teams will work across designated neighbourhoods with a ‘tell us once’ approach and we will get things right at the first time of asking.

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## Digital inclusion & connectivity

To support economic growth, sustainability and resilient communities, we will actively support **digital inclusion** working closely with partners to address this priority. We will also drive the deployment of high-speed digital connectivity by working closely with partners and government to facilitate the commercial rollout of full-fibre and 5G infrastructure. Where possible we will encourage the use of available subsidies to extend the rollout of fibre broadband into commercially less attractive rural and harder to reach areas of the district.

## Deliver a sustainable new development at Otterpool Park

Otterpool Park is a key priority over the period of this plan. Through the planning process and our ownership of the site, we will ensure the necessary infrastructure is provided to support a range of high-quality, well-designed housing that is attractive to homeowners and efficient to run. These will be delivered in a beautiful garden setting on an infrastructure first approach to address the council’s ambition set out in the Otterpool Park Charter.

“We will actively support digital inclusion working closely with partners to address this.”

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# Guiding principles

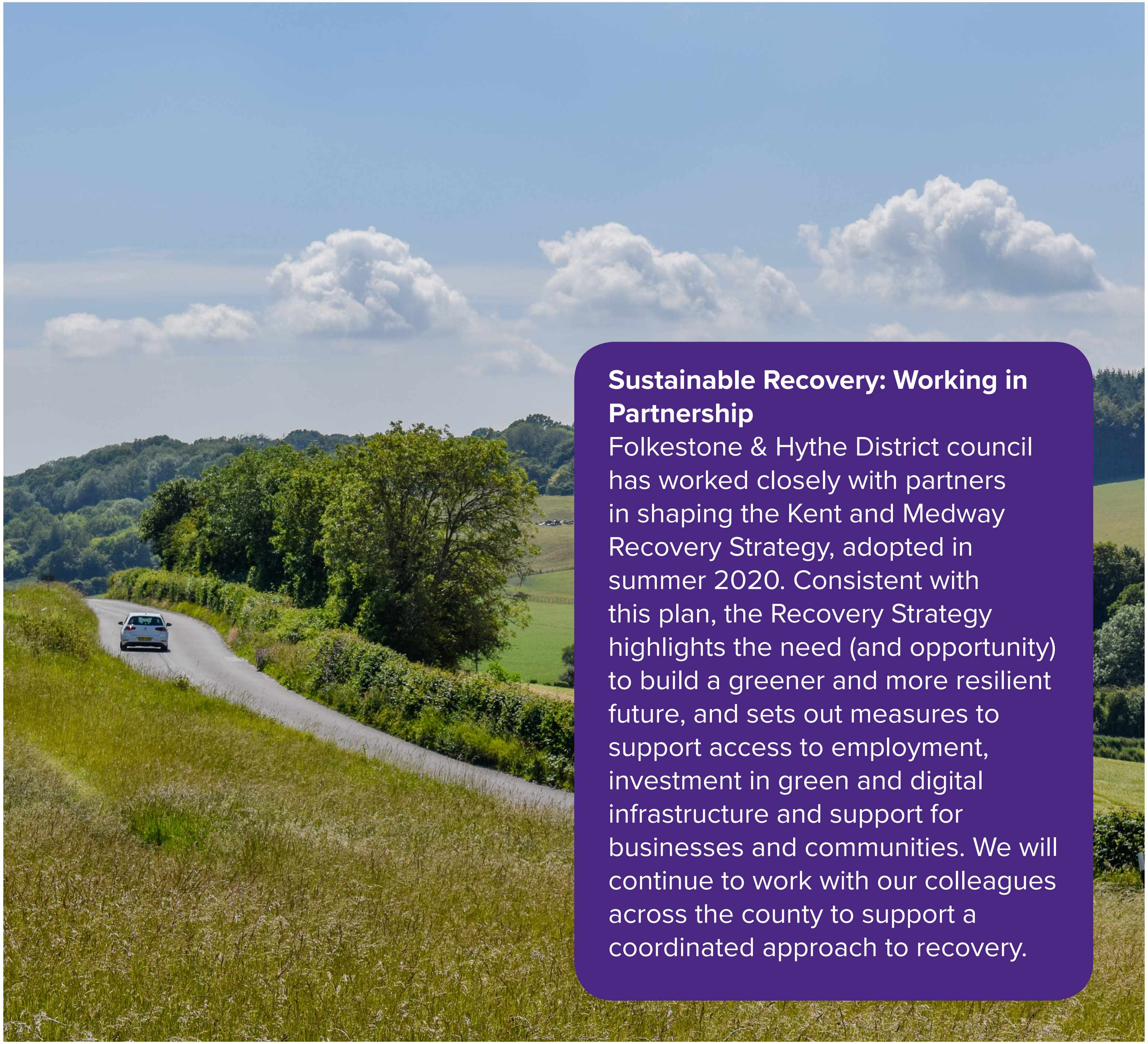
# Guiding principles

At the heart of everything we do, we want to build sustainable, resilient and prosperous communities. To achieve this, the six guiding principles will run through all our activities.

## Sustainable Recovery

The current health crisis provides the context for this plan – and ensuring a strong recovery will be a key priority over the next few years. Our services have had to adapt significantly, and we expect to flex further over the coming months as public health restrictions remain critical.

As we emerge from the health emergency, we will continue to support businesses and communities in adapting to a 'new normal', recognising that some working practices and patterns of activity may have changed permanently bringing opportunities as well as challenges. We will ensure that our recovery is both distinctive and sustainable. Throughout the service ambitions we have sought to identify where our focus will be in each area over the course of the coming three years, these priorities are directly related to the sustainable recovery of the district.



**Sustainable Recovery: Working in Partnership**

Folkestone & Hythe District council has worked closely with partners in shaping the Kent and Medway Recovery Strategy, adopted in summer 2020. Consistent with this plan, the Recovery Strategy highlights the need (and opportunity) to build a greener and more resilient future, and sets out measures to support access to employment, investment in green and digital infrastructure and support for businesses and communities. We will continue to work with our colleagues across the county to support a coordinated approach to recovery.

## Locally distinctive

Folkestone & Hythe is already both distinctive and diverse, and this plan seeks to build on the inherently very special nature of the district, protecting it and working with our key partners to enhance it. Our district includes the best-connected town on the Kent coast, as well as some of the county's most remote and special rural communities, and we enjoy protected countryside and coastline alongside the district's strong arts, cultural and economic assets.

We are proud of our unique towns, distinctive villages and breath-taking countryside and the diverse communities that they support. We will reflect our unique 'sense of place' and respond intelligently to changing local needs in the services we provide and the policies we adopt. We will use our community place-making role to ensure we safeguard the unique heritage of our district.  We will work positively with local suppliers and support our local businesses wherever possible to do so.  We will harness what is unique to each area and develop plans to further enhance these opportunities such as, for example, eco-tourism across the Romney Marsh.



Our district has a very rich arts, creative and cultural sector which is key to the distinctive nature of the area. We will continue to work proactively with our key creative and cultural stakeholders and valued investors, such as Creative Folkestone, facilitating, influencing and partnering where we can make a positive contribution in creating a truly exceptional district.  Many of these partners are at the forefront of leading internationally renowned activities and are a central element of our distinctive place-making, driving much of our leisure and arts based regeneration activities.

**"We are proud of our unique towns, distinctive villages and breathtaking countryside and the diverse communities that they support."**

## Greener Folkestone & Hythe

Our long-term resilience will depend on our ability to encourage and create a more sustainable district, consuming fewer natural resources. We will embrace becoming a 'green exemplar council, embedding measures to reduce our carbon footprint, enabling active travel and enhancing the natural environment. We will also look to identify more sustainable options as we make new policy and service choices recognising that the actions we take in the next three years will have a long-term impact. We are already investigating a potential relocation of the council from the existing Civic Centre to reduce our carbon footprint, and we will explore this, and other ambitious options, further.

Where there are cost challenges associated with securing more sustainable options, we will work with partners to secure external funding. We will balance the sustainable aspirations of the council with ensuring our financial resilience is maintained.

> "We will seek to become a green exemplar council... recognising that the actions we take in the next three years will all have an impact on our longer-term goal."

## Transparent, stable, accountable & accessible

In order to deliver our services, the council needs to be financially sustainable. To make sure we deliver the right services, we will be accountable to our citizens – and that accountability comes from clear, straightforward access to relevant information.



## Priorities in the next three years

Over the next three years, we will:

### Maintain our financial stability

We are a stable, prudent and well-managed council. We recognise the financial pressures that residents and businesses face, and we will deliver **value for money** within reasonable council tax levels.

To maintain this, we will explore the potential of **generating income** from other sources, where this will also help to deliver our wider service ambitions. This will include maintaining a programme of development sites, such as Otterpool Park, that will bring income to the council and support housing supply, and we will also explore the potential for other investments where they will support council activities and wider regeneration objectives.

### Communicate effectively with our communities

The ways in which people communicate, both to access services and to give their views, are changing. We will respond to these changes, communicating with citizens in the way that works best for them.

We will expand the use of our new multi-media contact centre to respond to webchat and social media enquiries and we will **increase the range of digital communications options.**

**We will engage with service users and residents** in a variety of ways, making it easier for people to have their say on the council's services.


We will provide **clear, transparent feedback** to residents following consultations so they can understand how their voices have influenced our direction.

We will encourage ward councillors to give us feedback from residents who engage with their local representative. We will **improve direction** to services for traditionally under-informed groups and we will make sure information is in plain English.

New technology will help to explain our plans better (for example, through clearer visualisation of development plans). We will also make sure that traditional routes for engagement remain available.

## Transform service delivery & improving customer access

We have invested in new ways for residents and businesses to access council services, for example through the introduction of the **MyAccount** service. We will continue making services increasingly digitally accessible and responsive – and reduce our carbon footprint while improving the customer experience.

We will seek to **engage with customers** when we make service improvements to ensure our services are accessible in a way that meets their needs.



## Drive a high-performance, accountable culture

Linked with our plans for continuous improvement, we will retain and build a **highly skilled, engaged, responsive and diverse workforce**, supporting efficiency, flexibility and clear, transparent decision-making.

"We will retain and build a high skilled, engaged, responsive and diverse workforce, supporting efficiency, flexibility and clear, transparent decision making."

## Working effectively with partners

The council has responsibility for delivering a broad range of services. However, it cannot achieve the best outcomes for the district working in isolation. The district is fortunate to have many highly-engaged partners and a fundamental element of this Corporate Plan is to engage effectively with partners to understand and embrace the vital role they play, and to work collectively and collaboratively to ensure the best outcomes for our residents.



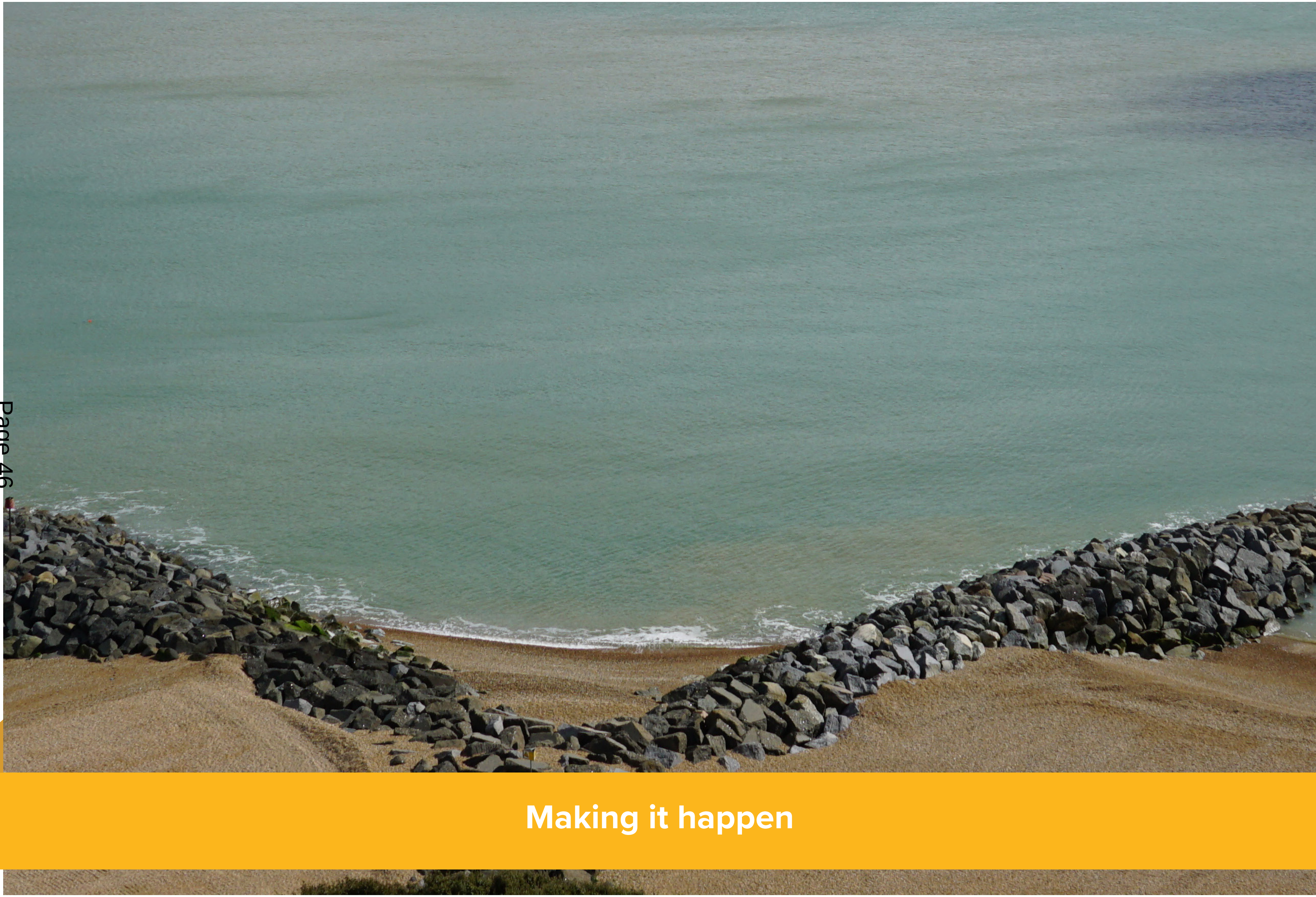
In developing our plans we will map key stakeholders and ensure we continue to engage appropriately with them. We will work with specific partners to address key issues facing the district, such as with Magnox for the decommissioning of Dungeness A power station, to ensure relevant support is secured and appropriately targeted to the benefit of our residents.

We will seek to positively influence where we do not have direct control in decision-making including on key matters such as education, digital infrastructure, policing, health care and the arts. Where effective partnerships already exist, such as the Community Safety Partnership, the Romney Marsh Partnership and the Folkestone & Hythe Business Advisory Board, we will continue to build on these links and apply lessons learnt to other partnership arrangements.

## Continuous improvement

The combination of financial pressures, challenging external conditions and rising service demands will mean that we need to be innovative and creative in developing new partnerships and finding new ways to deliver services. We will continually improve our services, seeking feedback from service users and delivery partners, and will embed a culture of continuous improvement throughout the council's management systems.

**“We need to be innovative and creative in developing new partnerships and finding new ways to deliver services.”**



# Making it happen

# Making it happen

This plan sets out our direction and our key service priorities for the next three years, in the context of a nine-year long-term vision, and taking into account the imperative of supporting our communities and businesses through recovery from the Covid-19 pandemic and its aftermath.

Some of the actions we have set out are relatively easy to measure: for example, we can easily count the proportion of waste that is recycled, or the number of new homes that are built. But others are harder to quantify, especially when the ultimate benefits (such as improved mental or physical health) are consequences of actions, rather than the immediate outputs.

Following approval of the plan, we will identify specific actions as well as baselines for the activities that we want to measure and we will identify where we want to get to by the time this plan is comprehensively reviewed in 2024 and (indicatively) by 2030. In doing this, we want to ensure that our aims are realistic as well as ambitious. We want to ensure that we are measuring the outcomes that are the most important to our citizens, not just the metrics that we can easily count, and that we recognise that not all change will be visible over the short term.

We will also review the plan annually and we will report on progress to the council. Finally we note that in the current circumstances some priorities may be subject to change, and it will be important to remain flexible while remaining focused on our long-term ambitions in **Creating Tomorrow Together**.

> **“We want to ensure that we are measuring the outcomes that are the most important to our citizens and not just the metrics that we can easily count.”**



# CREATING TOMORROW TOGETHER

Corporate Plan
2021-30

Folkestone & Hythe District Council, Civic Centre,
Castle Hill Avenue, Folkestone, Kent, CT20 2QY

**folkestone-hythe.gov.uk**

Folkestone & Hythe District Council

This report will be made public on 16 February 2021

Folkestone & Hythe District Council

Report number **A/20/08**

**To:** **Council**
**Date:** **24 February 2021**
**Head of Service:** **Charlotte Spendley, Director of Corporate Services**
**Cabinet Member:** **Councillor David Monk, Leader**

**SUBJECT: GENERAL FUND BUDGET AND COUNCIL TAX 2021/22**

**SUMMARY:** This report concludes the budget setting process for 2021/22. It sets out recommendations for setting the council tax after taking into account the district's council tax requirement (including town and parish council requirements and special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity), the precepts of Kent County Council, the Kent Police & Crime Commissioner and the Kent & Medway Fire & Rescue Service.

**REASONS FOR RECOMMENDATIONS:**
Council is asked to agree the recommendations set out below to approve the Budget and set the Council Tax for the year commencing 1 April 2021.

**RECOMMENDATIONS:**

1. **To receive and note Report A/20/08.**
2. **To approve the District Council's budget for 2021/22 as presented in Appendix 1 to this report and the council tax requirement for 2021/22, to be met from the Collection Fund, of £13,128,209.**
3. **To approve that the following amounts be now calculated by the Council for the year 2021/22 in accordance with sections 31 to 36 of the Local Government Finance Act 1992 (the Act):**
    a) **£101,485,462 – being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) (a) to (f) of the Act (as in Appendix 2).**
    b) **£88,357,253 – being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) (a) to (d) of the Act (as in Appendix 2).**
    c) **£13,128,209 – being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the Council, in accordance with Section 31A(4) of the Act, as its council tax requirement for the year (as in Appendix 2).**
    d) **£341.13 – being the amount at 3(c) above divided by the tax base of 38,484.69 calculated by the Council, in accordance with Section**

31B(1) of the Act, as the basic amount of its council tax for the year.

e) £3,152,977 – being the aggregate of all special items (including parish precepts) referred to in Section 34(1) of the Act.

f) £259.20 - being the amount at 3(d) above less the result given by dividing the amount at 3(e) above by the tax base of 38,484.69.15 calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its council tax for the year for dwellings in those parts of its area to which no special item relates, ie Old Romney and Snargate.

g) Part of the Council's area

| | |
|---|---|
| Folkestone | 355.70 |
| Sandgate | 337.12 |
| Hythe | 318.49 |
| Lydd | 317.99 |
| New Romney | 390.28 |
| | |
| Acrise | 261.49 |
| Elham | 321.57 |
| Elmsted | 271.29 |
| Hawkinge | 385.19 |
| Lyminge | 318.84 |
| Lympne | 314.58 |
| Monks Horton | 269.08 |
| Newington | 308.09 |
| Paddlesworth | 270.02 |
| Postling | 288.16 |
| Saltwood | 286.07 |
| Sellindge | 319.82 |
| Stanford | 301.44 |
| Stelling Minnis | 283.16 |
| Stowting | 276.55 |
| Swingfield | 313.37 |
| | |
| Brenzett | 302.18 |
| Brookland | 337.93 |
| Burmarsh | 295.15 |
| Dymchurch | 323.39 |
| Ivychurch | 311.93 |
| Newchurch | 297.09 |
| Old Romney | 259.20 |
| St Mary in the Marsh | 298.34 |
| Snargate | 259.20 |

Being the amounts given by adding to the amount at 3(f) above the special items relating to dwellings in those parts of the Council area mentioned here divided in each case by the appropriate tax base calculated by the Council, in accordance with Section 34(3) of the Act, as the basic amounts of its council tax for the year for dwellings in those parts of its area to which one or more special items relate.

## (h) Part of the Council's area

| | Valuation Bands | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | A | B | C | D | E | F | G | H |
| | £ | £ | £ | £ | £ | £ | £ | £ |
| **Parish** | | | | | | | | |
| Folkestone | 237.13 | 276.66 | 316.18 | 355.70 | 434.74 | 513.79 | 592.83 | 711.40 |
| Sandgate | 224.75 | 262.20 | 299.66 | 337.12 | 412.04 | 486.95 | 561.87 | 674.24 |
| Hythe | 212.33 | 247.71 | 283.10 | 318.49 | 389.27 | 460.04 | 530.82 | 636.98 |
| Lydd | 211.99 | 247.33 | 282.66 | 317.99 | 388.65 | 459.32 | 529.98 | 635.98 |
| New Romney | 260.19 | 303.55 | 346.92 | 390.28 | 477.01 | 563.74 | 650.47 | 780.56 |
| Acrise | 174.33 | 203.38 | 232.44 | 261.49 | 319.60 | 377.71 | 435.82 | 522.98 |
| Elham | 214.38 | 250.11 | 285.84 | 321.57 | 393.03 | 464.49 | 535.95 | 643.14 |
| Elmsted | 180.86 | 211.00 | 241.15 | 271.29 | 331.58 | 391.86 | 452.15 | 542.58 |
| Hawkinge | 256.79 | 299.59 | 342.39 | 385.19 | 470.79 | 556.39 | 641.98 | 770.38 |
| Lyminge | 212.56 | 247.99 | 283.41 | 318.84 | 389.69 | 460.55 | 531.40 | 637.68 |
| Lympne | 209.72 | 244.67 | 279.63 | 314.58 | 384.49 | 454.39 | 524.30 | 629.16 |
| Monks Horton | 179.39 | 209.28 | 239.18 | 269.08 | 328.88 | 388.67 | 448.47 | 538.16 |
| Newington | 205.39 | 239.63 | 273.86 | 308.09 | 376.55 | 445.02 | 513.48 | 616.18 |
| Paddlesworth | 180.01 | 210.02 | 240.02 | 270.02 | 330.02 | 390.03 | 450.03 | 540.04 |
| Postling | 192.11 | 224.12 | 256.14 | 288.16 | 352.20 | 416.23 | 480.27 | 576.32 |
| Saltwood | 190.71 | 222.50 | 254.28 | 286.07 | 349.64 | 413.21 | 476.78 | 572.14 |
| Sellindge | 213.21 | 248.75 | 284.28 | 319.82 | 390.89 | 461.96 | 533.03 | 639.64 |
| Stanford | 200.96 | 234.45 | 267.95 | 301.44 | 368.43 | 435.41 | 502.40 | 602.88 |
| Stelling Minnis | 188.77 | 220.24 | 251.70 | 283.16 | 346.08 | 409.01 | 471.93 | 566.32 |
| Stowting | 184.37 | 215.09 | 245.82 | 276.55 | 338.01 | 399.46 | 460.92 | 553.10 |
| Swingfield | 208.91 | 243.73 | 278.55 | 313.37 | 383.01 | 452.65 | 522.28 | 626.74 |
| Brenzett | 201.45 | 235.03 | 268.60 | 302.18 | 369.33 | 436.48 | 503.63 | 604.36 |
| Brookland | 225.29 | 262.83 | 300.38 | 337.93 | 413.03 | 488.12 | 563.22 | 675.86 |
| Burmarsh | 196.77 | 229.56 | 262.36 | 295.15 | 360.74 | 426.33 | 491.92 | 590.30 |
| Dymchurch | 215.59 | 251.53 | 287.46 | 323.39 | 395.25 | 467.12 | 538.98 | 646.78 |
| Ivychurch | 207.95 | 242.61 | 277.27 | 311.93 | 381.25 | 450.57 | 519.88 | 623.86 |
| Newchurch | 198.06 | 231.07 | 264.08 | 297.09 | 363.11 | 429.13 | 495.15 | 594.18 |
| Old Romney | 172.80 | 201.60 | 230.40 | 259.20 | 316.80 | 374.40 | 432.00 | 518.40 |
| St Mary in the Marsh | 198.89 | 232.04 | 265.19 | 298.34 | 364.64 | 430.94 | 497.23 | 596.68 |
| Snargate | 172.80 | 201.60 | 230.40 | 259.20 | 316.80 | 374.40 | 432.00 | 518.40 |

Being the amounts given by multiplying the amounts at 3(f) and 3(g) above by the number which, in the proportion set out in section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

4. To note that for the year 2021/22 Kent County Council, Kent Police and Crime Commissioner and the Kent & Medway Fire & Rescue Service have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:

| | A<br>£ | B<br>£ | C<br>£ | D<br>£ | E<br>£ | F<br>£ | G<br>£ | H<br>£ |
|---|---|---|---|---|---|---|---|---|
| Kent County Council | 945.84 | 1,103.48 | 1,261.12 | 1,418.76 | 1,734.04 | 2,049.32 | 2,364.60 | 2,837.52 |
| Kent Police Crime & Commissioner | 145.43 | 169.67 | 193.91 | 218.15 | 266.63 | 315.11 | 363.58 | 436.30 |
| Kent Fire and Rescue | 53.88 | 62.86 | 71.84 | 80.82 | 98.78 | 116.74 | 134.70 | 161.64 |

Major preceptor amounts remained subject to confirmation at the time of preparing this report.

