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MEETING
OF THE COUNCIL

Thursday, 9th February, 2017

7.00 pm

Council Chamber
Thanet District Council
Margate

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01843 577000

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Date: **30 January 2017**
Ask For: James Clapson
Direct Dial: **(01843) 577200**
Email: **james.clapson@thanet.gov.uk**

You are hereby summoned to attend the meeting of the Thanet District Council to be held in the Council Chamber, Council Offices, Cecil Street, Margate, Kent on Thursday, 9 February 2017 at 7.00 pm for the purpose of transacting the business mentioned below.

Director of Corporate Governance

To: The Members of Thanet District Council

FIRE ALARM PROCEDURES: If the fire alarm is activated, please vacate the offices via the stairs either through the security door to the left of the Chairman or opposite the lifts in the foyer. Please do not use the lifts. Please assemble in Hawley Square on the green. Officers will assist you and advise when it is deemed safe to return to the Chamber.

A G E N D A

Item
No

1. **APOLOGIES FOR ABSENCE**

2. **MINUTES OF PREVIOUS MEETING** (Pages 1 - 6)

   To approve the Minutes of the meeting of Council held on 1 December 2016, copy attached.

3. **ANNOUNCEMENTS**

   To receive any announcements from the Chairman, Leader, Members of the Cabinet or Chief Executive in accordance with Council Procedure Rule 2.2 (iv).

4. **DECLARATIONS OF INTEREST**

   To receive any declarations of interest from Members in accordance with Council Procedure rule 2.2 (v)

5. **MID YEAR TREASURY REPORT 2016-17** (Pages 7 - 24)

6. **TREASURY MANAGEMENT STRATEGY 2017/18** (Pages 25 - 52)

7. **CHANGES TO 2016-17 CAPITAL PROGRAMME AND THE 2017-18 TO 2020-21**

Item No	Subject
	CAPITAL PLAN (Pages 53 - 56)
8.	**MEMBERS ALLOWANCES SCHEME 2017/18** (Pages 57 - 72)
9.	**BUDGET AND MEDIUM TERM FINANCIAL STRATEGY 2017-2021** (Pages 73 - 140)
10.	**APPOINTMENT OF COUNCIL'S EXTERNAL AUDITOR FOR 2018-19 AND ONWARDS** (Pages 141 - 146)
11.	**CHANGE TO THE DATE OF THE 23 MARCH 2017 MEETING** (Pages 147 - 150)
	Declaration of Interests Form

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COUNCIL

Minutes of the meeting held on 1 December 2016 at 7.00 pm in Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Present: Councillors Ashbee, Bambridge, Bayford, Braidwood, Brimm, Buckley, Campbell, G Coleman-Cooke, K Coleman-Cooke, Connor, Constantine, Crow-Brown, Curran, Day, Dellar, Dennis, Dexter, Dixon, Edwards, Elenor, Evans, J Fairbrass, L Fairbrass, Falcon, Fenner, Game, I Gregory, K Gregory, Grove, Hayton, G Hillman, Howes, Jaye-Jones, Johnston, Larkins, Martin, Matterface, Parsons, Partington, Piper, Piper, L Potts, R Potts, Rogers, Rusiecki, D Saunders, M Saunders, Savage, Shonk, Stummer-Schmertzing, Tomlinson, Townend and Wells

1. APOLOGIES FOR ABSENCE

Apologies were received from Councillors Dawson, Taylor and Taylor-Smith.

2. MINUTES OF PREVIOUS MEETING

It was proposed by the Chairman, seconded by the Vice-Chairman and Members agreed that the minutes of the Council meeting held on 13 October 2016 be approved and signed by the Chairman.

3. ANNOUNCEMENTS

The Chairman reminded Members of the need to treat each other with the respect and curtesy expected of those in elected office.