5. That, having calculated the aggregate in each case of the amounts at 3(h) and 4 above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of council tax for the year 2021/22 for each of the categories of dwelling shown below:

(i) **Part of the Council's area**

| | Valuation Bands | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | A | B | C | D | E | F | G | H |
| | £ | £ | £ | £ | £ | £ | £ | £ |
| Parish | | | | | | | | |
| Folkestone | 1,382.28 | 1,612.67 | 1,843.05 | 2,073.43 | 2,534.19 | 2,994.96 | 3,455.71 | 4,146.86 |
| Sandgate | 1,369.90 | 1,598.21 | 1,826.53 | 2,054.85 | 2,511.49 | 2,968.12 | 3,424.75 | 4,109.70 |
| Hythe | 1,357.48 | 1,583.72 | 1,809.97 | 2,036.22 | 2,488.72 | 2,941.21 | 3,393.70 | 4,072.44 |
| Lydd | 1,357.14 | 1,583.34 | 1,809.53 | 2,035.72 | 2,488.10 | 2,940.49 | 3,392.86 | 4,071.44 |
| New Romney | 1,405.34 | 1,639.56 | 1,873.79 | 2,108.01 | 2,576.46 | 3,044.91 | 3,513.35 | 4,216.02 |
| | | | | | | | | |
| Acrise | 1,319.48 | 1,539.39 | 1,759.31 | 1,979.22 | 2,419.05 | 2,858.88 | 3,298.70 | 3,958.44 |
| Elham | 1,359.53 | 1,586.12 | 1,812.71 | 2,039.30 | 2,492.48 | 2,945.66 | 3,398.83 | 4,078.60 |
| Elmsted | 1,326.01 | 1,547.01 | 1,768.02 | 1,989.02 | 2,431.03 | 2,873.03 | 3,315.03 | 3,978.04 |
| Hawkinge | 1,401.94 | 1,635.60 | 1,869.26 | 2,102.92 | 2,570.24 | 3,037.56 | 3,504.86 | 4,205.84 |
| Lyminge | 1,357.71 | 1,584.00 | 1,810.28 | 2,036.57 | 2,489.14 | 2,941.72 | 3,394.28 | 4,073.14 |
| Lympne | 1,354.87 | 1,580.68 | 1,806.50 | 2,032.31 | 2,483.94 | 2,935.56 | 3,387.18 | 4,064.62 |
| Monks Horton | 1,324.54 | 1,545.29 | 1,766.05 | 1,986.81 | 2,428.33 | 2,869.84 | 3,311.35 | 3,973.62 |
| Newington | 1,350.54 | 1,575.64 | 1,800.73 | 2,025.82 | 2,476.00 | 2,926.19 | 3,376.36 | 4,051.64 |
| Paddlesworth | 1,325.16 | 1,546.03 | 1,766.89 | 1,987.75 | 2,429.47 | 2,871.20 | 3,312.91 | 3,975.50 |
| Postling | 1,337.26 | 1,560.13 | 1,783.01 | 2,005.89 | 2,451.65 | 2,897.40 | 3,343.15 | 4,011.78 |
| Saltwood | 1,335.86 | 1,558.51 | 1,781.15 | 2,003.80 | 2,449.09 | 2,894.38 | 3,339.66 | 4,007.60 |
| Sellindge | 1,358.36 | 1,584.76 | 1,811.15 | 2,037.55 | 2,490.34 | 2,943.13 | 3,395.91 | 4,075.10 |
| Stanford | 1,346.11 | 1,570.46 | 1,794.82 | 2,019.17 | 2,467.88 | 2,916.58 | 3,365.28 | 4,038.34 |
| Stelling Minnis | 1,333.92 | 1,556.25 | 1,778.57 | 2,000.89 | 2,445.53 | 2,890.18 | 3,334.81 | 4,001.78 |
| Stowting | 1,329.52 | 1,551.10 | 1,772.69 | 1,994.28 | 2,437.46 | 2,880.63 | 3,323.80 | 3,988.56 |
| Swingfield | 1,354.06 | 1,579.74 | 1,805.42 | 2,031.10 | 2,482.46 | 2,933.82 | 3,385.16 | 4,062.20 |
| | | | | | | | | |
| Brenzett | 1,346.60 | 1,571.04 | 1,795.47 | 2,019.91 | 2,468.78 | 2,917.65 | 3,366.51 | 4,039.82 |
| Brookland | 1,370.44 | 1,598.84 | 1,827.25 | 2,055.66 | 2,512.48 | 2,969.29 | 3,426.10 | 4,111.32 |
| Burmarsh | 1,341.92 | 1,565.57 | 1,789.23 | 2,012.88 | 2,460.19 | 2,907.50 | 3,354.80 | 4,025.76 |
| Dymchurch | 1,360.74 | 1,587.54 | 1,814.33 | 2,041.12 | 2,494.70 | 2,948.29 | 3,401.86 | 4,082.24 |
| Ivychurch | 1,353.10 | 1,578.62 | 1,804.14 | 2,029.66 | 2,480.70 | 2,931.74 | 3,382.76 | 4,059.32 |
| Newchurch | 1,343.21 | 1,567.08 | 1,790.95 | 2,014.82 | 2,462.56 | 2,910.30 | 3,358.03 | 4,029.64 |
| Old Romney | 1,317.95 | 1,537.61 | 1,757.27 | 1,976.93 | 2,416.25 | 2,855.57 | 3,294.88 | 3,953.86 |
| St Mary in the Marsh | 1,344.04 | 1,568.05 | 1,792.06 | 2,016.07 | 2,464.09 | 2,912.11 | 3,360.11 | 4,032.14 |
| Snargate | 1,317.95 | 1,537.61 | 1,757.27 | 1,976.93 | 2,416.25 | 2,855.57 | 3,294.88 | 3,953.86 |

**6. To determine that the District Council's basic amount of council tax for 2021/22 is not excessive in accordance with principles approved under Section 52ZB of the Local Government Finance Act 1992.**

## 1. INTRODUCTION

1.1 This report concludes the budget setting process for 2021/22.

1.2 Cabinet considered the Council's final General Fund budget for 2021/22 and the council tax requirement at its earlier meeting on 24 February 2021. Cabinet has approved the General Fund Revenue Budget, a summary of which is included at Appendix 1. The draft budget was subject to review by the Finance & Performance Sub-Committee on 12 January 2021. It was also published for public consultation during mid-December and throughout January.

1.3 This report makes recommendations to enable the Council to set the council tax for each part of its area, after taking into account its council tax requirement for 2021/22 (including town and parish council requirements and special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity) and the precepts of Kent County Council, the Kent Police & Crime Commissioner and Kent & Medway Fire & Rescue Service. Changes in respect of the major precept assumptions may result in a revised report having to be tabled.

1.4 The proposed General Fund budget for 2021/22 results in an increase to the average council tax at Band D of £5.34 (1.99%) to £273.72. This is the amount that Central Government monitors when considering whether any increase in council tax is excessive. The council tax bill separates out the special expenses element for Folkestone and Sandgate payers from this amount.

## 2. GENERAL FUND REVENUE BUDGET 2021/22

2.1 The General Fund budget has been prepared on the basis of the Council's approved Medium Term Financial Strategy (MTFS) and Budget Strategy. It also takes into account announcements, where relevant, in the Chancellor's Spending Review 2020; and the Provisional Local Government Finance Settlement for 2021/22. The Final Local Government Finance Settlement is due to be announced in mid-February and is not anticipated that there will be any significant changes from the provisional settlement position.

2.2 Initially the MTFS projected a shortfall of £3.5m. Further work has identified significant savings and changes to fees & charges along with the use of reserves has resulted in a balanced budget now being presented to Members for approval.

General Fund Revenue Budget 2021/22

2.3 The 2021/22 budget (excluding town and parish precepts and before any withdrawal from the General Reserve) is £15,082,115. The budget details are set out at Appendix 1.

Town and Parish Precepts

2.4 Town and parish precepts form part of the council tax requirement. Total local council precepts in 2021/22 are £2,594,247 – an increase of £45,496 (1.8%) in cash terms compared to £2,548,751 in the current year. An increase in precepts increases the council tax requirement and affects the average tax calculation; however it is not taken into account by the Government when monitoring 'excessive' increases. Town and parish councils are not currently subject to referendums.

Council Tax Requirement

2.5 The statutory calculation for the council tax requirement is shown at Appendix 2. This sets out gross expenditure and gross income, including the Housing Revenue Account and overall changes to reserves. The outcome results in recommendations 3(a), (b) and (c).

## 3. GENERAL FUND REVENUE RESERVES

3.1 The Council's reserves position is shown below:

| **Reserve** | **1/4/2020 Balance £000** | 2020/21 Movement £000 | **31/3/2021 Balance £000** | 2021/22 Movement £000 | **31/3/2022 Balance £000** |
|---|---|---|---|---|---|
| **Earmarked Reserves:** | | | | | |
| Business Rates | **5,699** | (4,300) | **1,399** | 225 | **1,624** |
| Invest to Save | **366** | (366) | **0** | 0 | **0** |
| Carry Forward | **681** | (159) | **522** | 0 | **522** |
| IFRS[1] Reserve | **31** | (23) | **8** | (2) | **6** |
| VET[2] Reserve | **257** | 126 | **383** | (66) | **317** |
| New Homes Bonus (NHB) | **2,360** | (18) | **2,342** | (344) | **1,998** |
| Corporate Initiatives | **998** | (752) | **246** | (246) | **0** |
| Maintenance of Graves | **12** | 0 | **12** | 0 | **12** |
| Leisure | **497** | 50 | **547** | (100) | **447** |
| Otterpool | **1,570** | (1,570) | **0** | 0 | **0** |
| Economic Development | **4,384** | (2,974) | **1,410** | (1,134) | **276** |
| Community Led Housing | **417** | (52) | **365** | (55) | **310** |
| Lydd Airport | **9** | 0 | **9** | 0 | **9** |
| Homelessness Prevention | **401** | 137 | **538** | 98 | **636** |
| High Street Regeneration | **3,000** | (1,208) | **1,792** | (830) | **962** |
| Climate Change | **0** | 4,907 | **4,907** | (306) | **4,601** |
| **Total Earmarked Reserves** | **20,682** | **(6,202)** | **14,480** | **(2,760)** | **11,720** |
| **General Reserve** | **3,309** | **506** | **3,815** | **(710)** | **3,105** |
| **Total General Fund Reserves** | **23,991** | **(5,696)** | **18,295** | **(3,470)** | **14,825** |

[1] *IFRS = International Financial Reporting Standards*
[2] *VET = vehicles, equipment and technology*

3.2 The General Reserve is forecast to be £3.0m by 31 March 2022 and total General Fund Reserves (General Reserve plus Earmarked Reserves) are forecast to be £14.7m at 31 March 2022.

3.3 These forecasts are based on the current projected outturn position for 2020/21 and on the assumption that in-year budget variances are contained within the overall approved 2021/22 budget. Any emerging issues in 2020/21 which have a revenue impact will affect the forecast position of the General Reserve.

## 4. CALCULATING COUNCIL TAX IN RESPECT OF DISTRICT AND PARISH REQUIREMENTS

4.1 The Council must calculate a 'basic amount' of tax for all Band D properties in each part of the district, taking into account not only the net expenditure of the District Council but also the precepts of the town and parish councils and the net expenditure of the Folkestone Parks and Pleasure Grounds Charity, which are charged to their local areas.

4.2 This net expenditure is known as the council tax requirement and is determined after taking in to account retained non-domestic rates, revenue support grant and the Council's share of the Collection Fund surplus. The calculation is set out at section 4.4 below.

4.3 The result of the calculation is divided by the Tax Base to give the tax rate. The Tax Base for 2021/22 of 38,484.69 Band D equivalent properties was approved by the Director of Corporate Services on 16 December 2020 via delegated authority through the constitution and is recommended to Full Council as part of this report.

4.4 The basic amount of tax (average District tax) is as follows:

| | £ |
|---|---|
| Expenditure - see Appendix 2 | 101,485,462 |
| Income - see Appendix 2 | (88,357,253) |
| **Council Tax Requirement- demand on the Collection Fund** | **13,128,209** |
| Divided by Tax Base | ÷ 38,484.69 |
| Basic amount of Council Tax - average District council tax | £341.13 |

The calculations for the basic amounts for each part of the District are set out at Appendices 3 and 4.

4.5 The average District council tax for Band D properties, including town and parish precepts, will be £341.13. This is an increase of £7.58 (2.27%) over 2020/21.

4.6 For the purposes of measuring Folkestone & Hythe's council tax increase against the Government's referendum criteria, the amount in respect of town and parish precepts is excluded.

| **Band D Tax Rates** | **2021/22 £** | 2020/21 £ | **Increase (Decrease)** |
|---|---|---|---|
| Band D Council Tax - including Town and Parish precepts | **341.13** | 333.55 | **2.27%** |
| Town and Parish precepts - Band D equivalent | **(67.41)** | (65.17) | **3.44%** |
| Band D Council Tax - excluding Town and Parish precepts | **273.72** | 268.38 | **1.99%** |

4.7 The average Council Tax to finance Folkestone & Hythe's net expenditure plans in 2021/22, including Special Expenses, is proposed to increase by £5.34 (1.99%) to £73.72.

4.8 The Council Tax applicable to dwellings in valuation bands other than Band D has been calculated in accordance with the proportions set out in the Act. The result of these calculations is set out in recommendation 3(h).

## 5. SETTING THE TOTAL AMOUNTS OF COUNCIL TAX FOR EACH PART OF THE DISTRICT

5.1 The final step in setting the council tax is for the Council to aggregate the District council tax with the precepts of Kent County Council, Kent Police and Crime Commissioner and Kent & Medway Fire & Rescue Service. The County, Police and Fire & Rescue precepts remain to be confirmed at the time of preparing this report.

5.2 Kent County Council, the Kent Police & Crime Commissioner and Kent & Medway Fire & Rescue Service plan to issue precepts of £54,600,539; £8,395,435; and £3,110,333 respectively. The County Council's precept includes £6,123,684 for the Adult Social Care precept which will be itemised separately on council tax bills.

5.3 The average total tax at Band D is summarised in the table below, confirming an overall increase of £91.61 (4.66%).

| **Authority** | **2021/22 £** | 2020/21 £ | **Increase £** | **Increase %** |
|---|---|---|---|---|
| Folkestone & Hythe DC - including Special Expenses | 273.72 | 268.38 | 5.34 | 1.99% |
| Town and Parish Councils | 67.41 | 65.17 | 2.24 | 3.44% |
| **Total District Council** | **341.13** | **333.55** | **7.58** | 2.27% |
| Kent County Council | 1,418.76 | 1,351.26 | 67.50 | 5.00% |
| Kent Police Commissioner | 218.15 | 203.15 | 15.00 | 7.38% |
| Kent & Medway Fire & Rescue | 80.82 | 79.29 | 1.53 | 1.93% |
| **Total** | **2,058.86** | **1,967.25** | **91.61** | 4.66% |

5.4 Appendix 4 sets out the result of adding the precept figure to the District council tax for each part of the District and Recommendation 5 seeks approval to the council tax for each area analysed over the tax bands.

5.5 The relative elements of the average council tax charge for 2021/22 are as follows:

| **Council Tax 2021/22 – Band D** | **2021/22 £** | % of total bill |
|---|---|---|
| Folkestone & Hythe DC (including Special Expenses) | 273.72 | 13.29% |
| Town and Parish Councils | 67.41 | 3.27% |
| Total District Council | **341.13** | |
| | | |
| Kent County Council | 1,418.76 | 68.91% |
| Kent Police Commissioner | 218.15 | 10.60% |
| Kent Fire and Rescue Service | 80.82 | 3.93% |
| **Total** | **2,058.86** | |

## 6. ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

6.1 The Local Government Act 2003 requires the Council's Chief Finance Officer to give an opinion on the robustness of the budget and adequacy of the reserves. This statement is set out in full at Appendix 5.

## 7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 **Legal Officer's Comments** (NM)

The Council must consistently comply with the Local Government Finance Act 1992 (as amended) and associated legislation. All the legal issues have been covered in the body of this report.

7.2 **Finance Officer's Comments** (CI)

This report and appendices cover all financial matters necessary to enable Council to make the determinations in accordance with the Local Government Finance Act 1992 as amended by the Localism Act 2011.

7.3 **Diversities and Equalities Implications** (CI)

The Equality Impact Assessment is attached at Appendix 6.

## 8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting:

Cheryl Ireland, Chief Financial Services Officer
Telephone: 01303 853213
Email: Cheryl.ireland@folkestone-hythe.gov.uk

Charlotte Spendley, Director of Corporate Services
Telephone: 07935 517986
Email: charlotte.spendley@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

- Budget working papers
- 11 November 2020 - Report to Cabinet and Council - Medium Term Financial Strategy for the period 2021/22 to 2024/25
- 9 December 2020 - Reports to Cabinet - Budget Strategy 2021/22 and Fees & Charges 2021/22
- 20 January 2021 - Reports to Cabinet - Draft General Fund Original Revenue Budget 2021/22 and Update to the General Fund Medium Term Capital Programme

**Appendices:**

Appendix 1 - General Fund Budget 2021/22

Appendix 2 - Calculation of District Council's Council Tax Requirement in accordance with Section 31A of the Local Government Finance Act 1992.

Appendix 3 - Calculation of Basic Amounts of Council Tax in accordance with Sections 31B and 34 of the Local Government Finance Act 1992.

Appendix 4 - Council Tax Calculations at Band D for each Area in the District.

Appendix 5 - Robustness of the Estimates and Adequacy of Reserves.

Appendix 6 - Equality Impact Assessment

## APPENDIX 1

| 2020/21 Original Budget £ | | 2021/22 Draft Original Budget January 2021 £ | 2021/22 Updated Original Budget February 2020 £ |
|---|---|---|---|
| | **SUMMARY OF NET EXPENDITURE** | | |
| | **Service Heads** | | |
| 5,823,150 | Finance, Strategy & Corporate Services | 7,320,440 | **6,995,850** |
| 662,840 | Human Resources | 665,850 | **665,850** |
| 2,575,720 | Governance & Law | 2,449,910 | **2,449,910** |
| 811,110 | Leadership Support | 217,470 | **60,470** |
| 5,315,370 | Place | 6,600,060 | **6,600,060** |
| 1,012,470 | Economic Development | 1,304,330 | **1,304,330** |
| 531,570 | Planning | 212,940 | **212,940** |
| 1,271,670 | Operations | 2,237,590 | **2,487,590** |
| 1,258,840 | Strategic Development | 70,490 | **70,490** |
| 995,710 | Housing | 3,345,600 | **3,345,600** |
| 34,000 | Transition & Transformation | 0 | **0** |
| (2,000,500) | Recharges to non-general fund | (5,559,200) | **(5,559,200)** |
| 65000 | Vacancy Target & Savings Target not included in service heads | (608,800) | **(608,800)** |
| **18,356,950** | **TOTAL HEAD OF SERVICE NET EXPENDITURE** | **18,246,680** | **18,015,090** |
| 474,089 | Internal Drainage Board Levies | 483,570 | **483,570** |
| 486,000 | Interest Payable and Similar Charges | 739,000 | **739,000** |
| (793,200) | Interest and Investment Income | (754,000) | **(754,000)** |
| (1,422,422) | New Homes Bonus Grant | (836,050) | **(836,050)** |
| (1,791,912) | Other non-service related Government Grants | (2,269,880) | **(1,971,230)** |
| **15,309,505** | **TOTAL GENERAL FUND NET OPERATING EXPENDITURE** | **15,609,320** | **15,676,380** |
| (3,613,107) | Net Transfers to/(from) Earmarked Reserves | (2,489,465) | **(2,760,265)** |
| 874,000 | Minimum Revenue Provision | 886,000 | **886,000** |
| 1,678,710 | Capital Expenditure funded from Revenue | 1,280,000 | **1,280,000** |
| **14,249,108** | **TOTAL TO BE MET FROM REVENUE SUPPORT GRANT AND LOCAL TAXPAYERS** | **15,285,855** | **15,082,115** |
| 2,548,751 | Town and Parish Council Precepts | 2,599,730 | **2,594,247** |
| 0 | Transfer to/(from) Collection Fund | 0 | **67,290** |
| (3,753,186) | Business Rates Income | (3,322,490) | **(3,905,100)** |
| **13,044,673** | **TOTAL TO BE MET FROM DEMAND ON THE COLLECTION FUND AND GENERAL RESERVE** | **14,563,095** | **13,838,552** |
| (13,044,673) | Council Tax - Demand on Collection Fund | (12,935,625) | **(13,128,109)** |
| **0** | **(SURPLUS) / DEFICIT FOR YEAR** | **1,627,470** | **710,343** |
| 0 | Contribution from General Reserve | 0 | **(710,343)** |
| **0** | **BALANCE AT END OF YEAR** | **0** | **0** |

**APPENDIX 2**

## CALCULATION OF DISTRICT COUNCIL'S COUNCIL TAX REQUIREMENT IN ACCORDANCE WITH SECTION 31A OF THE LOCAL GOVERNMENT FINANCE ACT 1992

| | | £ | £ |
|---|---|---|---|
| | **EXPENDITURE (including additions to Reserves and Contingencies)** | | |
| 1. | Gross Revenue Expenditure (excl. Special Items) | 96,519,168 | |
| 2. | Special Items | | |
| | a) Special Expenses | 558,730 | |
| | b) Parish Precepts | 2,594,247 | |
| 3. | Addition to Reserves | | |
| | a) New Homes Bonus Reserve | 830,167 | |
| | b) Business Rates Reserve | 475,330 | |
| | c) Vehicles, Equipment and Technology | 150,200 | |
| | d) Homelessness Prevention Reserve | 98,000 | |
| | e) Leisure Reserve | 50,000 | |
| 4. | Allowance for contingencies in the year | 209,620 | |
| | **TOTAL EXPENDITURE Recommendation 3(a)** | | **101,485,462** |
| | **INCOME (including use of Reserves)** | | |
| 1. | Gross Revenue Income | (78,184,802) | |
| 2. | Use of Reserves | | |
| | a) New Homes Bonus Reserve | (1,174,370) | |
| | b) Economic Development Reserve | (1,134,000) | |
| | c) High Street Regeneration Reserve | (830,000) | |
| | d) Climate Change Reserve | (306,000) | |
| | e) Business Rates Reserve | (250,000) | |
| | f) Corporate Initiatives Reserve | (246,132) | |
| | g) Vehicles, Equipment and Technology | (216,000) | |
| | h) Leisure Reserve | (150,000) | |
| | i) Community Led Housing | (55,000) | |
| | j) IFRS Reserve | (2,463) | |
| | k) Housing Revenue Account | (5,098,143) | |
| | l) General Reserve | (710,343) | |
| | **TOTAL INCOME Recommendation 3(b)** | | **(88,357,253)** |
| | **COUNCIL TAX REQUIREMENT Recommendation 3 (c)** | | **13,128,209** |

**APPENDIX 3**

## CALCULATION OF BASIC AMOUNTS OF COUNCIL TAX IN ACCORDANCE WITH SECTIONS 31B AND 34 OF THE LOCAL GOVERNMENT FINANCE ACT 1992

| | | | | |
|---|---|---|---|---|
| 1. | **BASIC AMOUNT OF TAX** | | | |
| | a) Council Tax Requirement<br>**Recommendation 3(c)** | | | £13,128,209 |
| | b) Divided by Tax Base | | | 38,484.69 |
| | c) Basic amount of Tax<br>**Recommendation 3(d)** | | | £341.13 |
| 2. | **BASIC AMOUNT OF TAX FOR THOSE PARTS OF AREA TO WHICH NO SPECIAL ITEMS RELATE** | | | |
| | a) Basic amount of tax<br>**Recommendation 3(d)** | | | £341.13 |
| | b) Special Expenses | £558,730 | | |
| | c) Parish Precepts | £2,594,247 | | |
| | d) Special Items<br>**Recommendation 3(e)** | £3,152,977 | | |
| | e) Divided by Tax Base | 38,484.69 | | (£81.93) |
| | f) Basic Amount of Tax for Areas with no Special Items<br>**Recommendation 3(f)**<br>See Appendix 4 for individual parishes | | | £259.20 |
| 3. | **BASIC AMOUNT OF TAX FOR THOSE PARTS OF AREA TO WHICH SPECIAL ITEMS RELATE** | | | |
| | a) Basic Amount of Tax for Areas with no Special Items<br>**Recommendation 3(f)** | | | £259.20 |
| | b) Special Items for each individual area of the District | £X | | |
| | c) Divided by Tax Base for each individual area of the District | Y | = | £Z |
| | d) Basic Amount of Tax for Areas with Special Items<br>**Recommendation 3(g)**<br>See Appendix 4 for individual parishes | | | £259.20 + £Z |

**APPENDIX 4**

# COUNCIL TAX CALCULATIONS AT BAND D FOR EACH AREA IN THE DISTRICT

| Area | Precepts | + F/stone Parks Charity | = Special Items | ÷Tax Base | = Council Tax for Special Items | + Council Tax for General Items | = District* Council Tax | + KCC, Police and Fire Precepts | = Total Council Tax |
|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | | £ | £ | £ | £ | £ |
| Folkestone | 873,950 | 493,566 | 1,367,516 | 14,171.12 | 96.50 | 259.20 | 355.70 | 1,717.73 | 2,073.43 |
| Sandgate | 80,625 | 65,164 | 145,789 | 1,870.97 | 77.92 | 259.20 | 337.12 | 1,717.73 | 2,054.85 |
| Hythe | 359,002 | | 359,002 | 6,054.92 | 59.29 | 259.20 | 318.49 | 1,717.73 | 2,036.22 |
| Lydd | 125,000 | | 125,000 | 2,126.19 | 58.79 | 259.20 | 317.99 | 1,717.73 | 2,035.72 |
| New Romney | 361,000 | | 361,000 | 2,754.00 | 131.08 | 259.20 | 390.28 | 1,717.73 | 2,108.01 |
| | | | | | | | | | |
| Acrise | 200 | | 200 | 87.19 | 2.29 | 259.20 | 261.49 | 1,717.73 | 1,979.22 |
| Elham | 43,986 | | 43,986 | 705.26 | 62.37 | 259.20 | 321.57 | 1,717.73 | 2,039.30 |
| Elmsted | 2,250 | | 2,250 | 186.06 | 12.09 | 259.20 | 271.29 | 1,717.73 | 1,989.02 |
| Hawkinge | 370,123 | | 370,123 | 2,937.76 | 125.99 | 259.20 | 385.19 | 1,717.73 | 2,102.92 |
| Lyminge | 67,718 | | 67,718 | 1,135.53 | 59.64 | 259.20 | 318.84 | 1,717.73 | 2,036.57 |
| Lympne | 35,000 | | 35,000 | 632.00 | 55.38 | 259.20 | 314.58 | 1,717.73 | 2,032.31 |
| Monks Horton | 597 | | 597 | 60.43 | 9.88 | 259.20 | 269.08 | 1,717.73 | 1,986.81 |
| Newington | 7,000 | | 7,000 | 143.19 | 48.89 | 259.20 | 308.09 | 1,717.73 | 2,025.82 |
| Paddlesworth | 200 | | 200 | 18.48 | 10.82 | 259.20 | 270.02 | 1,717.73 | 1,987.75 |
| Postling | 3,280 | | 3,280 | 113.25 | 28.96 | 259.20 | 288.16 | 1,717.73 | 2,005.89 |
| Saltwood | 10,500 | | 10,500 | 390.77 | 26.87 | 259.20 | 286.07 | 1,717.73 | 2,003.80 |
| Sellindge | 52,500 | | 52,500 | 866.12 | 60.62 | 259.20 | 319.82 | 1,717.73 | 2,037.55 |
| Stanford | 8,000 | | 8,000 | 189.40 | 42.24 | 259.20 | 301.44 | 1,717.73 | 2,019.17 |
| Stelling Minnis | 7,000 | | 7,000 | 292.10 | 23.96 | 259.20 | 283.16 | 1,717.73 | 2,000.89 |
| Stowting | 2,000 | | 2,000 | 115.27 | 17.35 | 259.20 | 276.55 | 1,717.73 | 1,994.28 |
| Swingfield | 25,651 | | 25,651 | 473.54 | 54.17 | 259.20 | 313.37 | 1,717.73 | 2,031.10 |
| | | | | | | | | | |
| Brenzett | 6,300 | | 6,300 | 146.57 | 42.98 | 259.20 | 302.18 | 1,717.73 | 2,019.91 |
| Brookland | 12,870 | | 12,870 | 163.48 | 78.73 | 259.20 | 337.93 | 1,717.73 | 2,055.66 |
| Burmarsh | 3,977 | | 3,977 | 110.62 | 35.95 | 259.20 | 295.15 | 1,717.73 | 2,012.88 |
| Dymchurch | 83,000 | | 83,000 | 1,292.98 | 64.19 | 259.20 | 323.39 | 1,717.73 | 2,041.12 |
| Ivychurch | 4,918 | | 4,918 | 93.27 | 52.73 | 259.20 | 311.93 | 1,717.73 | 2,029.66 |
| Newchurch | 4,600 | | 4,600 | 121.42 | 37.89 | 259.20 | 297.09 | 1,717.73 | 2,014.82 |
| Old Romney | - | | - | 81.40 | - | 259.20 | 259.20 | 1,717.73 | 1,976.93 |
| St Mary in the Marsh | 43,000 | | 43,000 | 1,098.56 | 39.14 | 259.20 | 298.34 | 1,717.73 | 2,016.07 |
| Snargate | - | | - | 52.84 | - | 259.20 | 259.20 | 1,717.73 | 1,976.93 |
| | 2,594,247 | 558,730 | 3,152,977 | 38,484.69 | | | | | |

*Recommendation 3(f) and 3(g)

**APPENDIX 5**

## ROBUSTNESS OF THE ESTIMATES AND ADEQUACY OF RESERVES

### Introduction

The council has a legal duty to produce a balanced budget and must take all reasonable factors into account when doing so. Under the Local Government Act 2003 section 25(1) (b), the Chief Finance Officer (CFO) must advise the council about the **robustness of the budget** and **the adequacy of the council's reserves** when it considers its budget and council tax. The Act requires Members to have regard to this report in making their decisions.

As the council's CFO, I confirm that in my opinion the draft budget is robust and the proposed level of reserves is adequate in respect of the proposed budget for 2021/22. The reasons for this opinion are set out below.

Members should note that if they wish to depart from or amend the draft Budget, the comments within this Appendix may require revision.

### Background

The financial pressures faced by Local Authorities are widely known and the sector has undergone significant funding changes in recent years with a shift away from central government grant funding.

The Local Government Finance Settlement figures for 2021/22 were issued on 17 December 2020. Due to the ongoing impact of the pandemic and the continued uncertainty during 2020 the Fair Funding Review anticipated to be implemented in 2021/22 was deferred and a one year spending round was announced for 2021/22 in November 2020. The Spending Review 2020 also confirmed that the Business Rates baseline review and New Homes Bonus Reform would also be deferred until 2022/23. Through the settlement our Business Rates pooling arrangement with Kent & Medway authorities was confirmed to continue for 2021/22 which will operate under the 50% retention scheme for a further year. The settlement also confirmed a Council Tax increase of 2% (or £5) for the Council be permissible under the referendum limits.

The Council has in recent year's demonstrated strong financial performance adding to the reserves in place which has helped to buffer the impact and manage the uncertainties experienced of late within the sector and in addition have this year provided scope for the council to continue with its delivery of front line services despite the financial impact of the pandemic.

2020/21 has been unprecedented in many ways, including the uncertainty it created in Local Government funding mechanisms. As the sector has needed to move away from a reliance on central grant funding over recent years, a greater reliance was placed upon fees and charges and commercial income streams, as well as of course the collection fund. The Council faced additional spending pressures and all of these funding streams were affected during 2020/21 due to the pandemic, through national lockdown, tiering arrangements and the overall economic downturn of the economy.

The Councils past strong financial performance and robust position made a significant difference to the actions needed by management and Members during this difficult period for residents.  Financial modelling during the early part of 2020/21 was challenging as no similar scenarios have been faced and the term of the impact was unknown.  The robust reserves position provided the scope to continue with front line services and take the decisions to support the community sector where needed.  The Councils previously prudent approach to commercial investments was advantageous in managing the impacts of income shortfalls during the year.  Internal savings were identified and significant central government grant has since been announced which has supported 2020/21 and resulted in no draw from reserves being required to rebalance the budget in that period.

The Council must remain of course prudent in its approach in particular until there is certainty about the long term funding of the sector is known and the Medium Term Financial Strategy gap is addressed.

**Robustness of the Estimates**

In assessing the robustness of the estimates this statement looks at the key factors and risk areas associated with the proposed 2021/22 budget and how they have been and can be managed.

<u>The MTFS</u>
In considering the budget calculations for 2021/22 regard should be had to the medium term financial position of the council and the future of local government funding. It was anticipated that clarity would have been available regarding the future of Business Rates retention and wider funding by this time but that is not the case. The technical consultation is anticipated to be available in the Spring and will be evaluated and incorporated into an update MTFS in due course.

The current MTFS was considered by Cabinet and Full Council in November 2020, and identified a gap for 2021/22 of £3.5m and over its term (2021/22 – 2024/25) of £13.7 million.

The council has various strategies in place to address the medium term funding gap. The multi-pronged approach to achieving a balanced position is set out in the MTFS and Budget Strategy. Specific initiatives include:

- the conclusion of the Council wide Transformation Programme
- a range of Strategic Development Projects
- continued emphasis on town centre regeneration & economic development
- the development of Otterpool Park Garden Town through the Council owned delivery vehicle
- the use of reserves to ensure future financial sustainability.

<u>Development of Budgets</u>

Following consideration of the MTFS in November 2020 and the 2021/22 Budget Strategy together with the proposed Fees and Charges 2021/22 were approved by Cabinet in December 2020.

In January 2021 the 2021/22 General Fund Draft Budget was examined in detail by the Finance & Performance Sub-Committee. All Chief Officers and Assistant Directors were present for this debate to aid the discussion on the proposals made. The Medium Term Capital Programme and the HRA Revenue and Capital budgets were also presented for scrutiny in January 2020.

This statement accompanies the General Fund Budget and council tax requirement to be considered for approval by Full Council following a final update report to Cabinet on the same day.

This report is the culmination of the budget process; detailed work has taken place behind the scenes with finance officers, budget holders, Chief Officers, Assistant Directors and CLT to ensure the budget estimates are robust. In addition to this there have been regular updates to Informal Cabinet.

The budget-setting process commenced with detailed budget guidelines covering the General Fund, HRA and Capital Programme that were issued in September. This aided a consistent approach to preparing the budget estimates. During September and October the Finance (Case Management) staff worked with budget holders to review all controllable costs, agree the salary budgets and build the base budget. Staff establishment salary budgets were prepared based on the approved structure for each cost centre on a post by post basis. Assistant Directors and Chief Officers were asked to work with their budget holders and Finance Officer to assess the need for growth in their areas and identify efficiency proposals. These proposals alongside the proposed fees and charges schedules (developed in accordance with the policy framework) were scrutinised by the Corporate Leadership Team (CLT) before the incorporation of them in the December round of Cabinet papers.

The budget estimates included assumptions around a number of key factors. The process for determining the 2021/22 budget has again required the majority of budgets to be cash limited with very limited growth being considered. The only budgets that have been adjusted for inflation are salaries and existing inflationary commitments in relation to contracts. A provision for pay awards has been made. During the growth & savings exercise all managers were asked to identify potential savings within their service areas and around £1 million was removed from the base budget as a result of this exercise.

Estimates have also taken account of the financial implications of the council’s Capital Programme and the level of financing required to meet the expenditure demanded. The capital programme is fully funded as presented to Members. This is based on the use of reserves and the investment of future income streams.

The proposed Capital Programme includes significant investment in the Otterpool Park Garden Town development. This project has progressed at pace during the previous 12 months but it remains a long term project with a life of around 30 years for its full development. This project does offer a unique opportunity to the council, but it is not without risk. Appropriate advice has been taken (legal, financial, tax, market etc) at each key stage and the council will need to continue to do so in order to ensure robust informed decisions are taken at the appropriate times as the project progresses.

The Budget Strategy process identified growth of £296k and savings, including a review of the current charging levels for income, of £1.1m.

The Budget includes an assumption of Council Tax increases (including the special expense) of 1.99%. This is within the referendum limit and is an important element in determining a balanced budget both for the coming financial year but also one sustainable for the future.

The Council also draws income from the Business Rates scheme. Business rates funding is dependent on the council's ability to retain and grow its business rates base. As a result, estimates have had to be made for the level of income taking into account various assumptions about the number of businesses, appeals against rateable values and levels of collection. This is particularly challenging to estimate during this uncertain economic period however I am satisfied with the estimates made and feel they reflect a fair and balanced approach based on the information available at this time.

Mitigating Risks

To assist with mitigating the risks associated with budget preparation there is a CLT contingency within the budget to allow for unforeseen events and to assist with ensuring corporate priorities are delivered. In addition it is likely that I will recommend to Cabinet when the 2020/21 Quarter 4 budget monitoring paper is considered in March that a further sum is allocated from any underspend (resulting from COVID grants in 2020/21) to be earmarked into a reserve which can be drawn down in 2021/22 to address emerging pressures as they arise from the Councils role in supporting residents and businesses through the pandemic. All known COVID grants to be awarded in 2021/22 have been incorporated into the budget.

Stringent budget monitoring will continue to be undertaken, with particular emphasis being placed on monitoring income targets, salary costs, high-risk expenditure items and volatile funding sources. Prompt responses to in-year projected deficits will be demanded by Cabinet Members and Senior Officers. The financial monitoring system covers both revenue and capital expenditure and work is being undertaken to bring forward and continually improve the budget preparation process.

The Council has a depth of experienced budget managers across its service areas and a strong finance team. We will continue to provide updates to budget managers and will support finance staff with relevant training and professional development to maintain this position. The experience and knowledge of our budget managers has been demonstrated during both the in-year savings identified in 2020/21 and the savings proposals for the current budget cycle.

In conclusion I am satisfied that officers have undertaken a robust and thorough approach to the setting of the budget for 2021/22. I am satisfied with the estimates in place that determine the setting of the budget and council tax for the coming financial year. The council will continue to assess the position in year, ensure it remains within the budget set and react promptly to address any changes identified. In addition, we will continue to give consideration to closing future budget gaps, acting proactively over the year and assessing funding updates when they become available.

**Adequacy of Reserves**

The requirement for financial reserves is acknowledged in statute (Local Government Finance Act 1992). The level of working balances and reserves held by a council is not prescribed. The minimum prudent level of reserves that the council should maintain is a matter of judgment.

The current approach of the council reflects the guidance issued within LAAP Bulletin 99. This sets out that reserves should be held for three main purposes:

- a **working balance** to help cushion the impact of uneven cash flows and avoid the need for temporary borrowing;
- a **contingency** to cushion the impact of unexpected events or emergencies;
- **earmarked reserves** to meet known or predicted requirements.

The Council held £20.7m in Earmarked Reserves and £3.3m in the General Reserve on 1 April 2020, and through this budget setting process anticipates to hold £11.7m in Earmarked Reserves and £3.0m in the General Reserve by 31 March 2022. Whilst there are movements anticipated both contributing to and withdrawing from, the council is managing its reserves position prudently, and is anticipated to continue to do so over the coming year.

This position is also reflected in the CiPFA Financial Resilience Index which identified the council as being at the lower end of the risk profile when compared to 'nearest neighbours' in considering indicators of financial stress in respect of our reserves positions. These indicators include the reserves sustainability measure (which considers current levels of reserves and average changes in levels of reserves), level of reserves and changes in reserves.

There are serious consequences of not keeping a minimum prudent level of reserves as the council would be unable to manage unexpected events and need to make decisions which could have a detrimental impact on the communities it serves.

The council reviews annually the adequacy of the reserve levels taking into account the council's exposure to risk, the systems of internal control, the robustness of the estimates, adequacy of financial management arrangements, our track record on budget monitoring, the strength of financial reporting, capacity to manage in year budget pressures and cash flow requirements to determine appropriate levels for the reserves. The monitoring and control systems in place are robust and identify at an early stage any significant variations within the council's activities.

The Medium Term Financial Strategy outlines the proposed required minimum level of reserves (General Fund £1.5m; HRA £2.0m) and also how we would assess the adequacy of our reserves levels.

Having considered the current level of reserves held, the anticipated levels of reserves through to end of 2021/22, the proposed budget and the financial controls & reporting in place I am satisfied that the required minimum level of reserves remain appropriate and the level of reserves held are appropriate, robust and sustainable at this time.

Charlotte Spendley FCCA (Chief Finance Officer)
10 February 2021

**Appendix 6**

# EQUALITY IMPACT ASSESSMENT

Directorate: Corporate Services
Service: Finance

Accountable Officer: Charlotte Spendley
Telephone & e-mail: 07935 517986
charlotte.spendley@folkestone-hythe.gov.uk

Date of assessment: 3 February 2021

Names & job titles of people carrying out the assessment:
Charlotte Spendley, Director of Corporate Services
Cheryl Ireland, Chief Financial Services Officer, Corporate Services

| |
|---|
| Name of service/function/policy etc:<br>General Fund Revenue Budget 2021/22 |
| Is this new or existing?<br>Annual production of Council's General Fund Budget and Council Tax Setting. |

## Stage 1: Screening Stage

### 1. Briefly describe its aims & objectives

The council's Corporate Plan informs preparation of the Medium Term Financial Strategy (MTFS) and Budget Strategy which underpin preparation of the General Fund Revenue Budget each year.

The Budget is the detailed financial plan of how the council will operate its day to day activities to achieve corporate objectives.

### 2. Are there external considerations? (legislation/government directive etc.)

The council is required to comply with the Local Government Finance Act 1992 (as amended) and associated legislation when setting the budget and council tax. The position is also informed by the Local Government Settlement, which this year was provisionally announced on 17 December 2020.

### 3. Who are the stakeholders and what are their interests?

The main stakeholders are local taxpayers, the electorate, Members and central government.

The General Fund budget report sets out planned expenditure and income for day to day service delivery activities. It informs taxpayers and the electorate about how council tax, government grants, business rates and other sources of income are utilised. It enables them to see in financial terms how Corporate Plan objectives will be delivered and how the council will deliver services and statutory functions during the year.

Members approve the budget and council tax. Their responsibility is to ensure that there are adequate resources to deliver policies and services and that approved budgets are used for the specified purpose. Stakeholders are consulted during budget setting and may challenge the council if they identify any matters of concern in how these responsibilities are fulfilled.

Actual expenditure and income compared to the approved budget is monitored on a monthly basis throughout the year and is reported to Members every quarter. The approved budget is also reported to Central Government via an annual return.

**4. What outcomes do we want to achieve and for whom?**

The aim is to achieve a balanced budget that reflects the Medium Term Financial Strategy and Budget Strategy to satisfy the stakeholders as identified in 3. Also to ensure that the Council’s statutory responsibilities are fulfilled.

**5. Has any consultation/research been carried out?**

Yes.

Internally - consultation took place with the Corporate Leadership Team (CLT), Cabinet Members, Assistant Directors, Chief Officers and budget managers through their involvement in setting strategies. This informs the MTFS, the Budget Strategy, the annual budget and the fees & charges strategy. Chief Officers/budget managers are also asked to seek to align their budget and service plans annually. Budget Managers, Chief Officers and Assistant Directors contribute towards the agreed growth and savings identified within both the budget strategy & detailed budget proposed. The budgets are set in consultation with budget managers and signed off by service heads. Ultimately the budget is reviewed by CLT, Finance & Performance Sub-Committee and Cabinet before being approved by Full Council.

Externally - during December & January the Council undertook public budget consultation which was available online and promoted both on the webpage and through social media channels. As well as dedicated information being available online, officers also presented to and heard views from the Business Advisory Board and the Joint Parish Council Committee.

**6. Are there any concerns at this stage which indicate the possibility of inequalities/negative impacts?** (Consider and identify any evidence you have - equality data relating to usage and satisfaction levels, complaints, comments, research, outcomes of review, feedback and issues raised at previous consultations, known inequalities) If so please provide details.

| |
|---|
| All these considerations will have been taken into account when EIAs have been completed by Service Heads for strategies that affect their services. Any negative impacts will have been reviewed at that stage.<br><br>There are no direct concerns at this time. No specific issues have been identified in relation to the proposed growth and savings incorporated within this budget position.<br><br>In addition, all reports to CLT, Cabinet and Council require implications to be considered – this includes financial implications. |

**7. Could a particular protected characteristic be affected differently in either a negative or positive way? (Positive** – it could benefit, **Negative** – it could disadvantage, **Neutral** – neither positive nor negative impact or **Not sure?)**

| | **Type of impact, reason & any evidence** |
|---|---|
| Disability | Not applicable – individual service strategies and plans will address these impacts before they are included in the budget. |
| Race (including Gypsy & Traveller) | Not applicable – individual service strategies and plans will address these impacts before they are included in the budget. |
| Age | Not applicable – individual service strategies and plans will address these impacts before they are included in the budget. |
| Gender | Not applicable – individual service strategies and plans will address these impacts before they are included in the budget. |
| Transgender | Not applicable – individual service strategies and plans will address these impacts before they are included in the budget. |
| Sexual Orientation | Not applicable – individual service strategies and plans will address these impacts before they are included in the budget. |
| Religion/Belief | Not applicable – individual service strategies and plans will address these impacts before they are included in the budget. |
| Pregnancy & Maternity | Not applicable – individual service strategies and plans will address these impacts before they are included in the budget. |
| Marriage/ Civil Partnership Status | Not applicable – individual service strategies and plans will address these impacts before they are included in the budget. |

**8. Could other socio-economic groups be affected** e.g. carers, ex-offenders, low incomes?

| |
|---|
| No direct concerns have been identified through this process, service heads will evaluate impacts ahead of the budget proposals being made. |

**9. Are there any human rights implications?**

| |
|---|
| None have been identified at this time. |

**10. Is there an opportunity to promote equality and/or good community relations?**

| |
|---|
| Yes – This will have been considered through the Corporate Plan and individual strategies and service plans before they are included in the budget. Public consultation ran for over a month to gain community input into the process. |

**11. If you have indicated a negative impact for any group is that impact legal?** (not discriminatory under anti-discrimination legislation)

| |
|---|
| Not applicable |

**12. Is any part of this policy/service to be carried out wholly or partly by contractors?**

| |
|---|
| No |

**Please note that normally you should proceed to a Stage 2: Full Equality Impact Assessment Report if you have identified actual, or the potential to cause, adverse impact or discrimination against different groups in the community. (Refer to Quick Guidance Notes at front of template document)**

**13. Is a Stage 2: Full Equality Impact Assessment Report required?**

| |
|---|
| No |

**14. Date by which Stage 2 is to be completed and actions**

| |
|---|
| N/A |

**Please complete**

We are satisfied that an initial screening has been carried out and a full impact assessment **is not required***.