4. LOCALISM ACT 2011 DISPENSATIONS

The Chairman proposed, the Vice-Chairman seconded and Members agreed the recommendations as set out in the report, namely:

"1. That (subject to a written request being received) the Council approve a general dispensation for elected and co-opted Members of Thanet District Council to speak and vote on the following items:

- Setting the Council Tax under the Local Government and Finance Act 1992 (or any subsequent legislation);
- Any allowance, payment or indemnity given to Members;
- Any Ceremonial Honours given to Members;
- Setting a Local Council Tax Reduction Scheme or Local scheme for the payment of business rates (Including eligibility for rebates and reductions) for the purposes of the Local Government Finance Act 2012 (or any subsequent legislation);
- Housing, where they are a tenant of the council or East Kent Housing provided that those functions do not relate particularly to their tenancy or lease.
- Universal Credit (or Housing Benefit or Council Tax Support) where the member (or spouse or partner) directly receives Universal Credit (or Housing Benefit or Council Tax Support) in relation to their own circumstances.

The grounds for the dispensation are described in Sections 33(2) (a), (b) and (c) of the Localism Act 2011 as described in section 1.1 of the report.

2. The dispensation referred to at 1) above be valid until the Annual Council meeting in 2019. Thereafter the grant of dispensations be considered at each Annual Council meeting following council elections.

3. The Council delegate authority to the Monitoring Officer to grant dispensations under section 33 of the Localism Act 2011 if the Monitoring Officer considers that it is urgent and cannot be considered in time for the next ordinary meeting of the Standards Committee."

5. DECLARATIONS OF INTEREST

It was noted that all Members had an interest in agenda item 15, Members Allowances Scheme 2017-18, and that a dispensation to allow consideration of the item had been agreed. There were no other declarations of interest.

6. PETITIONS

No petitions had been received by the Council in accordance with the petition scheme.

7. QUESTIONS FROM THE PRESS AND PUBLIC

It was noted that no questions from the press and public had been received in accordance with council procedure rule number 13.

8. QUESTIONS FROM MEMBERS OF THE COUNCIL

It was noted that no questions had been received from Members of the Council in accordance with council procedure rule 14.

9. NOTICE OF MOTION

It was noted that no motions on notice had been received in accordance with council procedure rule 3.

10. LEADERS REPORT

During his report the Leader covered the following areas:

- The Council was issued with a £250,000 fine for historic health and safety breaches. Since then, the Council had conducted an extensive review of policies and procedures, implemented a scheme of training and employed a health and safety specialist officer to ensure this would not happen again.
- Soho Theatre had submitted exciting proposals to refurbish and relaunch the Theatre Royal in Margate, and to develop 19 Hawley Square into a restaurant and boutique hotel.
- The media had recently commented on the Council's low level of financial reserves.
- The Draft Local Plan would be considered at Cabinet on 8 December 2016, followed by a six week public consultation period to commence around 9 January 2017.
- Spring 2017 was to be a busy time for the Council as the following projects would be underway:
    - Budget cycles for 2017/18
    - Asset disposals due to go to auction
    - Ongoing local plan work
    - The public viewing of the business case for a possible Council merger across East Kent.
    - County Elections

Councillor Bayford as Leader of the Conservative Party responded with the following points:

- It was of some consolation that practices had been improved as a result of the health and safety investigation.
- It was good news that the Theatre Royal may get a new lease of life.
- The Council's financial reserves should be built up in coming years, as low levels left the Council in a vulnerable position.
- To designate a mixed use for the Manston site, as part of the local plan, would in reality preclude a major airport as it would be too close of residential property.
- To wish Members, officers and residents of Thanet a happy, healthy and peaceful Christmas.

The Leader replied to Councillor Bayford's comments with the following point:

- The medium term financial plan would detail how the Council intended to increase its financial reserves.

Councillor Matterface as leader of the Labour Party made the following points:

- It was good news about interest in the Theatre Royal, however a previously conducted viability study highlighted that there was a lack of parking in the area which would need to be addressed.
- When the local plan was bought to public consultation there would be a lot to read within the six week consultation period, a summary could be of benefit.
- The Dane Valley Units should be removed from the asset disposal list, as their disposal could cost jobs.
- The Winter Shelter opened on 1 December 2016, for people who were sleeping rough. Thanks were offered to the 250 volunteers who have signed up to help, and to Councillor L Fairbrass for her support.