Completed by: Cheryl Ireland Date: 3 February 2021
Role: Chief Financial Services Officer

Countersigned by: Charlotte Spendley Date: 10 February 2021
Role: Director of Corporate Services (Chief Finance Officer)

Folkestone & Hythe District Council

This Report will be made public on 16 February 2021

Report Number **A/21/09**

| | |
|---|---|
| **To:** | **Council** |
| **Date:** | **24 Febuary 2021** |
| **Status:** | **Non-Key Decision** |
| **Head of Service:** | **Charlotte Spendley, Director of Corporate Services** |
| **Cabinet Members:** | **Councillor David Monk, Leader of the Council and Councillor David Godfrey, Housing, Transport and Special Projects** |

**SUBJECT: HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL ORIGINAL BUDGET 2021/22**

**SUMMARY:** This report sets out the Housing Revenue Account Revenue and Capital Budget for 2021/22 and proposes an increase in weekly rents and an increase in service charges for 2021/22.

**REASONS FOR RECOMMENDATION:**
Cabinet is requested to agree the recommendations set out below as the Local Government Housing Act 1989 requires the Council, as a Local Housing Authority, to keep a separate Housing Revenue Account and to produce estimates to ensure that the account does not go into deficit. The authority also has a duty to set and approve rents in accordance with government guidelines that are outlined in the self-financing determination. The Constitution requires that the annual Budget and any variations to the Budget are approved by Council.

**RECOMMENDATIONS:**
1. **To receive and note Report A/21/09.**
2. **To approve the Housing Revenue Account Budget for 2021/22. (Refer to paragraph 2.1 and Appendix 1)**
3. **To approve the increase in rents of dwellings within the HRA on average by £1.27 per week, representing a 1.5% increase with effect from 5 April 2021 (Refer to paragraph 3.2)**
4. **To approve the increase in service charges. (Refer to section 3.5)**
5. **To approve the Housing Revenue Account Capital Programme budget 2021/22. (Refer to paragraph 4.1 and Appendix 2)**

## 1. INTRODUCTION

1.1 The Housing Revenue Account (HRA) is a ring-fenced account and is outlined and projected within the HRA Business Plan. The HRA Business Plan determines HRA budget setting, as estimates need to be closely aligned to the model to ensure that the HRA remains financially viable.

1.2 The Reform of Council Housing Finance came into effect from 1 April 2012, and significantly brought an end to the subsidy system where authorities such as Folkestone & Hythe made a contribution to the national pot. Instead, authorities are now part of the self-financing arrangements following a re-distribution of the national housing debt and the abolition of rent restructuring.

1.3 In October 2018, Government announced the removal of the HRA borrowing cap to enable local authorities to build more homes. In light of this and following a review of the financial position within the HRA, there was an opportunity for the Council to expand its New Build Programme to significantly increase the number of new homes in the district. In February 2020 Cabinet approved the updated HRA Business Plan to deliver 1,200 homes by 2034/35. Included within the updated plan was a provision to invest £10m into existing stock through an enhanced capital programme over a three year period up to 2022/23.

1.4 In February 2020, following consultation with tenants and leaseholders, a decision was taken by all four owner Councils to disband EKH and bring the management of housing stock back in-house. The service transitioned to the Council on 1st October 2020 and continues to be embedded, and it is expected that EKH will be wound up by 31st March 2021.

1.5 Cabinet approved the draft HRA Revenue and Capital Budget for 2021/22 at its meeting on 20 January 2021. Since this meeting the following changes have been made to the revenue and capital budgets presented to Council for approval to reflect the most current known position:

Revenue Budget – Increase of £148k

| | **£000's** |
|---|---|
| Increased cleaning contract cost for enhanced cleaning at sheltered schemes | 90 |
| Increased management recharges | 40 |
| Debt management recharges | 21 |
| Other minor changes | (3) |

Capital Budget – Increase of £5k

| | **£000's** |
|---|---|
| Increased management recharges relating to the new build programme | 5 |

## 2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

### 2.1 Original Budget 2021/22

The proposed HRA Budget for 2021/22, at Appendix 1, shows a forecast deficit of £5.1m. This is in line with the agreed HRA Business Plan which will continue to fluctuate from year to year, depending on the profile of the stock, size of the new build programme and the resources available. The year-end HRA revenue reserve balance as at 31 March 2022 is expected to be £4.0m as shown at Table 1 below:

| Table 1 | **£000's** |
|---|---|
| **Original estimate of balance at 31 March 2021** | **(9,110)** |
| **Movement from Original to Original budgets** | |
| | |
| Reduction in rents and other service charges (see 2.1.2) | 528 |
| Reduction in general management costs (see 2.1.3) | (314) |
| Increase in special management costs (see 2.1.3) | 1,216 |
| Increase in repairs and maintenance (see 2.1.4) | 284 |
| Other net movements | 20 |
| | **1,734** |
| **Deficit 2020/21** | 3,364 |
| **Original estimate of balance at 31 March 2022** | **(4,012)** |

#### 2.1.1 HRA Revenue budget

The HRA revenue budgets are reflected in the HRA business plan. The business plan sets out the Council's income and expenditure plans for its landlord service over a 30 year period, including the capital costs of maintaining the decent homes standard and of any additional improvements agreed with tenants.

#### 2.1.2 Rents

The dwelling rents have been increased in line with the Rent Standard 2020 of CPI + 1%. This revised policy was announced in February 2019 and allows social landlords to increase rents by CPI plus 1% for a period of five years from 2020.

The reduction in income reflects the anticipated loss of rental income due to the ongoing impact of Covid-19 on the economy. The budget assumes a 5% loss of income based on the latest forecast losses being seen in 2020/21.

#### 2.1.3 General and Special Management Costs

In October 2019 tenants and leaseholders were consulted and asked for their views on the future of EKH and the results showed an overwhelming desire to disband EKH and for the council owners to take on its role. In February 2020 all four council owners agreed that the management of council housing stock should be brought back in-house and that a termination to the management agreement with EKH should be negotiated as soon as practicable. The service transitioned back to the council on 1st October 2020 and the new housing management service continues to be embedded and it is expected that EKH will be wound up by 31st March 2021.

The increase in general and special management costs largely reflects the cost of the new housing structure as shown below:

| | **£000's** |
|---|---:|
| Removal of EKH Management Fee | (2,480) |
| Removal of Transition budget | (250) |
| Cost of new Housing structure | 3,056 |
| Additional management recharges | 240 |
| **Total additional costs of new Housing structure** | **566** |

Further additional general management costs of £100k have been included within the budget for additional ICT costs as a result of increased staff numbers and licences required and additional resources to support the Northgate implementation.

An additional £145k has also been included within the proposed budget to carry out a full stock condition survey across all properties to inform the Asset Management Strategy and future capital programme and HRA Business Plan.

Special management costs also include an additional £90k increased cleaning contract costs for the enhanced cleaning requirements at the Sheltered accommodation due to Covid-19 and an uplift in the National Living Wage.

In February 2020 Cabinet agreed to invest £10m into existing housing stock by way of an enhanced capital programme. Work has not yet commenced on this due to the transition of EKH and the planned stock condition surveys will identify required works and enable this programme to get underway.

2.1.4 **Repairs and Maintenance**

The increase in repairs and maintenance is largely due a higher level of works required on void properties and a higher volume of asbestos removal being identified.

2.2 **HRA Reserve Balances**

**HRA Reserve** – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan. The actual reserve balance on the HRA at the start of 2020/21 was £9.1m, this has increased due to the planned accumulation of balances to help fund the future new build programme.

Table 2 below shows the estimated HRA balances to 31 March 2022.

| *Table 2* | **2020/21** | **2021/22** |
|---|---|---|
| | £000's | £000's |
| Balance as at 1 April | 12,475 | 9,110 |
| Balance as at 31 March | 9,110 | 4,012 |

The HRA reserve is expected to decrease by £4.0m from the close of 2020/21 and the end of the financial year 2021/22.

The changes with the introduction of Self-Financing have significantly increased the flexibility for the Council to manage the resources and debts within the HRA to best meet the needs of existing and future tenants. The estimated HRA balances, set out in table 2, are above the revised recommended minimum balance, which is £2m.

**Major Repair Reserve (MRR) –** This reserve is derived from the transfer of the depreciation charge from the revenue account and can be used to fund major repairs for capital expenditure or debt repayment. The Council's Business Plan requires that the reserve is allocated to fund capital expenditure. The proposed HRA capital programme should leave the Major Repairs Reserve with a nil balance. This is in line with the practice adopted by the Council in previous years, of using the Major Repairs Reserve in the year it is received.

## 3. RENT SETTING GUIDANCE & RENTS

### 3.1 Rent Policy – National context

In February 2019 the Government introduced a new rent policy to come into effect from 1st April 2020 permitting annual rent increases on both social rent and affordable rent properties of up to CPI plus 1% for a period of five years.

The new policy recognises the need for a stable financial environment to support the delivery of new homes. The government is now looking to the social housing sector to make the best possible use of its resources to help provide the homes that the country needs.

### 3.2 Rent Increase – Local context

In line with last years approved report, Housing Services will be charging the 'formula rent'[1] when a property is re-let to a new tenant and service charges that fall under utilities will be charged at the 'actual' cost on new lets.

The proposed increase of CPI plus 1% which is 1.5%, in line with Government guidelines, equates to an increase of £1.27 per week or £66.04

[1] *The 'formula rent' is the amount an individual rent can be set at before taking into account the rent restructuring restrictions and maximises the rental income received without penalising any individual.*

per annum. This gives an average rent of £89.17 (over 50 weeks) in 2021/22 (average rent in 2020/21 is £87.81 (over 50 weeks)).

3.3 **New Build rents**

In line with proposals set out in the Council's current HRA Business Plan, the rents for any new homes will be set at affordable rent levels. Affordable rents are defined as being a maximum of 80% of the prevailing average market rent for the area and should be no more than the prevailing local housing allowance (LHA) rates for the area to ensure that properties remain affordable.

The local housing allowances rates for 2021/22 will not be available until early February 2021. LHA rates have been frozen since 2016, however the Government announced in January 2020 that the freeze has been lifted, meaning that rates will rise by inflation from April 2020. The indicative 2021/22 affordable rents for the Folkestone & Hythe area are as follows:

| | |
|---|---|
| Bedsits | £60.88 per week |
| 1 bedroom houses | £88.92 per week |
| 2 bedroom houses | £118.57 per week |
| 3 bedroom houses | £148.21 per week |
| 4 bedroom houses | £173.11 per week |

3.4 **Rent Comparisons**

The table below compares Folkestone & Hythe's average weekly rent to that of other authorities in Kent.

| *Table 3* | **Average weekly rent over 52 weeks (2020/21) £** | **Difference between FHDC and other authorities £** |
|---|---|---|
| Folkestone & Hythe | 85.74 | - |
| Dover | 86.97 | 1.06 |
| Canterbury | 92.89 | 6.98 |
| Thanet | 83.05 | (2.86) |

- Subject to Dover, Canterbury and Thanet's approval at their own Council meetings.

**3.5 Service Charges**

3.5.1 **General Service Charges**

The general principle for service charges for tenants is that they are set to recover the costs of the service they fund. However, increases in service charges should endeavour to be kept to the Consumer Price Index (CPI) plus 1.0% per annum limit as part of rent setting guidance. The CPI for September 2020 was 0.5%, CPI plus 1.0% is therefore 1.5%. As a result general service charges within the HRA will increase by 1.5% with effect from 5 April 2021.

Local authorities can increase charges above this level where costs are increased that are beyond the authorities' control. Utility charges, such as heating and hot water in sheltered housing schemes are an example where this applies. Proposals for these charges for 2021/22 are set out in 3.5.2 below.

3.5.2 **Heating Charges in Sheltered Housing**

Residents in 12 of the Council's sheltered housing schemes have heating and hot water provided to their flats by communal systems. Charges are made for this service based on the floor area of each flat.

For 2021/22 it is proposed to increase these charges in line with the rent setting guidance while a detailed review of costs is undertaken now the service is managed by the Council. Therefore these charges will increase by CPI plus 1.0%, which is 1.5%, with effect from 5 April 2021.

## 4. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES

### 4.1 Original Budget 2021/22

The proposed HRA Capital Budget for 2021/22, shown in Appendix 2, is £14.5m. Table 4 below shows the movements in the programme from the 2020/21 original budget to the original budget for 2021/22.

| *Table 4* | **£000's** |
|---|---|
| **Original estimate 2020/21** | **13,505** |
| | |
| **Increases in programme** | |
| Fire Protection Works (see 4.1.1) | 650 |
| Re-roofing (see 4.1.1) | 450 |
| Doors (see 4.1.1) | 290 |
| External Enveloping (see 4.1.1) | 230 |
| Enhanced Capital Programme (see 4.1.2) | (1,000) |
| Other net variances | 335 |
| **Total increase in expenditure** | **955** |
| | |
| **Original estimate 2021/22** | **14,460** |

4.1.1 **Decent Homes Standard**

The increased budget requirement for Fire Protection Works, Re-roofing, Doors and External Enveloping is to address recommendations and carry out works identified from verified surveys and sample testing to maintain the Decent Homes Standard.

It should be noted that priorities from the ongoing Fire Risk Assessments may identify further works and so an additional budget for this programme may be required during the year. This will be reported via the usual budget monitoring process.

4.1.2 **Enhanced Capital Programme**

A budget provision of £10m was allocated in 2020/21 for investment in existing stock over a three year period up to 2022/23 and the budget was allocated evenly over the three years. None of the £3.5m allocated budget was utilised in 2020/21. This budget has been reduced in 2021/22 to partially offset the increase in the decent homes standard capital programme budgets to carry out identified works.

The revenue budget includes provision for stock condition surveys to be carried out across the entire housing portfolio which will begin in late 2020/21 and conclude in early 2021/22. The results of these surveys will be used to inform the Asset Management Strategy and capital programme. Once the results of these surveys are known the remainder of this budget will be allocated to specific programmes based on the priority of works identified.

4.1.3 **New Build Programme**

The budget required for the new build programme will vary from year-to-year depending on the profile of the programme. This is reflected within the HRA Business Plan which was agreed by Cabinet on 19 February 2020 and stated that 1,200 new homes would be delivered by 2034/35.

Works on the High View and Biggins Wood schemes are due to commence in 2021/22 and the Council will be pursuing further acquisition opportunities, including a site at Radnor Park Road which will provide 14 units for rent which is expected to complete in the latter part of 2021/22.

All of the new build options will be subject to a detailed viability appraisal to ensure they meet the requirements of the HRA Business Plan.

4.2 **HRA Reserve Balances**

**HRA Reserve** – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan.

The following table shows the required resources to finance the original budget for 2020/21 and original budget for 2021/22 for the HRA capital programme.

| *Table 6* | **Major Repairs Reserve** | **Use of RTB Capital Receipts** | **Revenue Contribution** | **Total** |
|---|---|---|---|---|
| | £000's | £000's | £000's | £000's |
| Original budget 2020/21 | 5,275 | 1,425 | 6,805 | 13,505 |
| Original budget 2021/22 | 5,880 | 1,956 | 6,624 | 14,460 |

## 5. RISK MANAGEMENT ISSUES

5.1 A summary of the perceived risks follows:

| Perceived risk | Seriousness | Likelihood | Preventative action |
|---|---|---|---|
| Budget not achieved | High | Low-Medium | Stringent budget monitoring during 2021/22 enabling early corrective action |

## 6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 **Legal Comments** (NM)

There are no legal implications arising directly out of this report other than as already stated therein. (Following the coming into force of Schedule 15 of the Localism Act 2011, English local authorities are required to be self-financing in relation to their housing stock, financing their housing stock from their own rents.)

6.2 **Finance Comments** (LW)

All financial effects are included in this report.

6.3 **Diversities and Equalities Implications**

This report is in line with the Council's Diversity and Equality policies.

## 7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting.

This report has been prepared by:

*Cheryl Ireland, Chief Financial Services Officer*
*Telephone 01303 853213 Email*: *cheryl.ireland@folkestone-hythe.gov.uk*

*Adrian Hammond, Lead Housing Specialist*
*Telephone 01303 853392 Email: adrian.hammond@folkestone-hythe.gov.uk*

The following background documents have been relied upon in the preparation of this report:

None

**Appendices:**
Appendix 1 - HRA Revenue Budgets

Appendix 2 - HRA Capital Programme

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HOUSING SERVICES ANNUAL ESTIMATES 2021/22

| Actual 2019/20 £ | HOUSING REVENUE ACCOUNT | Original 2020/21 £ | Estimate 2021/22 £ | Change | Notes |
|---|---|---|---|---|---|
| | **INCOME** | | | | |
| 14,854,286 | Dwelling rents | 14,954,140 | **14,415,750** | 538,390 | (£220k) Std CPI% + 1% increase, £758k estimated 5% loss of rental income due to Covid-19 |
| 318,503 | Non-dwelling rents | 342,380 | **342,380** | 0 | Fees & charges increased but budget is at a sufficient level |
| 978,838 | Other charges for services and facilities | 1,009,840 | **1,020,200** | (10,360) | Supported People service charges increased, budget increased |
| 52,200 | Contributions from general fund | 52,200 | **52,200** | 0 | |
| 16,203,827 | **TOTAL INCOME** | 16,358,560 | **15,830,530** | 528,030 | |
| | **EXPENDITURE** | | | | |
| 3,487,250 | Repairs and maintenance | 3,786,920 | **4,070,920** | 284,000 | £105k increased Void repairs, £85k increased costs of asbestos removal, £62k additional cost of heating contract, £32k increased cost of lift servicing & repairs |
| 3,576,449 | General management * | 4,081,900 | **3,767,570** | (314,330) | (£309k) net change in service costs following removal of EKH Management fee and addition of new housing structure costs, (£250k) removal of EKH transition budget, £145k additional budget for Stock Condition Surveys, £100k for ICT licences & additional staff resources for Northgate implementation |
| 1,193,329 | Special management * | 1,036,280 | **2,252,240** | 1,215,960 | £1,126k net change in service costs following addtition of new housing structure and £90k increased cleaning contract costs for enhanced cleaning at sheltered schemes |
| 19,316 | Rents, rates & taxes | 21,750 | **21,750** | 0 | |
| 140,313 | Increase provision for bad or doubtful debts | 150,000 | **200,000** | 50,000 | |
| | Capital Financing Costs | | | | |
| 5,510,903 | Depreciation charges | 2,564,670 | **2,643,000** | 78,330 | |
| 827,860 | Exceptional Item Impairment | 0 | **0** | 0 | |
| 21,920 | Debt management expenses | 0 | **21,310** | 21,310 | |
| 14,777,339 | **TOTAL EXPENDITURE** | 11,641,520 | **12,976,790** | 1,335,270 | |
| -1,426,487 | **NET COST OF SERVICES** | -4,717,040 | **-2,853,740** | 1,863,300 | |
| 1,569,205 | Loan charges - Interest | 1,546,680 | **1,573,000** | 26,320 | |
| | Investment Income | | | | |
| -78,215 | Interest on notional cash balances | -75,000 | **-50,000** | 25,000 | |
| 0 | Premiums & discounts | 0 | **0** | 0 | |
| 64,504 | **NET OPERATING INCOME** | -3,245,360 | **-1,330,740** | 1,914,620 | |
| -3,750,219 | Any other item of income & expenditure | 0 | **0** | 0 | |
| 1,387,326 | Revenue Contribution to Capital Expenditure | 6,804,820 | **6,623,883** | (180,937) | |
| -13,000 | Pensions Interest costs | -195,000 | **-195,000** | 0 | |
| -2,311,389 | **TOTAL DEFICIT/SURPLUS(-) FOR YEAR** | 3,364,460 | **5,098,143** | 1,733,683 | |
| 10,163,309 | Balance as at 1st April | 12,474,698 | **9,110,238** | (3,364,460) | |
| 12,474,698 | Balance as at 31st March | 9,110,238 | **4,012,095** | (5,098,143) | |

* General Management - relates to costs for the whole of the housing stock or all tenants such as EKH Management Fee and support costs.
* Special Management - relates to only some of the tenants such as cleaning communal areas of flats and maintenance of open spaces.

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Appendix 2

**HOUSING SERVICES** **ANNUAL ESTIMATES 2021/22**

| Actual 2019/20 £ | HRA CAPITAL PROGRAMME | Original 2020/21 £ | Estimate 2021/22 £ | Change | Notes |
|---|---|---|---|---|---|
| | **EXPENDITURE** | | | | |
| | **Decent Homes Standard** | | | | |
| 260,872 | Doors | 250,000 | **540,000** | 290,000 | Increased budget requirement to meet aset management programme identified from verified surveys |
| 458,501 | Re-roofing | 350,000 | **800,000** | 450,000 | Increased budget requirement to replace roofs identified as a priority based on verified surveys and core samples |
| 547,460 | Heating Improvements | 649,330 | **649,330** | 0 | |
| 239,590 | Kitchen Replacement | 411,000 | **410,000** | (1,000) | |
| 159,521 | Bathroom Improvements | 173,500 | **250,000** | 76,500 | |
| 172,986 | Voids Capital Works | 300,000 | **300,000** | 0 | |
| 212,281 | External Enveloping | 100,000 | **330,000** | 230,000 | Increased budget requirement to carry out various works identified |
| 174,942 | Fire Protection Works | 50,000 | **700,000** | 650,000 | Increased budget requirement to address recommendations coming from the Fire Risk Assessment survey programme |
| 4,836 | Thermal Insulations | 10,000 | **120,000** | 110,000 | Cavity wall & loft insulation works |
| 14,340 | Contract Specification | 30,500 | **20,000** | (10,500) | |
| 0 | Enhanced Capital Programme | 3,500,000 | **2,500,000** | (1,000,000) | Reduced to partially offset increased budget requirement against specific programmes above, remaining budget required to address further works identified from stock condition surveys |
| 2,245,331 | **Sub-Total** | 5,824,330 | **6,619,330** | **795,000** | |
| | **Non Decent Homes Standard** | | | | |
| 0 | Treatment Works | 10,000 | **10,000** | 0 | |
| 426,565 | Disabled Adaptations | 450,000 | **450,000** | 0 | |
| 67,875 | Rewiring | 485,000 | **485,000** | 0 | |
| 37,900 | Sheltered Scheme upgrades | 80,000 | **80,000** | 0 | |
| 24,362 | Garages Improvements | 30,000 | **150,000** | 120,000 | Removal of unsafe/unlettable units & essential repair programme to remaining stock |
| 5,228 | Lift Replacements | 60,000 | **60,000** | 0 | |
| 561,930 | **Sub-Total** | 1,115,000 | **1,235,000** | **120,000** | |
| | **New Build Programme** | | | | |
| 1,913,257 | New Builds | 6,515,270 | **6,520,790** | 5,520 | |
| 1,913,257 | **Sub-Total** | 6,515,270 | **6,520,790** | **5,520** | |
| | **Environment/Estate Improvement** | | | | |
| 7,899 | Environmental Works | 25,000 | **25,000** | 0 | |
| 25,912 | New Paths | 15,000 | **50,000** | 35,000 | |
| 14,235 | Play Areas | 10,000 | **10,000** | 0 | |
| 48,046 | **Sub-Total** | 50,000 | **85,000** | **35,000** | |
| **4,768,564** | **TOTAL EXPENDITURE** | **13,504,600** | **14,460,120** | **955,520** | |
| | **FINANCING** | | | | |
| 2,807,260 | Major Repairs Reserve | 5,274,800 | **5,880,000** | 605,200 | |
| 573,977 | Capital Receipts | 1,424,983 | **1,956,237** | 531,254 | |
| 1,387,327 | Revenue Contribution | 6,804,817 | **6,623,883** | (180,934) | |
| 4,768,564 | **TOTAL FINANCING** | 13,504,600 | **14,460,120** | **955,520** | |
| 0 | **SHORTFALL IN FINANCING** | 0 | **0** | **0** | |

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This Report will be made public on 16 February 2021

Folkestone & Hythe District Council

Report Number **A/20/06**

**To:** **Council**
**Date:** **24 February 2021**
**Status:** **Key Decision**
**Head of Service:** **Charlotte Spendley - Director of Corporate Services**
**Cabinet Member:** **Councillor David Monk – Leader and Portfolio Holder for Finance**

**SUBJECT: UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME AND BUDGET MONITORING 2020/21**

**SUMMARY:** This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2026. The report provides an updated projected outturn for the General Fund capital programme in 2020/21, based on expenditure to 30 November 2020. The General Fund Medium Term Capital Programme is required to be submitted to full Council for consideration and approval as part of the budget process. The Finance and Performance Scrutiny Sub-Committee considered this report on 12 January 2021 ahead of Cabinet approving it for submission to full Council on 20 January 2021.