The Leader replied to Councillor Matterface's comments with the following points:

- The Dane Valley Units were nearing the end of their useful life. The current occupiers had created a Limited company and could bid to own the containers when they went to auction.
- Thanks were offered to Councillor L Fairbrass for her work in relation to the Winter Shelter.

Councillor Grove as leader of the Independent Group made the following points:

- Welcomed the news regarding the Theatre Royal.
- Thanked the Leader for his report.

The Leader replied to Councillor Grove's comments with the following point:

- Now that a number of historic challenges were coming to a close, the Leader intended to move forward onto more positive projects for the District.

11. REPORT OF THE CHAIRMAN OF THE OVERVIEW AND SCRUTINY PANEL

Councillor D Saunders, the Chairman of the Overview and Scrutiny Panel (OSP), presented his report and the following points were noted:

- OSP met on 25 October 16 to consider the item 'Fulling Thanet's Growth and Development Opportunities'. The OSP recommendations were acknowledged in the report subsequently considered by Cabinet.
- OSP met on 1 November to consider the Draft Local Plan. It was good to see 13 non-OSP Members present at the meeting.
- OSP would next meet on 13 December 16 to consider the 'Post Implementation Review of Dreamland Phase 1, Lessons Learnt'. All Members were encouraged to attend.

12. FEES AND CHARGES 2017/18

It was noted that in accordance with council procedure rule 17.6, a recorded vote would be taken on the motion or any amendments and substantive motions.

It was noted that was a correction to the collection charges of green waste shown at section 7b of the Fees and Charges Schedule 2017-18. These charges should be replaced by a single annual collection charge of £47.50.

Subject to this correction, it was proposed by Councillor Townend and seconded by Councillor Brimm that Members approve the Fees and Charges as listed in Annex 1 of the report.

Councillor Constantine proposed and Councillor Campbell seconded, that the Council write to the Prime Minster to offer its support of a proposal to create a child burial fund that would remove the cost of burial from the grieving family. Following debate, Councillor Constantine agreed to withdraw the motion and to submit it for consideration at a future meeting of the Council where it could be considered as a motion on notice under council procedure rule 3.

The Monitoring Officer conducted a recorded vote on the substantive motion as follows:

28 Members voted in favour the motion: Councillors Braidwood, Brimm, Buckley, G Coleman-Cooke, Connor, Crow-Brown, Dellar, Dennis, Dixon, Edwards, Evans, J Fairbrass, L Fairbrass, Falcon, Grove, Hillman, Howes, Jaye-Jones, Larkins, Martin, L Piper, S Piper, L Potts, R Potts, Rusiecki, Stummer-Schmertzing, Townend and Wells.

0 Members voted against the motion.

25 Members abstained from voting on the motion: Councillors Ashbee, Bayford, Bambridge, Campbell, K Coleman-Cooke, Constantine, Curran, Day, Dexter, Elenor, Fenner, Game, I Gregory, K Gregory, Hayton, Johnston, Matterface, Parsons, Partington, Rogers, D Saunders, M Saunders, Savage, Shonk and Tomlinson.

Members approved the Fees and Charges as listed in Annex 1 of the report, subject to the correction to the charges for green waste.

13. COUNCIL TAX SUPPORT SCHEME

It was proposed by Councillor Townend, seconded by the Leader and Members agreed the recommendations as shown in the report with an amendment to recommendation 10 which replaced the wording 'works towards' with 'will approve', namely:

"The recommendations are that the existing scheme is modified to reduce the level of expenditure within the scheme by £875k (of which Thanet's reduction would be £119k) and maintain alignment with the Housing Benefit rules whilst protecting the principles of the original scheme relating to protecting the most vulnerable where possible.

1. That the current minimum contribution towards their Council Tax made by recipients of Council Tax Support is increased from 5.5% to 10.0%
2. That the maximum savings that a customer can have and still claim Council Tax Support is reduced from £16,000 to £6,000
3. That a minimum income is used within the calculation for Self Employed Customers after 12 months of self-employment
4. That the maximum level of Council Tax support is restricted to the equivalent of a Band D property charge

5. That only the first two children in a family will be included in the calculation for children born after April 2017 (some exceptions will apply for adoptions and multiple births)
6. That the Family Premium is not included in the calculation of Council Tax Support for all new working age customers
7. That the period for which a late claim can be backdated is reduced to one month
8. That the period for which a customer can be absent from Great Britain and still claim Council Tax Support is reduced to 4 weeks (with some exclusions for certain occupations)
9. That the element of the work-related component of Employment and Support Allowance is not included in the Council Tax Support Calculation
10. That TDC ~~works towards~~ will approve an exceptional hardship scheme that will be introduced from April 2017 in order to provide a safety net for customers experiencing extreme difficulty paying their Council Tax
11. That Council notes the equalities impact as detailed in Annex 1."

14. LED LIGHTING IN MILL LANE CAR PARK

It was proposed by Councillor Brimm, seconded by Councillor Johnston and Members agreed that the Council take out an interest free loan to upgrade the lighting in both Mill Lane car park and Leopold Street car park to LED lighting.

15. MEMBERS ALLOWANCES SCHEME 2017-18

It was proposed by the Chairman, seconded by the Vice-Chairman and Members agreed to adopt the draft 2017/18 Members allowances scheme as set out at annex 1 of the report, and to refer the scheme to EKJIRP for them to consider, with any amendments being reported back to Council.

16. REPRESENTATION ON OUTSIDE BODIES

In response to a recent change in status and operation, Democratic Services were asked establish if it would still be appropriate to appoint a Member to the Powel Cotton Museum and Quex House outside body. Therefore, the Leader proposed, Councillor L Fairbrass seconded and Members agreed not to nominate a Councillor to the Powell Cotton Museum and Quex House outside body at this time.

17. CONSTITUTION OF COMMITTEES, POLITICAL BALANCE, APPOINTMENTS TO COMMITTEES, PANELS AND BOARDS

PROPORTIONALITY

The Leader proposed, Councillor Bayford seconded and Members agreed option 1 as detailed at paragraph 2.6.1 of the report, namely;

"That a seat is removed from the DIG group on the General Purposes Committee and is given to the Conservative group. That a seat is removed from the DIG group on the Boundary and Electoral Arrangements Working Party and is given to the Conservative group. That a seat is removed from the DIG group on the Constitutional Review Working Party and is given to the Conservative group."

NOMINATION OF MEMBERS TO SERVE ON COMMITTEES

Group leaders advised of changes to sit on committees as summarised in the table below.

Committee / Group	Current Position	New Position	New Nomination
Planning			

Committee			
UKIP	Cllr Evans	Replacement nomination	Cllr Edwards
Independent Group	Cllr Hayton	Replacement nomination	Cllr Grove
Planning Committee Reserves			
UKIP	4 vacant positions	4 nominations required	Cllr Dennis Cllr L Piper Cllr Ruiseki Cllr Dellar
Conservative	2 vacant positions	2 nominations required	Cllr Ashbee Cllr D Saunders
General Purposes			
Conservative	3 seats	4 seats (one new nomination required)	Cllr Bambridge
DIG	Cllr Ashbee	No entitlement to a seat	N/A
BEAWP			
Conservative	2 seats	3 seats (one new nomination required)	Cllr Savage
DIG	Cllr Elenor	No entitlement to a seat	N/A
CRWP			
Conservative	1 seat	2 seats (one new nomination required)	Cllr Game
DIG	Cllr Elenor	No entitlement to a seat	N/A
Overview & Scrutiny Panel			
Conservative	Cllr Bambridge	Replacement nomination	Cllr Ashbee
Independent Group	Cllr Grove	Replacement nomination	Cllr Hayton

ELECTION OF CHAIRMAN TO THE PLANNING COMMITTEE

The Leader proposed, Councillor Hayton seconded and Members agreed Councillor Grove be elected Chairman of the Planning Committee for the remainder of 2016/17.