**REASONS FOR RECOMMENDATIONS:**
Full Council is asked to agree the recommendations set out below because:

a) It needs to be kept informed of the existing General Fund Medium Term Capital Programme position and take appropriate action to deal with any variance from the approved budget.
b) Proposed extensions to existing schemes are required to be considered and approved before being included in the Council's Medium Term Capital Programme.
c) The proposed Medium Term Capital Programme needs to be considered before it is submitted to full Council for approval as part of the budget process.
d) The Council must also have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities when carrying out its duties under Part 1 of the Local Government Act 2003.

**RECOMMENDATIONS:**
1. **To receive and note report A/20/06.**
2. **To approve the updated General Fund Medium Term Capital Programme as set out in appendix 2 to this report.**

## 1. INTRODUCTION AND BACKGROUND

1.1 In line with the Council's approved Budget Strategy for 2021/22, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five year period ending 31 March 2026. The report;-

i) provides the latest projection, as at 30 November 2020, of the planned expenditure in 2020/21 for the existing General Fund capital programme and explanations of the variances compared to the latest approved budget,

ii) reviews and updates the existing approved Medium Term Capital Programme and incorporates the capital investment proposals agreed by Cabinet during the budget process for 2021/22,

iii) introduces proposed new schemes and initiatives identified during the budget process but yet to be considered by Cabinet,

iv) provides details of those existing capital schemes proposed to be extended by one year into 2025/26,

v) summarises the impact the proposed changes to the overall capital programme will have on the financing resources required to fund it.

1.2 The capital expenditure plans for the Housing Revenue Account (HRA) are due to be considered by Cabinet in a separate report on this agenda as part of the current budget process for 2021/22.

1.3 The overall capital expenditure plans for both the General Fund and HRA are required to be submitted to full Council for consideration and approval as part of the budget process.

1.4 Additionally, the Council's General Fund and HRA capital investment plans will feature in the Capital Strategy and Investment Strategy both of which are planned to be reported to Cabinet on 24 February 2021 ahead of being submitted to full Council for approval on the same day. This is a requirement of the CIPFA Prudential Code for Capital Finance in Local Authorities.

1.5 The Finance and Performance Scrutiny Sub-Committee considered this report on 12 January 2021 ahead of Cabinet approving it for submission to full Council on 20 January 2021.

## 2. CAPITAL PROGRAMME 2020/21 – PROJECTED OUTTURN

2.1 The planned expenditure on all General Fund capital schemes in 2020/21, based on expenditure to 30 November 2020, is anticipated to be £20,873,000 a reduction of £26,860,000 compared to the approved budget of £47,733,000. Full details are shown in **appendix 1**. The following table summarises the position across the Council's service units and also outlines the impact on the capital resources required to fund the expenditure:

| General Fund Capital Programme Q3 2020/21 | Latest Budget 2020/21 | Projection 2020/21 | Variance Budget to Projection |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Service Units** | | | |
| Operations | 9,022 | 1,781 | (7,241) |
| Corporate Services | 5,666 | 2,106 | (3,560) |
| Housing | 1,959 | 1,010 | (949) |
| Transformation & Transition | 4,066 | 2,599 | (1,467) |
| Place | 27,020 | 13,377 | (13,643) |
| **Total Capital Expenditure** | **47,733** | **20,873** | **(26,860)** |
| | | | |
| **Capital Funding** | | | |
| Capital Grants | (6,242) | (1,753) | 4,489 |
| External Contributions | (943) | (196) | 747 |
| Capital Receipts | (1,741) | (2,010) | (269) |
| Revenue | (4,133) | (4,226) | (93) |
| Borrowing | (34,674) | (12,688) | 21,986 |
| **Total Funding** | **(47,733)** | **(20,873)** | **26,860** |

2.2 The following table summarises the main reasons for the net reduction in the projected outturn compared to the latest budget:

| | | Variances – 2020/21 Latest Budget to Projected Outturn | | |
|---|---|---|---|---|
| **1** | | **Reprofiling between 2020/21 and 2021/22** | **£'000** | **£'000** |
| | i) | Area Officer Vans | (30) | |
| | ii) | Oportunitas Phase 2 Funding | (3,590) | |
| | iii) | Greatstone Holiday Lets | (1,849) | |
| | iv) | Otterpool Park Land and Property Acquisitions | (6,010) | |
| | v) | Otterpool Park Delivery | (9,662) | |
| | vi) | Princes Parade Leisure Centre | (2,215) | |
| | vii) | Coast Protection - Coronation Parade cliff stabilisation works | (800) | |
| | viii) | Temporary Accommodation | (327) | |
| | ix) | Corporate Property Development Projects | (161) | |
| | x) | Biggins Wood Commercial Development | (950) | |
| | xi) | Public Toilet Enhancement | (200) | |
| | xii) | Waste Contract Vehicles and Equipment | (1,121) | |
| | | | | **(26,915)** |
| **2** | | **Overspends** | | |
| | i) | Grounds Maintenance Vehicle Replacement Programme | 66 | |
| | ii) | PC Replacement Programme | 30 | |
| | iii) | Lower Sandgate Rd Beach Huts | 43 | |
| | iv) | Enhanced Hythe to Folkestone Beach Management programme (externally funded) | 170 | |

| | | | | |
|---|---|---|---|---|
| | v) | Royal Military Canal Enhancements | 9 | |
| | vi) | Otterpool Park Garden Town Delivery Vehicle | 12 | |
| | | | | **330** |
| **3** | | **Underspends** | | |
| | i) | Coast Protection, Coronation Parade Folkestone - The rock revetment work originally planned for the scheme is now not expected to take place due to it be uneconomical (externally funded) | (1,569) | |
| | ii) | Hythe-Folkestone Beach Recharge - Modelling has found it will be more beneficial to continue with an enhanced annual beach management programme (externally funded) | (1,970) | |
| | iii) | Empty Home Initiatives | (182) | |
| | iv) | Disabled Facilities Grants - reduction in referrals from the Occupational Therapist service due to staff being redeployed to other priorities at the peak of the COVID-19 crisis | (400) | |
| | v) | Home Safe Loans - reduction in applications due to the impact of COVID-19 | (40) | |
| | vi) | Former Debenhams Building | (6) | |
| | | | | **(4,167)** |
| **4** | | **Other** | | |
| | i) | Transformation | 748 | |
| | ii) | Otterpool Park – Capitalisation of masterplanning costs | 3,144 | |
| | | | | **3,892** |
| | | **Total change in overall capital programme for 2020/21** | | **(26,860)** |

2.3 **Transformation Costs** – A temporary statutory provision allows local authorities incurring revenue expenditure for staff transformation programmes and other similar initiatives generating ongoing savings to be met from capital receipts received from the disposal of surplus assets. However these costs are required to be classified as capital expenditure for accounting purposes. The Council expects to incur about £1m in costs for its Transformation programme in the current financial year to be met from qualifying capital receipts and this is now incorporated into the General Fund capital programme. A corresponding adjustment has been made to reduce the General Fund revenue account.

2.4 **Otterpool Park Masterplanning Costs** – Up until 2019/20 the costs incurred on the masterplanning work for the Otterpool Park Garden Town project were required to be treated as revenue expenditure. This was largely because the Council had yet to submit a formal planning application for the site, were still in discussions regarding the land assembly for the proposed scheme and had yet to formulate a clear delivery strategy for the project. However, with the outline planning application for the scheme now submitted, the majority of the land assembly completed and the delivery vehicle established, most of the masterplanning costs incurred for 2020/21 and 2021/22 are required to be treated as capital expenditure. It is projected that £3.144m in capitalised masterplanning costs will be incurred in 2020/21 with a further £0.156m in 2021/22. These costs will be met from a mixture of revenue reserves, borrowing and any further government grant secured towards the masterplanning phase of the project. At this stage the additional borrowing of up to £2.196m for the masterplanning costs is proposed to be adjusted against the Otterpool Park delivery budget over the period of the Medium Term Capital Programme.

**2.5 Waste Contract Vehicles –** Negotiations have taken place between Folkestone and Hythe District Council, Dover District Council and Veolia Environmental Services Limited to agree a mechanism to grant security to the Councils over the vehicles to be met from the approved funding for the new Waste contract (FHDC = £4.052m). It has been agreed that both Councils will purchase the vehicles required for the contract although this will still be arranged through Veolia. The Councils will have legal ownership of vehicles, providing the security both Authorities were seeking, but with Veolia remaining responsible for their operation and full running costs. FHDC will still receive the rebate of about £100k per year over the life of the contract from Veolia by meeting the capital cost of the vehicles through prudential borrowing. The majority of the vehicles being purchased are expected to be spread over the remainder of 2020/21 and into 2021/22.

## 3. UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME

3.1 The latest projection for the total cost and funding of the General Fund capital programme from 2020/21 to 2025/26 is £148,257,000. Compared to the latest approved budget of £144,260,000 this represents an increase of £3,997,000. Full details are shown in **appendix 2** to this report and the following table summarises the position across the service units and also outlines the impact on the capital resources required to fund the programme:

| **General Fund Capital Programme** | **Latest Approved Budget** | **Latest Projection** | **Variance** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Service Units** | | | |
| Operations | 11,759 | 11,759 | 0 |
| Corporate Services | 6,027 | 6,152 | 125 |
| Housing | 6,359 | 8,337 | 1,978 |
| Transformation & Transition | 33,095 | 33,879 | 784 |
| Place | 87,020 | 88,130 | 1,110 |
| **Total Capital Expenditure** | **144,260** | **148,257** | **3,997** |
| | | | |
| **Capital Funding** | | | |
| Capital Grants | (9,331) | (13,186) | (3,855) |
| External Contributions | (7,276) | (2,614) | 4,662 |
| Capital Receipts | (23,157) | (26,123) | (2,966) |
| Revenue | (4,894) | (6,166) | (1,272) |

| | | | |
|---|---|---|---|
| Borrowing | (99,602) | (100,168) | (566) |
| **Total Funding** | **(144,260)** | **(148,257)** | **(3,997)** |

3.2 The main changes from the approved budget to the latest projection for the medium term programme are summarised below:

| | | £'000 | £'000 |
|---|---|---|---|
| **1** | **Capital investments decisions approved by Cabinet** | | |
| | i) Fisherman's Beach Chalets – Provision of 30 beach chalets at Fisherman's Beach. | 75 | |
| | ii) New Beach Huts – Provision of 100 beach huts in various locations. | 300 | |
| | iii) Coastal Park Play Equipment – Replace Pirate Ship and undertake urgent repairs. | 62 | |
| | iv) Coastal Park Toilet and Concession – Construction of larger purpose built toilet block. | 150 | |
| | v) East Cliff Landfill Protection – Work to remediate disused landfill site. | 1,200 | |
| | vi) Hawkinge Depot Upgrade – Enhancements to staff welfare facilities. | 75 | |
| | vii) Units 1-5 Learoyd Road New Romney – Major refurbishment of units. | 200 | |
| | | | 2,062 |
| **2** | **Existing annual programmes extended by one year to 2025/26** | | |
| | i) Coast Protection – Greatstone Dunes Management and Study met from Environment Agency grant. | 15 | |
| | ii) Coast Protection – Hythe to Folkestone Beach Management met from Environment Agency grant. | 420 | |
| | iii) Coast Protection – Annual monitoring of Coronation Parade, Folkestone met from Environment Agency grant. | 4 | |
| | iv) Lifeline units for customers. | 50 | |
| | v) Royal Military Canal – Footpath improvement scheme. | 20 | |
| | vi) Replacement technology | 95 | |
| | vii) Disabled Facilities Grants, subject to Government funding. | 1,000 | |
| | viii) Home Safe Loans met from repaid Decent Homes Loans. | 100 | |
| | | | 1,704 |

3 **Other Changes**

| | | |
|---|---|---|
| i) Coast Protection – Coronation Parade, Folkestone Coast Protection, Coronation Parade Folkestone – The rock revetment work originally planned for the scheme is now not expected to take place due to it be uneconomical (externally funded) | (1,569) | |
| ii) Coast Protection Beach Management –The Environment Agency has approved funding for a 5 year programme of works from April 2020 to March 2025 | 850 | |
| iii) Coast Protection Beach Recharge – Modelling has found it will be more beneficial to continue with an enhanced annual beach management programme above (externally funded). | (1,970) | |
| iv) Disabled Facilities Grants – Reduction in referrals from the Occupational Therapist service due to staff being redeployed to other priorities at the peak of the COVID-19 crisis. | (400) | |
| v) Home Safe Loans – Reduction in applications due to the impact of COVID-19. | (40) | |
| vi) Empty Properties Initiative (KCC) – Loans to landlords. | 1,318 | |
| vii) FHDC Transformation – capitalisation of revenue costs. | 748 | |
| viii) Replacement Technology – Increased spending due to transition of Housing back to FHDC. | 30 | |
| ix) Mountfield Road Business Hub – Mountfield Road Industrial Estate Phase 2 (externally funded) | 36 | |
| x) Lower Sandgate Road Beach Huts. | 43 | |
| xi) Grounds Maintenance Vehicle and Equipment Replacement Programme. | 66 | |
| xii) Otterpool Park – net adjustment between delivery and masterplanning costs | 1,104 | |
| xiii) Other small net changes. | 15 | |
| | | 231 |
| **Total net increase** | | **3,997** |

3.3 **Joint Empty Properties Initiative with Kent County Council** – Since 2017/18 the Council has jointly funded the 'No Use Empty' initiative with KCC to provide interest free loans to the owners of empty properties in the district to meet the cost of works to bring them back into residential use. The loans made are repaid within three years providing the Council with the opportunity to reinvest these in future tranches of the scheme. The proposed MTCP provides for the Council making an annual contribution of £300k to this initiative through to 2025/26 with the cost being met from repaid loans due from previous tranches of this scheme.

3.4 The profiling of the capital programme budget is likely to be subject to some change over the medium term. Notably, the timing and profiling of the Otterpool Park Garden Town and Princes Parade Leisure and Housing schemes are expected to change as the Council's plans for these develop going forward. Cabinet will be kept informed of any changes to the proposed profiling of expenditure for the capital programme through the budget monitoring process and future updates to the MTCP.

3.5 All proposed changes to the Council's General Fund MTCP are required to be approved by full Council as part of the budget setting process. The revenue implications of the of the MTCP are contained in either the proposed General Fund budget for 2021/22 or feature in the Council's approved Medium Term Financial Strategy.

## 4. IMPACT ON CAPITAL RESOURCES

4.1 The proposed MTCP requires approximately £101m of prudential borrowing to support it with about £81m of this for the Otterpool Park scheme. Ordinarily the investment in Otterpool Park would put a significant pressure on the General Fund budget for additional interest costs. However, the Council is able to capitalise its borrowing cost for expenditure on the land assembly for the site until the land is ready for its intended use. As the land is sold the Council can then look to repay its borrowing. Additionally, the Council is receiving a net rental income stream from some of the properties it has acquired to date. The borrowing cost to the Council for the planned loan and equity investment in Otterpool Park LLP, the delivery vehicle for the project, will be covered by the interest to be charged on the loan in the first instance.

4.2 Prudential borrowing is also planned to be used to fund the following capital schemes where the Council will receive a net revenue benefit after allowing for interest costs.

| Scheme | Borrowing £'000 |
|---|---:|
| *Princes Parade Leisure & Housing | 6,436 |
| Oportunitas Phase 2 Funding | 5,590 |
| Waste Contract Vehicles Funding | 4,052 |
| Greatstone Varne Holiday Lets | 1,864 |
| Lower Sandgate Road Beach Huts | 540 |
| Temporary Accommodation | 527 |
| New Beach Huts | 300 |

| | |
|---|---|
| Coastal Park Toilets & Concession | 150 |
| Fisherman's Beach Chalets | 75 |
| **Total** | **19,534** |

*The borrowing for the Princes Parade scheme is to cover an anticipated short term cash flow position due to the timing of capital receipts and S106 contributions planned to fund it.

4.3 The latest position regarding the Council's available capital receipts to fund capital expenditure is shown in the following table:

| **General Fund Capital Receipts Position Statement** | **£'000** |
|---|---|
| Receipts in hand at 30 November 2020 | (10,537) |
| Less, HRA capital receipts | 5,781 |
| General Fund capital receipts in hand | (4,756) |
| Contingency for urgent or unforeseen capital expenditure | 500 |
| Ring-fenced for specific purposes: | 78 |
| *Applied to capital expenditure in 2020/21 & 2021/22 | 3,973 |
| **Balance available to support new capital expenditure** | **(205)** |

*Excludes Princes Parade

4.4 The Princes Parade Leisure and Housing scheme relies on the Council receiving about £20.5m in capital receipts from the sales of serviced land for housing development adjacent to the proposed leisure centre and from the disposal of the existing Hythe Pool site. The planned continued capital investment beyond 2021/22 in the 'No Use Empty' joint initiative with Kent County Council and also the Home Safe Loans scheme are to be met from investing repaid loans from previous tranches of these schemes.

4.5 Additionally, the council's continuing prudent financial management means it is in a position to use its other internal resources (cash reserves and balances) to fund the MTCP that is not already met from external grants and contributions without resorting to new borrowing. The table below summarises the council's revenue resources of £6.166m committed towards funding the MTCP.

| **Revenue Resources to Fund the MTCP** | **£'000** |
|---|---|
| Vehicle, Equipment and Technology Reserve | 456 |
| Economic Development Reserve | 2,784 |
| Business Rates Reserve | 733 |
| High Street Regeneration Reserve | 690 |

| | |
|---|---:|
| Climate Change Reserve | 40 |
| Otterpool Park Reserve | 1,104 |
| General Reserve | 359 |
| **Total** | **6,166** |

4.6 This level of capital investment will be a significant draw upon the Council's available reserves and balances and it is unlikely this could be repeated in the future. For this reason it is important that a thorough and robust assessment is undertaken for the new major capital investment proposals to ensure best use of the Council's limited financial resources.

## 5 CONCLUSIONS

5.1 The MTCP has been reviewed and updated in accordance with the approved budget strategy for 2021/22.

5.2 The revenue consequences of the MTCP are reflected in the Council's General Fund budget and Medium Term Financial Strategy.

5.3 The proposed General Fund MTCP requires a substantial level of prudential borrowing to fund it. The impact to the General Fund of this will be mitigated through a combination of capitalising interest costs where permissible, charging interest to third parties on capital loans met from borrowing and generating additional net revenue streams from capital investments met from borrowing.

5.4 The level of new capital investment in the proposed MTCP will be a significant draw upon on the Council's available reserves and balances and is unlikely to be repeated in the future. Future major capital investment initiatives are likely to require further prudential borrowing to help fund them.

5.5 Cabinet is asked to recommend full Council to approve the changes to the MTCP outlined in this report to reflect the latest projected outturn shown in appendix 2 to this report.

## 6 RISK MANAGEMENT ISSUES

6.1 A summary of the perceived risks follows:

| Perceived risk | Seriousness | Likelihood | Preventative action |
|---|---|---|---|
| Capital resources not available to meet the cost of the new projects. | High | Low | Schemes or elements of those schemes relying on future capital receipts or external |

| | | | |
|---|---|---|---|
| | | | grants and contributions will not commence until an agreed disposal plan or funding agreement is in place. |
| Cost of new projects may exceed the estimate. | High | Low | Capital monitoring procedures in place allowing prompt early action to be taken to manage the risk effectively. |
| Expenditure planned to be met by grant is ineligible under the terms of the funding agreement | High | Low | Prior to commitments being made the project manager to agree in advance grant eligible expenditure with the funding body. |

## 7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

### 7.1 Legal Officer's Comments (NM)

There are no legal implications arising directly out of this report. Part 1 of the Local Government Act 2003 gives the Council the power to borrow and to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. It also requires the Council to act prudently when carrying out these activities, including an obligation to determine and keep under review how much money it can borrow. In addition, the Council is required by the Local Government Finance Act 1992 to produce a balanced budget. Generally the Council must take into account its fiduciary duties to local tax payers and its continuing obligation to ensure it has the funding required to perform its statutory undertakings.

### 7.2 Finance Officer's Comments (LW)

This report has been prepared by Financial Services. There are no further comments to add.

### 7.3 Diversities and Equalities Implications (DA)

The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an EIA.

## 8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

*Lee Walker,* Capital and Treasury Senior Specialist
*Tel: 01303 853593. e-mail :lee.walker@folkestone-hythe.gov.uk*

The following background documents have been relied upon in the preparation of this report:
None

Appendices:
1) General Fund Capital Programme Projected Outturn 2020/21
2) Proposed General Fund MTCP to 2025/26

**Appendix 1 - General Fund Capital Programme Projected Outturn 2020/21**

| GENERAL FUND CAPITAL PROGRAMME PROJECTED OUTTURN 2020/21 | | | | | |
|---|---|---|---|---|---|
| **Item** | **Scheme** | **Latest Approved Budget** | **Latest Projection** | **Variance** | **Comments** |
| | | **£000** | **£000** | **£000** | |
| | | | | | |
| | **Andy Blaszkowicz - Director of Housing & Operations** | | | | |
| **1** | Vehicle Replacement Programme | 0 | 66 | 66 | Purchase of a new tractor and replacement park keeper waste vehicle. Expenditure in part deferred from 2019/20 |
| **2** | Coast Protection, Coronation Parade Folkestone | 2,389 | 20 | (2,369) | Cliff stabilisation works of £0.8m now expected to be undertaken in 2021/22. The rock revetment work to protect the National Grid's cross-chanel infrstructure will no longer be undertaken as part of this scheme. Scheme fully externally funded. |
| **3** | Coastal Protection, Greatstone dune management & study | 15 | 15 | 0 | Annual scheme funded by the Environment Agency |
| **4** | Coast Protection, Hythe to Folkestone Beach Management 2015-2020 | 250 | 420 | 170 | The Environment Agency has approved funding for a 5 year programme of works from April 2020 to March 2025. Works are planned for the spring and autumn of each year of the programme. |
| **5** | General Fund Property - Health and Safety Enhancements | 13 | 13 | 0 | Anticipated to be spent during 2020/21 |
| **6** | Lifeline Capitalisation | 50 | 50 | 0 | Anticipated to be spent during 2020/21 |
| **7** | Royal Military Canal Enhancements | 20 | 29 | 9 | £9k delayed expenditure from 2019/20, not part of previously agreed carry forwards. |
| **8** | Coronation Parade Annual Monitoring | 4 | 4 | 0 | Annual scheme funded by the Environment Agency |
| **9** | Coast Protection, Hythe-Folkestone Beach Recharge Study | 1,970 | 0 | (1,970) | Modelling has found there isn't a need for a major beach recharge scheme. More substantial beach management works will deliver the same protection at a reduced cost. |
| **10** | Public Toilet Enhancement | 200 | 0 | (200) | Scheme delayed to 2021/22, works require detailed surveying and specification. |
| **11** | Hawkinge Cemetery Expansion | 28 | 28 | 0 | Scheme completed 2020/21. |
| **12** | Area Officer Vans | 30 | 0 | (30) | Scheme provisionally re-phased to 2021/22. Looking at electric vehicles but costs and capacity are restrictive. |
| **13** | Lower Sandgate Rd Beach Huts | 497 | 540 | 43 | The main reason for the variance is the cost to renovate the 27 existing beach huts was more than originally anticipated |
| **14** | Electric Vehicle Charging Points | 40 | 40 | 0 | To provide 15 on-street charging points. Scheme delayed while discussions continue with KCC regarding accessing power supplies from their street lighting columns |
| **15** | Greatstone Holiday Lets | 1,864 | 15 | (1,849) | Project delayed until 2021/22 whilst costs are negotiated to ensure they remain within budget. |
| **16** | Ship Street Site Folkestone | 441 | 441 | 0 | Cabinet approval made in October 2019 to proceed with the purchase of the site, on hold due to delays with the seller being able to proceed with the sale. |
| **17** | Biggins Wood Commercial Development | 500 | 0 | (500) | Project re-profiled to 2021/22. |

Appendix 1 - General Fund Capital Programme Projected Outturn 2020/21

| GENERAL FUND CAPITAL PROGRAMME PROJECTED OUTTURN 2020/21 | | | | | | |
|---|---|---|---|---|---|---|
| **Item** | **Scheme** | **Latest Approved Budget** | | **Latest Projection** | **Variance** | **Comments** |
| **18** | Biggins Wood Site Land Remediation Works | 550 | | 100 | (450) | Scheme planned to commence in early 2021 with the majority of the work now profiled for 2021/22. |
| **19** | Corporate Property Development Projects | 161 | | 0 | (161) | Project re-profiled to 2021/22. |
| | **Total - Head of Housing & Operations** | **9,022** | | **1,781** | **(7,241)** | |
| | | | | | | |
| | **Charlotte Spendley - Director of Corporate Services** | | | | | |
| **20** | PC Replacement Programme | 16 | | 46 | 30 | Increased spending due to transition of Housing back to FHDC and additional equipment to support working from home |
| **21** | Server Replacement Programme | 60 | | 60 | 0 | Anticipated to be spent during 20/21 |
| **22** | Oportunitas PH 2 | 5,590 | | 2,000 | (3,590) | Expenditure projected to be partly reprofiled to 2021/22 in line with Oportunitas' Business Plan to acquire residential units at the former Royal Victoria Hospital site in Folkestone. |
| | **Total - Head of Corporate Services** | **5,666** | | **2,106** | **(3,560)** | |
| | | | | | | |
| | **John Holman - Head of Housing** | | | | | |
| **23** | Temporary Accommodation | 527 | | 200 | (327) | Continuing to look for suitable acquisition opportunities, but these are extremely limited at the current time. Anticipated spend of £200K in the current year as part of a joint initiative with the Next Steps Accommodation Programme (NSAP) with the remaining budget being carried forward to 2021/22. |
| **24** | Disabled Facilities Grants | 1,000 | | 600 | (400) | Projection lower due to a reduction in referrals from the Occupational Therapist service because they were redeployed to other priorities during the peak of the COVID-19 crisis |
| **25** | Home Safe Loans | 100 | | 60 | (40) | Projection lower due to the impact of COVID-19. |
| **26** | Empty Home Initatives | 332 | | 150 | (182) | The number of projects coming forward have been limited during the COVID-19 Pandemic. It is anticipated that only 50% of the annual budget will be spent during 2020/21. |
| | **Total - Head of Housing** | **1,959** | | **1,010** | **(949)** | |

## Appendix 1 - General Fund Capital Programme Projected Outturn 2020/21

| GENERAL FUND CAPITAL PROGRAMME PROJECTED OUTTURN 2020/21 | | | | | |
|---|---|---|---|---|---|
| **Item** | **Scheme** | **Latest Approved Budget** | **Latest Projection** | **Variance** | **Comments** |
| | **Ewan Green - Place** | | | | |
| **27** | Otterpool Park Garden Town Delivery Vehicle Mechanism | 0 | 12 | 12 | Residual expenditure from 2019/20 |
| **28** | Otterpool Park Land and Property Acquisitions | 9,710 | 3,700 | (6,010) | Projection provides for the acquisition of various property and land required to help support the proposed development. £6m is being reprofiled to support further acquisitions anticpated for 2021/22. |
| **29** | Otterpool Park Delivery | 10,912 | 1,250 | (9,662) | Cabinet approval in May 2020 for the initial funding of Otterpool LLP who will be the delivery vehicle for the Otterpool Park Garden Town development. |
| **30** | Otterpool Park - Capitalisation of Masterplanning Costs | 0 | 3,144 | 3,144 | Capitalisation of masterplanning costs required to support the planning application process for the scheme |
| **31** | Former Debenhams Building | 2,346 | 2,340 | (6) | Purchase completed in May 2020. Variance is a small reduction on fees incurred |
| **32** | Waste Contract - Acquisition of Vehicles and Equipment | 4,052 | 2,931 | (1,121) | Purchase of vehicles and equipment for the new Waste contract with Veolia partly reprofiled. Purchase will achieve a net annual saving of £100k to the General Fund |
| | **Total - Head of Strategic Development** | **27,020** | **13,377** | **(13,643)** | |
| | **Tim Madden - Director of Transformation & Transition** | | | | |
| **33** | Princes Parade Leisure Centre | 2,465 | 250 | (2,215) | Pre-contract fees and works largely reprofiled to 2021/22. Scheme has been on hold while permission was unsuccessfully sought for a Judicial Review regarding the planning permission for the scheme |
| **34** | Mountfeild Business Hub | 735 | 735 | 0 | Joint venture with East Kent Spacial Development Company |
| **35** | Mountfield Road Industrial Estate Phase 2 | 614 | 614 | 0 | Infrastructure and services to 5 hectare site to enable development of employment space for upto 450 jobs. Scheme profiled to delivered by 2021/22 and fully met from SELEP grant funding |
| **36** | FHDC Transformation | 252 | 1,000 | 748 | Projected staffing, consultancy and ICT costs for the Council's Transformation Project able to be capitalised under the government's 'Flexible Use of Capital Receipts' statutory guidance. |
| | **Total - Director of Transformation & Trasition** | **4,066** | **2,599** | **(1,467)** | |
| | **TOTAL GENERAL FUND CAPITAL PROGRAMME 2020/21** | **47,733** | **20,873** | **(26,860)** | |

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**General Fund Medium Term Capital Programme to 2025/26**

| Item No. | Service Area and Scheme | Latest Approved MTCP Budget | Latest Projection 2020/21 | Latest Projection 2021/22 | Latest Projection 2022/23 | Latest Projection 2023/24 | Latest Projection 2024/25 | Latest Projection 2025/26 | Total Projection 2020/21 - 2025/26 | Variance Budget to Projection | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| | **Andy Blaszkowicz - Operations** | | | | | | | | | | |
| 1 | Coast Protection - Coronation Parade, Folkestone | 2,389 | 20 | 800 | 0 | 0 | 0 | 0 | 820 | (1,569) | The rock revetment work originally planned for the scheme is now not expected to take place due to it be uneconomical (externally funded) |
| 2 | Coast Protection - Coronation Parade annual monitoring | 20 | 4 | 4 | 4 | 4 | 4 | 4 | 24 | 4 | Scheme externally funded by the Environment Agency. Scheme extended by one year to 2025/26 |
| 3 | Coast Protection - Greatstone Dunes Management & Study | 75 | 15 | 15 | 15 | 15 | 15 | 15 | 90 | 15 | Annual programme funded by Environment Agency extended by one year to 2025/26 |
| 4 | Coast Protection - Hythe to Folkestone Beach Management | 1,250 | 420 | 420 | 420 | 420 | 420 | 420 | 2,520 | 1,270 | The Environment Agency has approved funding for a 5 year programme of works from April 2020 to March 2025. Budget assumes scheme to be extended to 2025/26. Works are planned for the spring and autumn of each year of the programme. |
| 5 | Coast Protection - Hythe to Folkestone Beach Recharge | 1,970 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1,970) | Scheme now replaced with the enhanced Hythe to Folkestone Beach Management programme, above |
| 6 | General Fund Property - Health and Safety Enhancements | 13 | 13 | 0 | 0 | 0 | 0 | 0 | 13 | 0 | Partly deferred to 2020/21 and subject to the production and agreement of a Civic Centre 10 year plan |
| 7 | Royal Military Canal footpath enhancements | 100 | 29 | 20 | 20 | 20 | 20 | 20 | 129 | 29 | Ongoing 10 year programme of improvements 2016/17-2026/27 |
| 8 | Hawkinge Cemetery Expansion | 28 | 28 | 0 | 0 | 0 | 0 | 0 | 28 | 0 | Scheme commenced in 2019/20 and due to be completed in 2020/21 |
| 9 | Area Officer Vans | 30 | 0 | 30 | 0 | 0 | 0 | 0 | 30 | 0 | Delayed and now considering electric vehicles which may require an increase to the budget |
| 10 | Lifeline Capitalisation | 250 | 50 | 50 | 50 | 50 | 50 | 50 | 300 | 50 | Annual programme to purchase new/replacement units extended by one year to 2025/26 (£50k) |
| 11 | Grounds Maintenance Vehicle and Equipment Replacement Programme | 0 | 66 | 0 | 0 | 0 | 0 | 0 | 66 | 66 | Purchase of a new tractor and replacement park keeper waste vehicle. Expenditure in part deferred from 2019/20 |
| 12 | Public Toilet Enhancement Programme | 400 | 0 | 400 | 0 | 0 | 0 | 0 | 400 | 0 | Scheme to refurbish the council's public toilets portfolio. Subject to a separate report to Cabinet detailing the scheme. |
| 13 | Lower Sandgate Road Beach Huts (FPPG Charity) | 497 | 540 | 0 | 0 | 0 | 0 | 0 | 540 | 43 | The main reason for the variance is the cost to renovate the 27 existing beach huts was more than originally anticipated |
| 14 | Parking Services | 31 | 0 | 16 | 15 | 0 | 0 | 0 | 31 | 0 | Budget Growth. Parking Services - replacement of 15 on-street pay and display machines in Folkestone to be spread over a three year period. |
| 15 | Corporate Property Development Projects | 161 | 0 | 161 | 0 | 0 | 0 | 0 | 161 | 0 | Unallocated sum to support strategic property initiatives |

| Item No. | Service Area and Scheme | Latest Approved MTCP Budget | Latest Projection 2020/21 | Latest Projection 2021/22 | Latest Projection 2022/23 | Latest Projection 2023/24 | Latest Projection 2024/25 | Latest Projection 2025/26 | Total Projection 2020/21 - 2025/26 | Variance Budget to Projection | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| 16 | Biggins Wood Site Land Remediation Works | 1,700 | 100 | 1,600 | 0 | 0 | 0 | 0 | 1,700 | 0 | Works to enable commercial and housing developments to proceed funded in part from a Homes England grant of £1.016m agreed in principle |
| 17 | Biggins Wood Commercial Development | 500 | 0 | 500 | 0 | 0 | 0 | 0 | 500 | 0 | Contribution towards joint venture to deliver commercial development. Council also contributing the land to the project |
| 18 | Ship Street Site Folkestone | 441 | 441 | 0 | 0 | 0 | 0 | 0 | 441 | 0 | Cabinet approval made in October 2019 to proceed with the purchase of the site |
| 19 | Greatstone Varne Holiday Lets | 1,864 | 15 | 1,849 | 0 | 0 | 0 | 0 | 1,864 | 0 | Currently in planning phase. Construction phase delayed until 2021/22 |
| 20 | Electric Vehicle Charging Points | 40 | 40 | 0 | 0 | 0 | 0 | 0 | 40 | 0 | To provide 15 on-street charging points |
| 21 | Fisherman's Beach Chalets | 0 | 0 | 75 | 0 | 0 | 0 | 0 | 75 | 75 | Growth - Provision of 30 beach chalets at Fisherman's Beach, Hythe for lease to generate an additional revenue stream of up to £30k pa. Clear high local demand for beach chalets |
| 22 | New Beach Huts | 0 | 0 | 300 | 0 | 0 | 0 | 0 | 300 | 300 | Growth - Provision of 100 beach huts in various locations to generate an additional revenue stream to the Council of up to £104k pa. Clear high local demand for beach chalets |
| 23 | Coastal Park Play Equipment (FPPG Charity) | 0 | 0 | 62 | 0 | 0 | 0 | 0 | 62 | 62 | Growth - Replace Pirate Ship and undetake urgent repairs to the main tower structure to prevent the closure of the facilities on health and safety grounds |
| 24 | Coastal Park Toilet and Concession (FPPG Charity) | 0 | 0 | 150 | 0 | 0 | 0 | 0 | 150 | 150 | Growth - Construction of larger purpose built toilet block with adjoining concession to ease demand on existing facility and provide a new sustainable revenue stream |
| 25 | East Cliff Landfill Protection (FPPG Charity) | 0 | 0 | 1,200 | 0 | 0 | 0 | 0 | 1,200 | 1,200 | Growth - Work to remediate disused landfill site causing an environmental hazard to a high profile SSSI site |
| 26 | Hawkinge Depot Upgrade | 0 | 0 | 75 | 0 | 0 | 0 | 0 | 75 | 75 | Growth - Enhancements to staff welfare facilities and to provide covered storage to protect equipment from the elements |
| 27 | Units 1-5 Learoyd Road New Romney | 0 | 0 | 200 | 0 | 0 | 0 | 0 | 200 | 200 | Growth - Major refurbishment of units to maintain the existing income stream from leasing units to local businesses |
| | **Total - Operations** | **11,759** | **1,781** | **7,927** | **524** | **509** | **509** | **509** | **11,759** | **0** | |

| Item No. | Service Area and Scheme | Latest Approved MTCP Budget | Latest Projection 2020/21 | Latest Projection 2021/22 | Latest Projection 2022/23 | Latest Projection 2023/24 | Latest Projection 2024/25 | Latest Projection 2025/26 | Total Projection 2020/21 - 2025/26 | Variance Budget to Projection | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | |
| | **Ewan Green - Place** | | | | | | | | | | |
| 28 | Waste Contract - Acquisition of Vehicles and Equipment | 4,052 | 2,931 | 876 | 0 | 0 | 245 | | 4,052 | 0 | Purchase of vehicles and equipment for the new Waste contract with Veolia partly reprofiled. Purchase will achieve a net annual saving of £100k to the General Fund |
| 29 | Former Debenhams Building | 2,346 | 2,340 | 0 | 0 | 0 | 0 | 0 | 2,340 | (6) | Purchase completed 01/05/2020 |
| 30 | Otterpool Land and Property Acquitision | 9,710 | 3,700 | 6,010 | 0 | 0 | 0 | 0 | 9,710 | 0 | Land and property assembly to facilitate the Otterpool Park Garden Town development |
| 31 | Otterpool Park Delivery | 70,912 | 1,250 | 5,000 | 20,822 | 20,822 | 20,822 | 0 | 68,716 | (2,196) | Loan and equity investment in Otterpool LLP to enable the delivery of infrastructure and services for the initial phases of the proposed new Garden Town development |
| 32 | Otterpool Park Garden Town Delivery Mechanism | 0 | 12 | 0 | 0 | 0 | 0 | 0 | 12 | 12 | Professional advice to create delivery mechanism for council's involvement with the project. |
| 33 | Otterpool Park Masterplanning Costs | 0 | 3,144 | 156 | 0 | 0 | 0 | 0 | 3,300 | 3,300 | Capitalisation of masterplanning costs required to support the planning application process for the scheme |
| | **Total - Place** | **87,020** | **13,377** | **12,042** | **20,822** | **20,822** | **21,067** | **0** | **88,130** | **1,110** | |
| | **John Holman - Housing** | | | | | | | | | | |
| 34 | Empty Properties Initiative (KCC) - Loans to landlords | 332 | 150 | 300 | 300 | 300 | 300 | 300 | 1,650 | 1,318 | The number of projects coming forward have been limited during the Covid 19 Pandemic. It is anticipated that only 50% of the annual budget will be spent during 2020/21. The £300K budget for 2021/22 and future years to be met from repaid loans from previous years. |
| 35 | Temporary Accommodation (invest to save) | 527 | 200 | 327 | 0 | 0 | 0 | 0 | 527 | 0 | Continuing to look for suitable acquisition opportunities, but these are extremely limited at the current time. Anticipated spend of £200K in the current year as part of a joint initiative with the Next Steps Accommodation Programme (NSAP) with the remaining budget being carried forward to 2021/22. |
| 36 | Disabled Facilities Grant | 5,000 | 600 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 5,600 | 600 | Saving anticipated for 2020/21 due to lower than anticipated demand. Scheme met entirely from Government grant and extended by one year to 2025/26. There is currently no waiting list for applications |
| 37 | Home Safe Loans | 500 | 60 | 100 | 100 | 100 | 100 | 100 | 560 | 60 | Scheme extended by one year to 2025/26 |
| | **Total - Housing** | **6,359** | **1,010** | **1,727** | **1,400** | **1,400** | **1,400** | **1,400** | **8,337** | **1,978** | |

| Item No. | Service Area and Scheme | Latest Approved MTCP Budget | Latest Projection 2020/21 | Latest Projection 2021/22 | Latest Projection 2022/23 | Latest Projection 2023/24 | Latest Projection 2024/25 | Latest Projection 2025/26 | Total Projection 2020/21 - 2025/26 | Variance Budget to Projection | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| | **Charlotte Spendley - Corporate Services** | | | | | | | | | | |
| 38 | PC Replacement Programme | 137 | 46 | 16 | 35 | 35 | 35 | 35 | 202 | 65 | Increased spending due to transition of Housing back to FHDC & staff working from home. Scheme extended by one year to 2025/26 |
| 39 | Server Replacement Programme | 300 | 60 | 60 | 60 | 60 | 60 | 60 | 360 | 60 | Provision for an anuual replacement programme over the medium term. Scheme extended by one year to 2025/26 |
| 40 | Oportunitas Loan and Share Capital Phase 2 | 5,590 | 2,000 | 2,500 | 1,090 | 0 | 0 | 0 | 5,590 | 0 | To invest in the company's expansion of its residential property portfolio primarily for the former Royal Victoria Hospital site development. |
| | **Total - Corporate Services** | **6,027** | **2,106** | **2,576** | **1,185** | **95** | **95** | **95** | **6,152** | **125** | |
| | **Tim Madden - Transformation & Transition** | | | | | | | | | | |
| 41 | Princes Parade Leisure & Housing development | 28,608 | 250 | 17,430 | 10,928 | 0 | 0 | 0 | 28,608 | 0 | Preliminary fees reprofiled from 2020/21. Scheme has been on hold while an unsuccessful request to seek a Judicial Review regarding the planning permission for the development was considered |
| 42 | FHDC Transformation | 252 | 1,000 | 0 | 0 | 0 | 0 | 0 | 1,000 | 748 | Projected staffing, consultancy and ICT costs for the Council's Transformation Project able to be capitalised under the government's 'Flexible Use of Capital Receipts' statutory guidance. |
| 43 | Mountfield Road Industrial Estate Phase 2 | 3,500 | 614 | 2,922 | 0 | 0 | 0 | 0 | 3,536 | 36 | Infrastructure and services to 5 hectare site to enable development of employment space for upto 450 jobs. Final SELEP grant award slightly higher than previously anticipated |
| 44 | New Business Hub - Mountfield Road Industrial Estate | 735 | 735 | 0 | 0 | 0 | 0 | 0 | 735 | 0 | Joint development with East Kent Spatial Development Company to construct the new facility on the Council's land. |
| | **Total - Transformation & Transition** | **33,095** | **2,599** | **20,352** | **10,928** | **0** | **0** | **0** | **33,879** | **784** | |
| | **Total General Fund Medium Term Capital Programme** | **144,260** | **20,873** | **44,624** | **34,859** | **22,826** | **23,071** | **2,004** | **148,257** | **3,997** | |
| 45 | Government Grant | (9,331) | (1,753) | (5,677) | (1,439) | (1,439) | (1,439) | (1,439) | (13,186) | (3,855) | |
| 46 | Other External Contributions | (7,276) | (196) | (1,974) | (444) | 0 | 0 | 0 | (2,614) | 4,662 | |
| 47 | Capital Receipts | (23,157) | (2,010) | (16,213) | (6,700) | (400) | (400) | (400) | (26,123) | (2,966) | |
| 48 | Revenue Contributions | (4,894) | (4,226) | (1,280) | (165) | (165) | (165) | (165) | (6,166) | (1,272) | |
| 49 | Borrowing | (99,602) | (12,688) | (19,480) | (26,111) | (20,822) | (21,067) | 0 | (100,168) | (566) | |
| | **Total Funding** | **(144,260)** | **(20,873)** | **(44,624)** | **(34,859)** | **(22,826)** | **(23,071)** | **(2,004)** | **(148,257)** | **(3,997)** | |

This Report will be made public on 16 February 21

Folkestone & Hythe District Council

Report Number **A/20/05**

| | |
|---|---|
| **To:** | **Council** |
| **Date:** | **24 February 2021** |
| **Status:** | **Key Decision** |
| **Head of Service:** | **Charlotte Spendley - Director of Corporate Services** |
| **Cabinet Member:** | **Councillor David Monk – Leader and Portfolio Holder for Finance** |

**SUBJECT: CAPITAL STRATEGY 2021/22 AND MINIMUM REVENUE PROVISION STATEMENT 2021/22**

**SUMMARY:** This report sets out the Council's proposed strategy in relation to capital expenditure, financing and treasury management in 2021/22 to be approved by full Council. The report also sets out the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement for 2021/22 to be approved by full Council. The report is due to be considered and approved by Cabinet for submission to full Council earlier today.

**REASONS FOR RECOMMENDATIONS:**
Council is asked to agree the recommendations set out below because:-

a) The Council must have regard to both CIPFA's Prudential Code for Capital Finance in Local Authorities and the Ministry for Housing Communities and Local Government Investment Guidance when carrying out its duties under Part 1 of the Local Government Act 2003.
b) The Council is required to approve a Capital Strategy for the forthcoming year.
c) The Council is required to approve a Minimum Revenue Provision statement for 2021/22 in advance of the start of the financial year.

**RECOMMENDATIONS:**
1. **To receive and note report A/20/05.**
2. **To approve the 2021/22 Capital Strategy, including the Prudential Indicators, set out in appendix 1 to this report.**
3. **To approve the Minimum Revenue Provision (MRP) Statement for 2021/22 set out in appendix 2 to this report.**

## 1. INTRODUCTION AND BACKGROUND

1.1 The Capital Strategy is a requirement of the 2017 edition of the Prudential Code. The Prudential Code is a framework which should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

1.2 The main purpose of the capital strategy is to provide a high level summary of how capital expenditure, capital financing and treasury management activities contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. It is intended to be written in a way to enhance stakeholders understanding of these sometimes technical areas. The capital strategy for 2021/22 is set out in appendix 1 to this report.

The areas to be covered in this strategy are:

- Capital expenditure
- Borrowing
- Minimum revenue provision
- Investments (treasury, service and commercial)
- Guarantees and loan commitments
- Knowledge and skills

1.3 The capital strategy also includes the Prudential Indicators for capital expenditure that set controls to ensure the Council's capital investment plans are affordable, prudent and sustainable, required under the Prudential Code. The Prudential Indicators are required to be approved by full Council as part of the capital strategy.

1.4 The capital strategy also sets out the Minimum Revenue Provision (MRP) Statement for 2021/22 required to be approved by full Council and is set out in appendix 2 to this report.

1.5 The capital strategy should be considered alongside the investment strategy, due to be considered separately as part of this agenda. Like the capital strategy, the investment strategy is also required to be adopted by full Council.

1.6 The capital strategy is required to be reviewed annually as part of the authority's budget setting process. However, if the nature and structure of the authority's proposed capital expenditure and financing was to change significantly during the year it may be necessary to revise the strategy at the same time.

1.7 The capital strategy contains a number of links to other documents. Several of these will also be considered by full Council on the same night as this report. It is therefore proposed to add these links to the capital strategy once it is adopted in February and to create to a dedicated web page to provide a link for it together with those for:

- Investment Strategy 2021/22
- Medium Term Capital Programme to 2025/26
- HRA Capital Programme 2021/22

## 2. RISK MANAGEMENT ISSUES

2.1 A key element of the capital strategy is to consider the risks associated with our approach to the capital programme, capital financing and treasury management activity. These issues have been addressed in the body of the appendix and no other risk management issues have been identified as relevant to this report.

## 3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

### 3.1 Legal Officer's Comments (NM)

There are no legal implications arising directly out of this report other than those already stated. For each financial year, the Council should prepare at least one Capital Strategy which should contain the disclosures and reporting requirements specified in the Prudential Code. The Strategy should be approved by full Council.