18. REPORT ON URGENT INDIVIDUAL CABINET MEMBER DECISION

Members noted the report.

Meeting concluded: 8.20 pm

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW REPORT 2016/17

Meeting	**Council – 9 February 2017**
Report Author	**Tim Willis, Director of Corporate Resources & Section 151 Officer**
Portfolio Holder	**Councillor John Townend, Portfolio Holder for Financial Services and Estates**
Status	**For Decision**
Classification:	**Unrestricted**
Key Decision	**No**
Previously Considered by	**Governance and Audit Committee – 7 Dec 2016** **Cabinet – 17 Jan 2017**

Executive Summary:

This report summarises treasury management activity and prudential/treasury indicators for the first half of 2016/17.

Recommendation(s):

That Council approves this report and the prudential and treasury indicators that are shown.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications are highlighted in this report.
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, this is the Director of Corporate Resources, Tim Willis, and this report is helping to carry out that function.
Corporate	Failure to undertake this process will impact on the Council's compliance with the Treasury Management Code of Practice.
Equalities Act 2010 & Public Sector Equality Duty	There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

	It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council.

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	
Promoting inward investment and job creation	
Supporting neighbourhoods	

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	

1 Introduction and Background

1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 Accordingly treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council on 24 April 2014.

1.5 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement (including the Annual Investment Strategy and Minimum Revenue Provision Policy) for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Governance and Audit Committee.

1.6 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2016/17 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken during 2016/17;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

1.7 There have not been any key changes to the Treasury and Capital Strategies during the first half of 2016/17.

2 Capita's Interest rate forecasts (issued by Capita on 5 October 2016)

2.1 The Council's treasury advisor, Capita Asset Services (Capita), has provided the following forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

2.2 Capita undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

2.3 The overall longer run trend is for gilt yields and Public Works Loan Board (PWLB) rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

2.4 The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

2.5 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

3 Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 4 February 2016. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

3.2 The Section 151 Officer can confirm that the approved limits within the Annual Investment Strategy were not breached during the six months ended 30th September 2016.

4 The Council's Capital Position (Prudential Indicators)

4.1 This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.2 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

The revised estimate includes carry-forward from the previous year of £8.941m General Fund and £11.640m HRA.

Capital Expenditure	2016/17 Original Estimate £m	Current Position – Actual at 30/09/16 £m	2016/17 Revised Estimate £m
General Fund	4.332	2.238	12.311
HRA	11.450	1.498	22.177
Total	**15.782**	**3.736**	**34.488**

4.3 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2016/17 Original Estimate £m Total	Current Position – Actual at 30/9/16 £m	2016/17 Revised Estimate £m GF	2016/17 Revised Estimate £m HRA	2016/17 Revised Estimate £m Total
Total spend	15.782	3.736	12.311	22.177	34.488
Financed by:					
Capital receipts	1.995		3.356	0.736	4.092
Capital grants	2.012		5.691	3.297	8.988
Capital reserves	4.739		0.081	8.717	8.798
Revenue	1.522		0.143	2.191	2.334
Total financing	10.268		9.271	14.941	24.212
Borrowing need	**5.514**		**3.040**	**7.236**	**10.276**

4.4 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for external debt

	2016/17 Original Estimate £m	Current Position – Actual at 30/9/16 £m	2016/17 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR – non housing	28.856		29.189
CFR – housing	27.282		27.477
Total CFR	56.138		56.666
Net movement in CFR	**8.831**		**9.358**
Prudential Indicator – the Operational Boundary for external debt			
Borrowing	46.000	31.980	46.000
Other long term liabilities*	12.000	3.485	12.000
Total debt	**58.000**	**35.465**	**58.000**

** On balance sheet PFI schemes and finance leases etc (including the leisure centre deferred credit). Excludes the amount owed to KCC for the Westwood spine road construction as classified as a current liability.*

4.5 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, borrowing will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2016/17 Original Estimate £m	Current Position – Actual at 30/09/16 £m	2016/17 Revised Estimate £m
Gross borrowing	40.602	31.980	40.434
Plus other long term liabilities*	3.579	3.485	3.315
Total gross borrowing	44.181	35.465	43.749
CFR (year end position)	56.138		56.666

** On balance sheet PFI schemes and finance leases etc (including the leisure centre deferred credit). Excludes the amount owed to KCC for the Westwood spine road construction as classified as a current liability.*

The Section 151 Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2016/17 Original Indicator £m	Current Position – Actual at 30/09/16 £m	2016/17 Revised Indicator £m
Borrowing	51.000	31.980	51.000
Other long term liabilities*	15.000	3.485	15.000
Total	66.000	35.465	66.000

** On balance sheet PFI schemes and finance leases etc (including the leisure centre deferred credit). Excludes the amount owed to KCC for the Westwood spine road construction as classified as a current liability.*

5 Investment Portfolio 2015/16

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

5.2 The Council held £43.782m of investments as at 30 September 2016 (£28.612m at 31 March 2016) and the investment portfolio yield for the first six months of the year is 0.59% against a benchmark (average 7-day LIBID rate) of 0.28%. The constituent investments are:

Sector	Country	Up to 1 year £m	1 year – 370 days £m	Total £m
Banks	UK	13.758	0.000	13.758
Banks	Sweden	3.976	0.000	3.976
Money Market Funds	UK	26.048	0.000	26.048
Total		**43.782**	**0.000**	**43.782**

5.3 The Section 151 Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

5.4 The Council's budgeted investment return for 2016/17 is £0.165m and performance for the first half of the financial year is above budget at £0.117m.

5.5 Investment Risk Benchmarking

Investment risk benchmarks were set in the 2016/17 Treasury Management Strategy Statement (TMSS) for security, liquidity and yield. The mid-year position against these benchmarks is given below.

5.5.1 Security

The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio.

The security benchmark for each individual period is:

	370 days	2 years	3 years	4 years	5 years
Maximum	**0.05%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

The Section 151 Officer can report that the investment portfolio was maintained within this overall benchmark for the first half of this financial year.

5.5.2 Liquidity

In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 1.0 year.

The Section 151 Officer can report that liquidity arrangements were adequate for the first half of this financial year.

This authority does not currently place investments for more than 370 days due to the credit, security and counterparty risks of placing such investments.

5.5.3 Yield

Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate

The Section 151 Officer can report that the yield on deposits for the first half of the financial year is 0.59% against a benchmark (average 7-day LIBID rate) of 0.28%.

5.6 Investment Counterparty criteria

The current investment counterparty criteria selection approved in the revised TMSS is meeting the requirement of the treasury management function.

6 Borrowing

6.1 The Council's capital financing requirement (CFR) original estimate for 2016/17 is £56.138m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £31.980m (table 4.5) and has utilised an estimated £24.158m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

6.2 Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement – CFR), new external borrowing of £3.000m was undertaken from the PWLB during the first half of the financial year, as below.

- £2.000m loan for 22.5 years at a fixed interest rate of 3.09%, repayable at maturity.
- £1.000m loan for 7 years at a fixed interest rate of 1.28%, repayable by equal instalments of principal over the life of the loan.