### 3.2 Finance Officer's Comments (LW)

This report has been prepared by Financial Services and there are no direct financial implications arising from it.

### 3.3 Diversities and Equalities Implications (LW)

There are no direct diversities or equalities issues arising from this report.

## 4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

*Lee Walker – Capital and Treasury Senior Specialist*
*Tel: 01303 853593 Email: lee.walker@folkestone-hythe.gov.uk*

The following background documents have been relied upon in the preparation of this report:

Investment Strategy 2021/22 (Draft)
Arlingclose Ltd – Capital Strategy Report 2021/22 Template
Arlingclose Ltd – MRP 2021/22 Template

**Appendices:**
Appendix 1: Capital Strategy 2021/22
Appendix 2: Annual Minimum Revenue Provision Statement 2021/22

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## Appendix 1

# Capital Strategy 2021/22

## 1. Introduction

1.1 This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

1.2 Decisions made this year on capital and treasury management will have financial consequences for the authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

## 2. Capital Expenditure and Financing

2.1 Capital expenditure is where the Council spends money on assets that will be used for more than one year, such as property or vehicles. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

- For details of the Council's policy on capitalisation, see: https://www.folkestone-hythe.gov.uk/moderngov/documents/s32861/AG%20Report%20Accounting%20Policies%20040320.pdf
- Additionally further clarification can be found within the Council's Financial Procedure Rules

2.2 In 2021/22, the Council is planning capital expenditure of approximately £59m as summarised below:

*Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions*

| | 2019/20 actual | 2020/21 forecast | 2021/22 budget | 2022/23 budget | 2023/24 budget |
|---|---|---|---|---|---|
| General Fund services | 8.797 | 7.698 | 23.726 | 12.947 | 2.004 |
| Council housing (HRA) | 4.769 | 8.440 | 14.455 | 12.184 | 12.231 |
| Capital investments | 45.712 | 13.175 | 20.898 | 21.912 | 20.822 |
| **TOTAL** | **59.278** | **29.313** | **59.079** | **47.043** | **35.057** |

2.3 The main General Fund capital projects with expenditure planned for 2021/22 include profiled expenditure on the Princes Parade Leisure and Housing development (£17.43m), Coast Protection works (£1.24m), Private Sector Housing Improvement initiatives (£1.73m) and funding for the East Cliff Landfill Protection scheme on land owned by the Folkestone Parks and Pleasure Grounds Charity (£1.2m).

2.4 The main capital investment projects include further expenditure on the Otterpool Park Garden Town Development (£11.16m), funding of Oportunitas Ltd (£2.5m) to support its housing and regeneration activities, infrastructure works to land at Mountfield, New Romney to support its redevelopment for employment purposes (£2.92m), and the redevelopment of land at Biggins Wood, Folkestone for employment purposes (£2.1m). Further information regarding the capital investments for services and commercial purposes is provided later in the strategy.

2.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately. The Council has plans to build 1,200 new homes by 2034/35, and the coming financial year includes £6.51m within the HRA Capital programme towards the delivery of this ambition.

2.6 **Climate Change Emergency** – Cabinet is due to consider and approve a Carbon Action Plan which will identify themes and initiatives the Council intends to pursue to tackle climate change locally and reduce its own carbon emissions. £5m has been provided in the Climate Change Reserve to support this work. Any new capital schemes arising from the plan will need approving before including in the capital programme.

2.7 **Governance**: Service managers bid annually in September through a formal project appraisal process for growth proposals to include projects in the Council's capital programme. Bids are initially evaluated by the Finance Team against a series of criteria to determine their business need against the Council's existing corporate priorities and the financial impact of the proposal. The Finance Team submit a summary of the evaluated growth bids to the Corporate Leadership Team (CLT) to consider against the funding available (including external funding). CLT then makes recommendations to Cabinet for consideration initially through the Budget Strategy in November or December. The final capital programme is then presented to Cabinet in January or February and to Council in February each year.

For full details of the Council's capital programme, see:

- General Fund Capital Programme – link to MTCP to follow
- HRA Capital Programme – link to follow

2.8 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

*Table 2: Capital financing in £ millions*

| | 2019/20 actual | 2020/21 forecast | 2021/22 budget | 2022/23 budget | 2023/24 budget |
|---|---|---|---|---|---|
| External sources | 1.827 | 1.949 | 7.651 | 1.883 | 1.439 |

| | | | | | |
|---|---|---|---|---|---|
| Own resources | 7.029 | 14.676 | 31.948 | 8.798 | 3.538 |
| Debt | 50.422 | 12.688 | 19.480 | 36.362 | 30.080 |
| **TOTAL** | **59.278** | **29.313** | **59.079** | **47.043** | **35.057** |

2.9 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets and repaid principal from capital loans (known as capital receipts) may be used to replace debt finance. The planned MRP and use of capital receipts to replace debt are as follows:

*Table 3: Replacement of debt finance in £ millions*

| | **2019/20 actual** | **2020/21 forecast** | **2021/22 budget** | **2022/23 budget** | **2023/24 budget** |
|---|---|---|---|---|---|
| MRP | 0.358 | 0.874 | 0.886 | 0.917 | 0.959 |
| Capital resources | 0.500 | - | 0.561 | 1.666 | 3.335 |
| **TOTAL** | **0.858** | **0.874** | **1.447** | **2.583** | **4.294** |

- The Council's full minimum revenue provision statement is available here: See appendix 2 – link to follow

2.10 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by about £18m during 2021/22. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

*Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions*

| | **2019/20 actual** | **2020/21 forecast** | **2021/22 budget** | **2022/23 budget** | **2023/24 budget** |
|---|---|---|---|---|---|
| General Fund services | 10.935 | 14.242 | 17.296 | 20.567 | 16.934 |
| Council housing (HRA) | 47.416 | 47.416 | 47.416 | 57.667 | 66.925 |
| Capital investments | 59.007 | 67.514 | 82.518 | 102.776 | 122.938 |
| **TOTAL CFR** | **117.358** | **129.172** | **147.230** | **181.010** | **206.797** |

2.11 In line with the approved HRA Business Plan, the HRA's CFR is expected to continue to increase as it borrows to invest in new stock to meet its aim of building 1,200 new units by 2034/35. The current business plan makes no provision to reduce the HRA CFR in the future. This helps to support the HRA's financial position over the life of the business plan. The rise in the HRA CFR is expected to be more than offset by an increase in the value of the HRA stock as new units are added.

2.12 From 2022/23 accounting changes to leases where the Council is the lessee will require these to be included on the Balance Sheet as assets. These leases, where they are not at a peppercorn rent, are seen as a form of borrowing and will need to be added to the Council's CFR. At this stage the impact of this change to the CFR has yet to be fully assessed although the Council does not have many leases that will be subject to this change.

2.13 **Asset management:** To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. This strategy was adopted in July 2017 by Cabinet, covers the five year period to 2022 and sets out how property asset management is delivered for the Council to meet its long term objectives and goals. It outlines how the long term objectives for managing the asset portfolio are met, including statutory obligations, stakeholder needs & the overall performance of property within the context of any constraints such as funding. The strategy is supported by the Asset Management Policy & Asset Management Plan also adopted by Cabinet in July 2017.

- The Council's asset management strategy can be read here: https://www.folkestone-hythe.gov.uk/moderngov/documents/s24171/Shepway%20AM%20Strategy%20July.pdf

2.14 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2022/23 under the Flexible Use of Capital Receipts Policy. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £3.18m capital receipts in the coming financial year as follows:

*Table 5: Capital receipts in £ millions*

| | 2019/20 actual | 2020/21 forecast | 2021/22 budget | 2022/23 budget | 2023/24 budget |
|---|---|---|---|---|---|
| Asset sales – Non Housing | 0.082 | 1.500 | 1.000 | 14.880 | 6.285 |
| Asset Sales – HRA | 1.393 | 0.750 | 1.500 | 1.500 | 1.500 |
| Loans repaid | 0.633 | 0.680 | 0.680 | 0.430 | 0.430 |
| **TOTAL** | **2.108** | **2.930** | **3.180** | **16.810** | **8.215** |

2.15 The Non-Housing asset sales assumes capital receipts of £14.25m in 2022/23 for the disposal of land at Princes Parade, Hythe for housing and £6.285m in 2023/24 for the Hythe Pool site. In both cases these capital receipts are planned to be used towards funding the Princes Parade Leisure and Housing development.

Restrictions apply to the use of capital receipts generated from HRA 'Right to Buy' asset sales meaning they can only be used to support further HRA capital investment.

- The Council's Flexible Use of Capital Receipts Policy is available here: https://www.folkestone-hythe.gov.uk/moderngov/documents/s20238/rcabt20160914%20MTFS%20Cabinet%20report%2014-9-16.pdf

## 3. Treasury Management

3.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

3.2 Due to decisions taken in the past, the Council as at 31 December 2020 has £80.3m borrowing at an average interest rate of 2.74% and £31.8m treasury investments at an average rate of 1.96%.

3.3 **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.1%) and long-term fixed rate loans where the future cost is known but higher (currently 0.7 to 1.7%).

3.4 Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases) are shown below, compared with the capital financing requirement (see above).

*Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions*

| | 31.3.2020 actual | 31.3.2021 forecast | 31.3.2022 budget | 31.3.2023 budget | 31.3.2024 budget |
|---|---|---|---|---|---|
| Debt (incl. PFI & leases) | 90.255 | 88.172 | 132.031 | 169.910 | 196.697 |
| Capital Financing Requirement | 117.358 | 129.172 | 147.230 | 181.010 | 206.797 |

3.5 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

3.6 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £15m at each year-end. This benchmark is currently projected to be £88.2m at 31.3.21 and is forecast to rise to £196.7m over the next three years.

*Table 7: Borrowing and the Liability Benchmark in £ millions*

| | 31.3.2020 actual | 31.3.2021 forecast | 31.3.2022 budget | 31.3.2023 budget | 31.3.2024 budget |
|---|---|---|---|---|---|
| Outstanding borrowing | 90.255 | 88.172 | 132.031 | 169.910 | 196.697 |
| Liability benchmark | 75.600 | 88.172 | 132.031 | 169.910 | 196.697 |

3.7 The table shows that the Council expects its borrowing to be in line with its liability benchmark. However, this may change if, for instance, the timing of the capital expenditure changes or if it is beneficial to borrow in advance of need.

3.8 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. The authorised limit provides for borrowing for capital purposes for one year in advance so is higher than both the operational boundary and the figures shown in the Prudential Indicator for gross debt and the CFR in table 6, above.

*Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m*

| | 2020/21 limit | 2021/22 limit | 2022/23 limit | 2023/24 limit |
|---|---|---|---|---|
| Authorised limit – borrowing | 178.1 | 187.6 | 215.1 | 237.2 |
| Authorised limit – PFI and leases | 2.0 | - | - | 2.0 |
| Authorised limit – total external debt | 180.1 | 187.6 | 215.1 | 239.2 |
| Operational boundary – borrowing | 149.0 | 148.2 | 182.0 | 207.8 |
| Operational boundary – PFI and leases | 2.0 | - | - | 2.0 |
| Operational boundary – total external debt | 151.0 | 148.2 | 182.0 | 209.8 |

3.9 The proposed authorised borrowing limit for 2021/22 of £187.6m is £3.4m less than indicated in the Treasury Management Strategy Statement approved by Cabinet on 20 January 2021 and incorporates the impact of the borrowing for the proposed General Fund and HRA capital programmes.

- ➢ Further details on borrowing are in pages 12 to 16 of the treasury management strategy https://www.folkestone-hythe.gov.uk/moderngov/documents/s35224/Cabinet%20Report%20TMSS%202122_v1.pdf

3.10 **Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.11 The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

*Table 9: Treasury management investments in £millions*

| | **31.3.2020 actual** | **31.3.2021 forecast** | **31.3.2022 budget** | **31.3.2023 budget** | **31.3.2024 budget** |
|---|---|---|---|---|---|
| Near-term investments | (15.6) | - | - | - | - |
| Longer-term investments | (14.1) | (15.0) | (15.0) | (15.0) | (15.0) |
| **TOTAL** | **(29.7)** | **(15.0)** | **(15.0)** | **(15.0)** | **(15.0)** |

- ➢ Further details on treasury investments are in pages 16 to 21 of the treasury management strategy https://www.folkestone-hythe.gov.uk/moderngov/documents/s35224/Cabinet%20Report%20TMSS%202122_v1.pdf

3.12 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Corporate Services and staff, who must act in line with the treasury management strategy approved by Council. Half yearly reports on treasury management activity are presented to Cabinet. The Finance and Performance Sub-Committee are responsible for scrutinising treasury management decisions.

## 4. Investments for Service Purposes

4.1 The Council can lend money to its subsidiaries, its charities where the Council is the trustee, its external service providers, local residents and its employees to support local public services and stimulate local economic growth. In the future the Council may also lend money to joint ventures it decides to enter into to help deliver its major corporate investment initiatives.

4.2 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the authority, upper limits on the outstanding loans to each category of borrower have been set.

4.3 Additionally the Council can invest in equity in its subsidiary companies it may choose to establish or other joint venture companies it decides to enter into to help deliver its corporate investment initiatives.

4.4 Notably, the Council invested almost £4.8m in its wholly owned Housing and Regeneration subsidiary company, Oportunitas Limited, to support the first phase of its housing for rent programme. This investment was through £4.3m in loan funding and almost £0.5m in share equity. The Council subsequently agreed a further investment package of £6.9m to Oportunitas to enable the company to expand its housing programme with £2.47m being additional loan funding and £4.43m as increased share equity funding.

4.5 The Council's plans to create the Otterpool Park Garden Town Development are now at an advanced stage. Otterpool Park will provide up to 10,000 much needed new homes over a 30 year period, creating significant economic benefits to the district. The Council, as principal land owner, also expects to gain a financial return from its investment in the Otterpool Park development. The Council recently created the Otterpool Park Limited Liability Partnership (LLP) as a wholly owned subsidiary to deliver the project. Cabinet approved the initial business plan for the LLP on 20 January 2021. This will require the Council making an investment of about £70m in the LLP through a combination of equity, through a capital contribution, and loan funding and work is currently taking place to determine the optimum mix. The LLP's prime source of income will be the receipts it generates from selling parcels of land within the development area to housing developers. However, it will be several years before the first sales are likely to be completed.

4.6 The equated value of investments for service purposes in 2021/22 is approximately £15.2m generating a return of about 1.1%. In particular, the level of return for the year is affected by the equity investment in the LLP where no return is expected to be received until sufficient receipts have been generated from its sales of parcels of land to housing developers. In the meantime the Council has to meet the net capital financing cost of its investment in the LLP.

4.7 **Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Director of Corporate Services and must meet the criteria and limits laid down in the Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- ➢ Further details on service investments are in sections 3 & 4 of the appendix to the Investment Strategy 2021/22 report being considered separately on this agenda. The Capital Strategy 2021/22 and Investment Strategy 2021/22 will be published together on the Council's website once they are adopted.

## 5. Commercial Activities

5.1 With central government financial support for local public services declining, the Council is investing in commercial property and land with the intention of making capital gains or generating new revenue streams to spend on local public services. Total commercial investments are currently projected to be valued at £80.8m at 31 March 2021 with the largest being the land and property acquisitions required for the Otterpool Park development (£59m) and the Connect 38 Offices in Ashford (£17.7m). To date the most notable benefit from Otterpool Park has been an unrealised valuation gain of about £20.7m on the farm land acquired in late 2015.

5.2 The total net return after all costs on commercial activities for 2020/21 is projected to be a small negative return of 0.4% and there are two main reasons for this. Firstly, there is a net cost being incurred for the land and property acquired for the Otterpool Park development, mainly due to capital financing costs. Secondly, there is a net cost from the ownership of the Folca building while its future use is considered.

5.3 With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include fluctuations in future demand of the market including competition, risk of void tenancies, fall in capital values etc.  These risks are managed by the project lead as well as assessed through the corporate risk register.  The Council has an established a proactive risk management framework, which incorporates key projects, and reports quarterly to the Audit & Governance Committee as well as annually to the Cabinet.  The Council is also working on a council wide transformation programme to support the needs of the medium term revenue position so as to not place sole reliance on the investment plans providing the expected yields within the anticipated timeframes.

5.4 **Governance:** Decisions on commercial investments are made by Cabinet and / or Full Council in line with the criteria and limits outlined within the Constitution, in specific circumstances the Executive have delegated authority to progress certain projects to the Director of Place and the Director of Housing and Operations in consultation with the relevant Portfolio Holders.  Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on commercial investments, limits on their use and other risk management controls are in section 5 of the appendix to the Investment Strategy 2021/22 report being considered separately on this agenda. The Capital Strategy 2021/22 and Investment Strategy 2021/22 will be published together on the Council's website once they are adopted.

## 6. Liabilities

6.1 In addition to debt of £132m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £62.9m at 31.3.20). It has also set aside £2.4m to cover risks of the business rates appeals.

6.2 **Governance:** Decisions on incurring new discretional liabilities are taken by the Director of Corporate Services in liaison with service managers. The risk of liabilities crystallising and requiring payment is monitored by Accountancy and reported through the regular budget monitoring/projected outturn cycle to Cabinet if identified or through the Statement of Accounts process to the Audit & Governance Committee. New liabilities exceeding the auditors materiality threshold would be reported to full council for approval/notification as appropriate.

- Further details on liabilities and guarantees are on pages 37 to 42 of the 2019/20 statement of accounts https://www.folkestone-hythe.gov.uk/media/3113/Audited-Statement-of-Accounts-2019-20/pdf/Final_SoA_2019-20_(Signed_with_Audit_Opinion).pdf?m=637413952335630000

## 7. Revenue Budget Implications

7.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

*Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream*

| | **2019/20 actual** | **2020/21 forecast** | **2021/22 budget** | **2022/23 budget** | **2023/24 budget** |
|---|---|---|---|---|---|
| **Non-HRA** Financing costs (£m) | 0.27 | 4.78 | 2.09 | 1.03 | 1.06 |
| Proportion of net revenue stream | 1.9% | 33.6% | 13.7% | 6.8% | 6.9% |
| | | | | | |
| **HRA** Financing costs (£m) | 2.89 | 4.73 | 8.14 | 5.44 | 5.97 |
| Proportion of net revenue stream | 17.8% | 30.4% | 51.5% | 30.8% | 32.4% |

7.2 The increase in the Non-HRA financing cost in 2020/21 reflects the level of revenue funding planned to be used towards the General Fund capital programme.

7.3 The increase the HRA financing costs for 2020/21 and 2021/22 reflects the level of revenue funding planned to be used towards the HRA capital programme for the two years.

- For the General Fund the revenue implications of capital expenditure are included in the 2021/22 revenue budget – link to GF Budget 2021/22 to follow
- For the HRA the revenue implications of capital expenditure are included in the 2021/22 HRA revenue budget – link to HRA revenue budget 2021/22 to follow

7.4 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Corporate Services is satisfied that the proposed capital programme is prudent, affordable and sustainable because it has been evaluated and risk assessed, it is considered to be a balanced portfolio with minimal risks.

## 8. Knowledge and Skills

8.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Corporate Services is a qualified accountant with 20 years' experience and the Director of Development has a degree in Estate Management, is RICS qualified and has 30 years' experience in both the private and public sector. The Director of Housing and Operations has a degree and post graduate certificate in strategic leadership and over 20 years' extensive and relevant experience in contract and project management. The Housing and Operations teams include suitably qualified and experienced professionals ranging from FRCIS through to MSc Engineering and senior project management qualifications. The Council pays for staff to study towards relevant professional qualifications including ACCA, ACT (treasury).

8.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, Savills and Montague Evans as property consultants as well as other bodies on an ad hoc basis. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

- Further details on staff training can be found within the People Strategy which was considered by Personnel Committee in June 2019 https://www.folkestone-hythe.gov.uk/moderngov/documents/s30459/Report%20-%20HR%20Annual%20Review%202018-19%20-%20App2%20People%20Strategy%20-%20June%202019.pdf

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Appendix 2

**Annual Minimum Revenue Provision Statement 2021/22**

1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as **Minimum Revenue Provision (MRP),** although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Council to have regard to the Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

2. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

3. The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

   i) For capital expenditure incurred before 1st April 2008 and for supported capital expenditure incurred on or after that date MRP will be determined as 4% of the capital financing requirement in respect of that expenditure.

   ii) For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

   iii) For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

   iv) Additionally the council is free to determine an alternative MRP approach provided that it is prudent. These alternatives may include a variation on the above options or may take other forms as determined by the Chief Finance Officer. For instance, where the council acquires assets funded from unsupported borrowing for the purpose of site assembly with the aim of disposing to developers in the future, then the council may determine a nil MRP charge is prudent on the understanding that the capital receipt from the disposal is used repay the borrowing and extinguish the CFR relating to it. Any unsupported borrowing on capital expenditure falling into this category will be reviewed annually and if for any reason a capital receipt will not be received within a specified timeframe as determined by the Chief Finance Officer relating to the asset acquired then the unsupported borrowing will revert back to the normal MRP treatment applicable including an adjustment for MRP due for previous years that may not have been previously charged.

4. No MRP will be charged in respect of assets held within the Housing Revenue Account.

5. Any deviation from the approved policy in year will, as a minimum, be addressed in the MRP Policy Statement for the next financial year.

6. Capital expenditure incurred during 2021/22 will not be subject to a MRP charge until 2022/23.

7. Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2021, the budget for MRP has been set as follows:

| | **31.03.2021 Estimated CFR £m** | **2021/22 Estimated MRP £m** |
|---|---|---|
| Capital expenditure before 01.04.2008 | 10.095 | 0.330 |
| Unsupported capital expenditure after 31.03.2008 | 71.118 | 0.556 |
| Loans to other bodies repaid in instalments | 0.543 | Nil |
| Voluntary overpayment (or use of prior year overpayments) | n/a | Nil |
| **Total General Fund** | **81.756** | **0.886** |
| Assets in the Housing Revenue Account | 15.402 | Nil |
| HRA subsidy reform payment | 32.014 | Nil |
| **Total Housing Revenue Account** | **47.416** | **Nil** |
| **Total** | **129.172** | **0.886** |

Agenda Item 12

This Report will be made public on 16 February 2021

Folkestone & Hythe District Council

Report Number **A/20/07**

| | |
|---|---|
| **To:** | **Council** |
| **Date:** | **24 February 2021** |
| **Status:** | **Key Decision** |
| **Head of service:** | **Charlotte Spendley - Director of Corporate Services** |
| **Cabinet Member:** | **Councillor David Monk – Leader and Portfolio Holder for Finance** |

**SUBJECT:** **INVESTMENT STRATEGY 2021/22**

**SUMMARY:** This report sets out the Council's proposed strategy for its service and commercial investments in 2021/22 to be approved by full Council. The report is due to be considered and approved by Cabinet for submission to full Council earlier today.

**REASONS FOR RECOMMENDATIONS:**
Council is asked to agree the recommendations set out below because:-

a) The Council must have regard to both CIPFA's Prudential Code for Capital Finance in Local Authorities and the Ministry for Housing Communities and Local Government Investment Guidance when carrying out its duties under Part 1 of the Local Government Act 2003.
b) The Council is required to approve an Investment Strategy for the forthcoming year.

**RECOMMENDATIONS:**
1. **To receive and note report C/20/07.**
2. **To approve the 2021/22 Investment Strategy, including the Investment Indicators, set out in the appendix to this report.**

## 1. INTRODUCTION AND BACKGROUND

1.1 In early 2018 the Ministry for Housing, Communities and Local Government (MHCLG) revised their *Statutory Guidance on Local Government Investments* mainly as a response to the increased commercial investment activity in the sector. The MHCLG Guidance requires all local authorities to produce an annual Investment Strategy for their non-treasury management investments which has to be approved by full Council. The MHCLG Guidance also requires local authorities to have regard to the Chartered Institute of Public Finance and Accountany (CIPFA) publications of *The Prudential Code for Capital Finance in Local Authorities* and *Treasury Management in the Public Services* which both complement it.

1.2 The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

1.3 The main purpose of the investment strategy is to identify the level of the authority's service and commercial investments and to set risk management parameters around these.

1.4 Treasury management investments and borrowing continue to be covered by a separate annual Treasury Management Strategy Statement which has to be approved by Cabinet as part of the budget process in advance of each new financial year. However, the revised MHCLG Guidance requires some limited treasury management information to feature in the investment strategy, including the level of interest received by the General Fund. Cabinet approved the Council's Treasury Management Strategy Statement for 2021/22 on 20 January 2021 (report no. C/20/64 refers)

1.5 The investment strategy, set out in the appendix to this report, is based on the authority's existing and planned service-related and commercial investments and is consistent with the proposed General Fund Medium Term Capital Programme due to approved by full Council later today.

1.6 Being a relatively new requirement on the authority, it is anticipated that the investment strategy will continue to develop and evolve over time in line with the council's own capital investment aspirations and plans. The intention is to review the investment strategy annually as part of the authority's budget setting process. However, if the nature and structure of the authority's proposed service and commercial investments was to change during the year it may be necessary to revise the strategy at the same time.

## 2. RISK MANAGEMENT ISSUES

2.1 The main purpose of the investment strategy shown in the appendix to this report is to identify risks associated with the authority's service and commercial investments and to set parameters to help mitigate these. No other risk management issues have been identified as relevant to this report.

## 3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

### 3.1 Legal Officer's Comments (NM)

There are no legal implications arising directly out of this report other than those already stated. For each financial year, the council should prepare at least one Investment Strategy which should contain the disclosures and reporting requirements specified in the Local Government Investment Guidance as published by the MHCLG. The Strategy should be approved by full Council.

### 3.2 Finance Officer's Comments (LW)

This report has been prepared by Financial Services and there are no direct financial implications arising from it.

### 3.3 Diversities and Equalities Implications (LW)

There are no direct diversities or equalities issues arising from this report

## 4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Lee Walker, Capital and Treasury Senior Specialist
Telephone: 01303 853593
Email: lee.walker@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Arlingclose Ltd – Investment Strategy Report 2021/22 Template

**Appendices:**
Appendix 1: Investment Strategy 2021/22

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## INVESTMENT STRATEGY 2021/22

## 1. INTRODUCTION

1.1 The Investment Strategy is a requirement of the Ministry for Housing, Communities and Local Government's (MHCLG) *Statutory Guidance on Local Government Investments.* The MHCLG Guidance also requires local authorities to have regard to the Chartered Institute of Public Finance and Accountany (CIPFA) publications of *The Prudential Code for Capital Finance in Local Authorities* and *Treasury Management in the Public Services* which both complement it.

1.2 The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

1.3 The main purpose of the strategy is to identify the level of the Council's service and commercial investments and to set risk management parameters around these. It is based on the authority's existing and planned service-related and commercial investments and is consistent with the General Fund Medium Term Capital Programme due to be approved by full Council on 24 February 2021.

1.4 During 2020 the Council created the Otterpool Park Limited Liability Partnership (LLP) as a wholly owned subsidiary to deliver the Otterpool Park development. Otterpool Park will provide up to 10,000 much needed new homes over a 30 year period, creating significant economic benefits to the district. The Council, as principal land owner, also expects to gain a financial return from its investment in the development.

1.5 Cabinet approved the initial business plan for the LLP on 20 January 2021. This will require the Council making an investment of about £70m in the LLP through a combination of equity, in the form of a capital contribution, and loan funding and work is currently taking place to determine the optimum mix for this. For the purposes of this strategy, it has been assumed that funding will be 10% equity and 90% loan. However, a tolerance has been built into the proposed investment limits within the strategy that allows the equity to increase to 20% with the loan funding reducing to 80%. The Council will receive a market rate of interest on the loans advanced to LLP. Over time the Council expects to receive returns on its equity investment in the LLP largely generated from the sales of land to housing developers and this will be governed by the terms of the Members' Agreement.

## 2. TREASURY MANAGEMENT INVESTMENTS

2.1 The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the CIPFA. The balance of treasury management investments is expected to fluctuate between £15m and £35m during the 2021/22 financial year.

2.2 **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities. These investments also contribute an income stream to support the General Fund budget position annually.

2.3 **Further details:** Full details of the Council’s policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the Treasury Management Strategy Statement (TMSS), approved by Cabinet on 20 January 2021 as part of the budget process for 2021/22. The approved TMSS will be published on the Council’s website.

## 3. SERVICE INVESTMENTS: LOANS

3.1 **Contribution:** The Council can lend money to its subsidiaries, its charities where the council is the trustee, its external service providers, local residents and its employees to support local public services and stimulate local economic growth. In the future the Council may also lend money to joint ventures it decides to enter into to help deliver its major corporate investment initiatives. Examples of loans the Council makes are shown in the table below:

**Table 1 –** Example of Loans Made for Service Investments

| Organisation | Relationship | Purpose | Service Objective |
|---|---|---|---|
| Oportunitas Ltd | Housing and Regeneration subsidiary company | Primarily for the acquisition of residential property for rent | Provision of good quality homes for rent<br><br>Generate additional revenue stream for the General Fund |
| Folkestone Parks and Pleasure Grounds Charity | Council is the trustee | Refurbishment and replacement of Beach Huts | Improve the appearance of the district and to improve the financial resilience of the |

| | | | |
|---|---|---|---|
| | | | Charity through additional income generated |
| Local property owners | Jointly funded empty homes initiative with Kent County Council | Interest free loans to property owners to bring empty properties across the district back in to residential use | Bringing empty residential properties back into use and the provision of additional good quality homes |
| Otterpool Park LLP | Otterpool Park Delivery Vehicle subsidiary company | Delivery of the Otterpool Park Garden Town development | Provision of new homes, generate economic benefits and provide a financial return to the Council |

3.2 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 2 - Loans for service purposes in £ millions

| **Category of borrower** | **31.3.2020 actual** | | | **2021/22** |
|---|---|---|---|---|
| | **Balance owing £m** | **Loss allowance £m** | **Net figure in accounts £m** | **Approved Limit £m** |
| Subsidiary – Oportunitas Ltd | 4.308 | (0.169) | 4.139 | **7.0** |
| Subsidiary – Otterpool Park LLP | - | - | - | **62.4** |
| FPPG Charity | - | - | - | **0.6** |
| East Kent Housing | 0.278 | - | 0.278 | **-** |
| Local residents/landlords (Housing) | 3.634 | - | 3.634 | **3.5** |
| **TOTAL** | **8.220** | **(0.169)** | **8.051** | **73.5** |

3.3 The approved limits for 2021/22 not only include the estimated amounts to be lent in the year but also provide for any accrued interest and future loan commitments within the loan agreement.

3.4 The proposed loan limit in 2021/22 for Oportunitas Limited, the Council's wholly owned housing and regeneration company, includes the additional loan of

£2.47m approved by full Council on 28 February 2018. This loan is expected to fully utilised during 2022/23 in line with the latest approved business plan for the company.

3.5 The proposed loan limit for Otterpool Park LLP assumes the Council will provide loan funding of up to 90% from the budget provided for the Otterpool Park delivery within the Medium Term Capital Programme. Expert legal advice has been commissioned to ensure the loan to the LLP provides the Council with the optimum level of security to mitigate against the risk of default.

3.6 Accounting standards require the authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. No loss allowance has been made for the loans made to local property owners as the majority of these have been secured against property with a low risk of default. However, the authority is required to keep the position under review and the figures for loans in the Council's statement of accounts for 2020/21 onwards will continue to be shown net of any loss allowance made if applicable. The authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.7 The loan to East Kent Housing has been written off in 2020-21 following the winding up of the organisation in late 2020.

3.8 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans. This includes:

3.8.1 Ensuring the authority has the legal power to make the loan to the entity in the first place.

3.8.2 Assessing loan applications against the type of market the entity is operating and competing in:

i) Loans to the Council's subsidiary company, charities where it is the trustee, joint ventures or external service providers require a business case and, possibly, business model to be prepared in advance. This needs to demonstrate the entity's long term financially viability, its ability to meet the loan repayment terms and also the internal governance arrangements in place to support their operations. The entity also needs to demonstrate how it will evolve over time against both market conditions and its customer needs. The entity needs to identify any ongoing or future investment requirements to support it over the term of the loan. The authority's loan agreement may require the entity to provide regular performance information to enable an assessment to be made of their ability to continue to meet its terms and conditions. Unless otherwise agreed, loans made are secured against the property or other assets of the entity to help mitigate the risk of default.

ii) Loans to local property owners for housing improvements schemes are made in accordance with the criteria of the specific scheme agreed by the Council. All previous and existing housing improvement schemes offer interest free loans (soft loans) with the requirement that the principal sum is repaid to the authority at an agreed trigger point such as after an agreed period of time or when the property is eventually sold. Loans are secured as a charge against the property to help mitigate the risk of default.

3.8.3 External advisors can be used to support the Council in assessing investment opportunities and preparing loan agreements. This can include advising on investment options appraisal, business plan or case submissions, relevant commercial lending terms, compliance for State Aid, taxation and other statutory issues and reporting obligations for the borrower.

3.8.4 The Council has established procurement and contract management procedures to appoint and monitor the performance of external advisors it uses. This can involve;-

- interviewing potential consultants to gain a better understanding of their breadth of experience and knowledge in the specific area,
- liaising with other local authorities through established groups and channels to discuss the suitability of consultants being considered where it is known they have been used before,
- focusing advice on larger firms with the breadth and depth of expertise to minimise risk, and
- utilising our own professional judgement to consider the advice received.

3.8.5 Credit ratings are not currently applicable as part of the assessment process for checking the financial status of entities or individuals who apply for a loan. This may alter if the nature and scope of loans made was to change in the future.

3.8.6 The Council may require other sources of information to help assess the suitability of the entity requesting a loan such as financial accounts or a bank reference.

## 4. SERVICE INVESTMENTS: SHARES AND OTHER EQUITY

4.1 Prior to the current financial year, the Council invested in share equity for Oportunitas Limited. From 2020/21 this has expanded to include the proposed equity investment, as a capital contribution, in Otterpool Park LLP outlined in section one, above. In the future the Council may also acquire shares in either other subsidiaries companies it may choose to establish or joint venture companies it decides to enter into to help deliver its major corporate investment initiatives.

4.2 **Contribution Oportunitas Limited:** The Council's investment in the shares of Oportunitas supports its operational trading activities including its acquisition of residential property to increase the supply of good quality housing for rent to local people. No dividend return is expected in the medium term from this investment, however the council's overall investment in Oportunitas provides an additional revenue stream to the General Fund.

4.3 **Contribution Otterpool Park LLP:** The Council's equity investment in Otterpool Park LLP, as a capital contribution through the Members' Agreement, support its operational activities to act as the Master Developer for the proposed scheme. The LLP's main income stream will be from selling serviced parcels of land to housing developers and this will provide the opportunity to make a return to the Council. No return is expected to be received over the first five years of the scheme.

4.4 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows.

Table 3 - Shares and Capital contributions held for service purposes in £ millions

| Category of company | 31.3.2020 actual | | | 2021/22 |
|---|---|---|---|---|
| | **Amounts invested £'m** | **Gains or losses £'m** | **Value in accounts £'m** | **Approved Limit £'m** |
| Subsidiary – Oportunitas Ltd | 1.789 | (0.489) | 1.300 | **4.91** |
| Subsidiary – Otterpool Park LLP | - | - | - | **13.75** |
| **TOTAL** | **1.789** | **(0.489)** | **1.300** | **18.66** |

4.5 The approved limit for 2021/22 includes;

i) the increase in share equity of £4.43m approved by full Council on 28 February 2018 as part of its future strategy for Oportunitas, and

ii) the proposed equity in Otterpool Park LLP being a maximum of 20% of the agreed total equity and loan funding package, outlined in section one, above.

4.6 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding shares of its subsidiaries or joint ventures. This includes:

4.6.1 Ensuring the authority has the legal power to acquire the share capital or make the equity investment in the entity in the first place.

4.6.2 Preparing a long term business case and business model for the company identifying the level, structure and time scale of the investment required to enable it to become financially viable and sustainable and provide the authority with an appropriate financial return

4.6.3 Requiring the company to develop and maintain a business plan outlining how it will meet the objectives of the authority as shareholder including identifying associated risks, including market conditions, and measures to mitigate these.

4.6.4 Requiring the company in the event it was to cease trading or become insolvent to dispose of its assets and transfer the net receipt to the authority or transfer the assets to the control of the authority itself, to help mitigate the risk of financial loss.

4.6.5 Using external advisers if required to support the authority in preparing its business planning and modelling to support the creation and development of the company and also structure the shareholder agreement.

4.6.6 Using the authority's established procurement and contract management procedures to appoint and monitor the performance of external advisors it uses. This can involve;-

- interviewing potential consultants to gain a better understanding of their breadth of experience and knowledge in the specific area,
- liaising with other local authorities through established groups and channels to discuss the suitability of consultants being considered where it is known they have been used before,
- focusing advice on larger firms with the breadth and depth of expertise to minimise risk, and
- utilising our own professional judgement to consider the advice received.

4.6.7 Credit rating checks are not applicable as a risk assessment check to support the authority's investment in its wholly owned subsidiary company. This may alter if the nature and scope of the Council's acquisition of share capital made was to change in the future.

4.7 **Liquidity:** The Council's equity investments in Oportunitas Limited and Otterpool Park LLP are both long term commitments with no specified end date. The business cases and model supporting the council's investment in Oportunitas and Otterpool are based on a 45 year and 30 year period respectively. The Council's future capital investment plans do not require the repayment of the equity investments. The Council has overall control of the both companies and can decide if it wants to review the level of its equity investment. For any future share or equity investment in other subsidiary companies or joint ventures it is likely these will also be a long term commitment, however this will be determined at the time the investment is being considered for approval.

4.8 **Non-specified Investments:** Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the authority's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

## 5. COMMERCIAL INVESTMENTS: PROPERTY

5.1 **Contribution:** The Council invests in local commercial and residential land and property with the intention of making a capital gain or generating a new revenue stream that will be spent on local public services. The Council currently holds investment property for the following main reasons;

i) Land and property to support the proposed Otterpool Park Garden Town development of up to 10,000 new homes over an approximate 30 year period. This excludes Westenhanger Castle, which while part of the

Otterpool Park Garden Town development, is planned to be used for its community benefit rather than a direct financial return.

ii) Land for other commercial and residential development, including the Biggins Wood site in Folkestone.

iii) Commercial and light industrial units for local businesses providing employment opportunities and the authority with a net rental stream.

iv) The Connect 38 office accommodation in Ashford to provide the authority with an additional net revenue stream.

v) The Folca building, Folkestone (former Debenhams) whose future use will form part of the Place Plan for Folkestone town centre.

5.2 The table below summarises the value of the Council's investment assets grouped by property type measured against the original purchase or construction cost. For some assets the original purchase or construction cost data is not available in which case the value of the asset at 1st April 2014 has been used as a proxy value with changes since then shown as a gain or loss.

Table 4 - Property held for investment purposes

| | | **31/03/2020 (Actual)** | | | **31/03/2021 (Projection)** | |
|---|---|---|---|---|---|---|
| **Property Type** | **Actual Purchase Cost** | **Accrued Gains (Losses)** | **Value in Accounts** | **Actual Purchase Cost** | **Accrued Gains (Losses)** | **Value in Accounts** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Commercial and Light Industrial (existing) | 1.102* | 0.485 | 1.587 | 1.102* | 0.485 | 1.587 |
| Other Land | 1.214* | (0.407) | 0.807 | 1.214* | (0.407) | 0.807 |
| Otterpool land and property (acquired to 31/03/20) | 34.681 | 21.249 | 55.930 | 34.681 | 21.249 | 55.930 |
| Otterpool land and property (acquired 2020/21) | n/a | n/a | n/a | 3.145 | - | 3.145 |
| Connect 38 Offices | 17.711 | (0.711) | 17.000 | 17.711 | (0.711) | 17.000 |
| Retail – Folca Building (acquired 20/21) | n/a | n/a | n/a | 2.340 | - | 2.340 |
| **Total** | **54.708** | **20.616** | **75.324** | **60.193** | **20.616** | **80.809** |

* Includes assets where a proxy value has been used based on their value at 1st April 2014

5.3 All land and property classified as Investment Assets is required to be measured at its market value as at 31 March each year for inclusion in the authority's Statement of Accounts. At the time of writing, no information was available regarding potential changes in the market value of these assets as at 31 March 2021 meaning, where appropriate, they are shown at either their value as at 31 March 2020 or purchase cost if acquired in 2020/21 in table 4, above.

5.4 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. However, it is recognised the Council is acquiring land for development reasons and therefore its existing use value as an investment asset may be significantly lower than its future potential value.

5.5 A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2020/21 year end accounts preparation and audit process value these properties below their purchase cost and there is no reasonable prospect of this being reversed as a result of the Council's investment plans, then an updated investment strategy will be presented to full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

5.6 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments by preparing a business case to support the proposed investment. This includes:

5.6.1 Assessing the current and expected future market demand and need for relevant property by reference to local, regional or national data, including rental and occupancy levels.

5.6.2 Assessing the current and expected future market competition for the type of property being considered.

5.6.3 Identifying the relevant legal power the authority is using to undertake the purchase and whether or not it may need to purchase and operate it through a separate entity such as a company or joint venture.

5.6.4 Identifying how the authority can recover or dispose of its interest in the property without financial loss.

5.6.5 Undertaking a whole-life financial assessment for the proposed scheme to identify any on-going investment that may be required.

5.6.6 Using specialist external advisors such as, valuers, surveyors, property agents, solicitors and taxation and other finance specialists to help evaluate the proposed investment if required.

5.6.7 Using the Council's established procurement and contract management procedures to appoint and monitor the performance of external advisors it uses. This can involve;-

- interviewing potential consultants to gain a better understanding of their breadth of experience and knowledge in the specific area,
- liaising with other local authorities through established groups and channels to discuss the suitability of consultants being considered where it is known they have been used before,
- focusing advice on larger firms with the breadth and depth of expertise to minimise risk, and
- utilising our own professional judgement to consider the advice received.

5.6.8 Using credit checks if required to assess the financial strength of third parties the Council could be exposed to, for instance where the authority proposes to purchase an investment property which has existing commercial tenants. Credit ratings are not applicable as part of the assessment process for property investment.

5.6.9 The Council has established a proactive risk management culture within the organisation, including all key projects being required to consider risks, as well as quarterly monitoring and reporting of key corporate risks which includes, at times, key investment plans such as the delivery of Otterpool.

5.7 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions.

5.8 The Council's commercial and light industrial units' portfolio is viewed as a long term commitment providing valuable local jobs and supporting the local economy. Any decision to dispose of existing units would need to be balanced against providing alternative employment opportunities, continuing to support the local economy as well as the direct financial impact to the authority.

5.9 Where property is held for future development reasons the Council will identify how it intends to recover or access the cost of its capital investment as part of any proposal for the specific development.

## 6. PROPORTIONALITY

6.1 The current Medium Term Financial Strategy (MTFS) does include property and service investment income as part of its projections from schemes and initiatives already in place or agreed. The MTFS currently excludes the benefit from any potential capital gains or new revenue streams from the proposed Otterpool Park development. However, the MTFS is over the medium term in a deficit position of about £13.6m and the authority is continuing to explore investments to support the closure of this gap (along with an internal Transformation programme). As the Council's wider investment plans continue to develop further consideration will be given to its approach to proportionality in respect of investment income to gross service expenditure. Table 5 below shows the extent to which the service delivery objects of the Authority is dependent on achieving the expected net return from its investments over the life of the MTFS.

Table 5 - Proportionality of Investments

| | 2019/20 Actual | 2020/21 Forecast | 2021/22 Budget | 2022/23 Projection | 2023/24 Projection |
|---|---|---|---|---|---|
| Gross service expenditure | 118,642,076 | 105,350,100 | 101,485,500 | 103,515,200 | 105,585,500 |
| Net investment income to General Fund | (2,375,114) | (1,775,800) | (1,588,800) | (1,663,400) | (1,681,100) |
| Proportion | 2.00% | 1.69% | 1.56% | 1.61% | 1.59% |

## 7. CAPACITY, SKILLS AND CULTURE

### 7.1 Elected members and statutory officers:

7.1.1 All members are provided with a full training session on treasury management and investments by the authority's Treasury Management advisors (Arlingclose Ltd). This is conducted regularly with the next session due later in 2021 and encompasses all members and not just those on the relevant committees. Training is also held on specific issues for nominated councillors (such as on Investment Appraisals) and there are ongoing briefings for individual members with specific responsibilities such as the Finance Portfolio holder, the Chair of the Audit and Governance Committee and the Group Leaders of the political parties represented on the Council. All members have a wide exposure to investment decisions and are able to interrogate officers either formally or informally.

### 7.2 Commercial deals:

7.2.1 The Council has a process in place whereby all proposed capital investment decisions are referred to Financial Services and Legal Services to ensure compliance with the principles of the prudential framework and of the regulatory framework for local authorities. For individual major projects, including commercial property investments, a project board or working group is established at the outset which includes officers from Financial Services and Legal Services who advise on compliance with statutory guidance and regulatory issues.

### 7.3 Corporate governance:

7.3.1 The Council has a clearly articulated corporate plan and associated values which are being refreshed as part its transformation programme. It also has a long standing practice of regular and transparent decisions in relation to investments held for both treasury management purposes and also for investment purposes. The governance structure includes scrutiny of all decisions through the Overview and Scrutiny Committee prior to these being considered by Cabinet. Any new investment decisions need to be approved by Full Council with a full explanation of the benefits, opportunities and risks associated with any proposal. The ongoing performance of investments is regularly reported back to Members and is subject to ongoing review and monitoring.

## 8. INVESTMENT INDICATORS

8.1 The Council proposes to set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

8.2 **Total risk exposure:** The first indicator shows the authority's total exposure to potential investment losses. This includes amounts the authority is contractually committed to lend but have yet to be drawn down and guarantees it has issued over third party loans.

Table 6 - Total investment exposure in £millions

| Total investment exposure £m | 31.03.2020 Actual | 31.03.2021 Forecast | 31.03.2022 Forecast |
|---|---|---|---|
| Treasury management investments | 29.7 | 20.0 | 20.0 |
| Service investments: Loans | 8.2 | 7.5 | 27.3 |
| Service investments: Shares | 1.3 | 4.6 | 10.7 |
| Commercial investments: Property | 75.9 | 81.4 | 95.2 |
| TOTAL INVESTMENTS | 115.1 | 113.5 | 153.2 |
| Commitments to lend | 2.5 | 2.5 | 39.2 |
| **TOTAL EXPOSURE** | **117.6** | **116.0** | **192.4** |

8.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by external borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 7 - Investments funded by external borrowing in £millions

| **Investments funded by borrowing £m** | **31.03.2020 Actual** | **31.03.2021 Forecast** | **31.03.2022 Forecast** |
|---|---|---|---|
| Service investments: Loans | - | 0.4 | 1.7 |
| Service investments: Shares | 1.0 | 3.3 | 9.6 |
| Commercial investments: Property | 44.4 | 46.1 | 63.3 |
| **TOTAL FUNDED BY EXTERNAL BORROWING** | **45.4** | **49.8** | **74.6** |

8.4 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. This indicator includes the impact of (unrealised) valuations gains and losses. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 8 - Investment rate of return (net of all costs)

| **Investments net rate of return** | **2019/20 Actual** | **2020/21 Forecast** | **2021/22 Forecast** |
|---|---|---|---|
| Treasury management investments | 2.4% | 1.7% | 2.0% |
| Service investments: Loans | 2.2% | 2.6% | 2.8% |
| Service investments: Shares | (27.3%)* | 0.0% | (1.0%) |
| Commercial investments: | | | |
| Otterpool Land and Property | (3.2%)* | (0.5%) | (0.1%) |
| Connect 38 Offices | 2.8%* | 1.6% | 1.3% |
| Other Commercial & Light Industrial Property | (12.6%)* | 5.5% | 5.3% |
| **ALL INVESTMENTS** | **0.3%** | **0.5%** | **0.8%** |

* Net returns include unrealised valuation losses or adjustments which do not impact on the net cost to the General Fund.

8.4.1 The net return on loans made for service investments includes those that are interest free and are accounted for as ‘soft loans’, including private sector housing improvement loans.

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