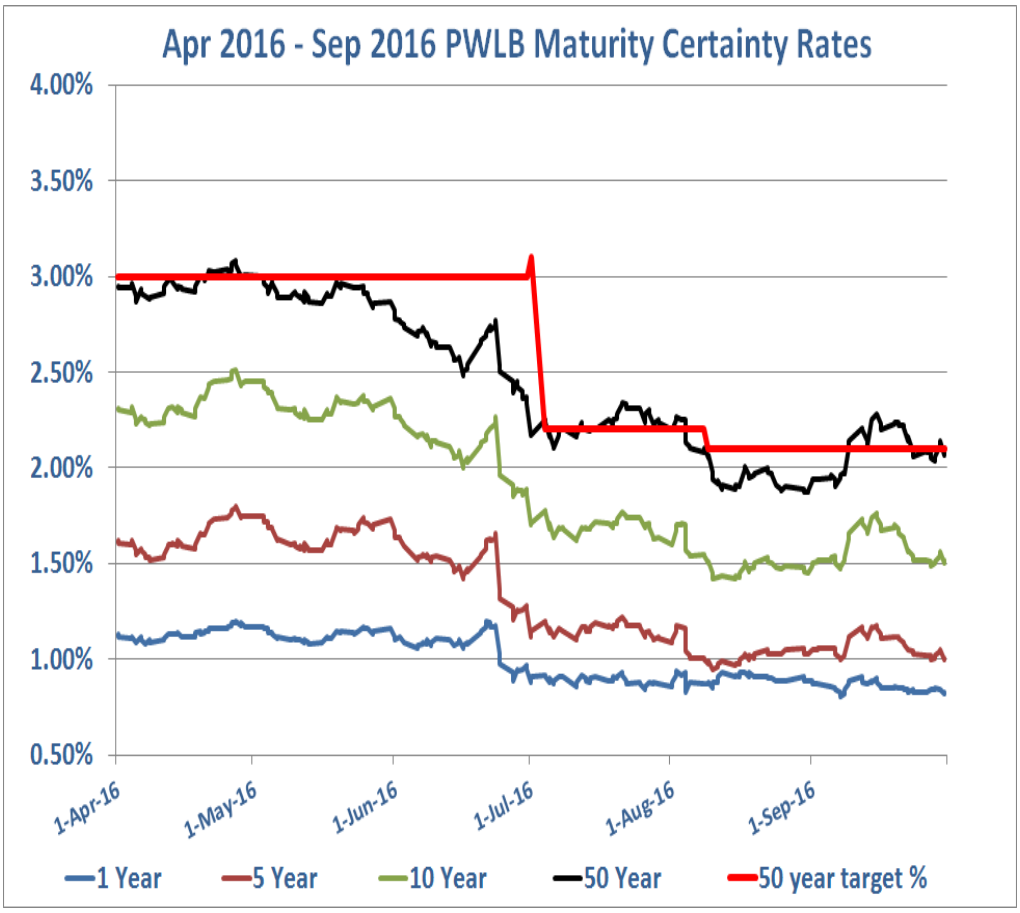
6.3 As shown in the graph below, the general trend to date has been a sharp fall in interest rates in the current financial year.

6.4 Borrowing may be undertaken during the second half of this financial year and options will be reviewed in due course in line with market conditions.

6.5 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to 30 September 2016.

6.6 PWLB certainty rates, half year ended 30th September 2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
30/9/16	0.83%	1.01%	1.52%	2.27%	2.10%
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.99%	1.33%	1.92%	2.69%	2.46%



6.7 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. During the first six months of the year, no debt rescheduling was undertaken. The Council is currently under-borrowed to address investment counterparty risk and the differential between borrowing and investment interest rates. This position is carefully monitored.

6.8 The Council's budgeted debt interest payable for 2016/17 is £1.654m and performance for the first half of the financial year is below budget at £0.583m.

7 Treasury Management Indicators

7.1 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2016/17 Original Indicator	2016/17 Revised Indicator
Non-HRA	10.2%	6.9%
HRA	8.3%	8.3%

7.2 **Upper Limits on Variable Rate Exposure** – This identifies a maximum limit for variable interest rates based upon the debt position net of investments.

Upper Limits on Fixed Rate Exposure – Similar to the previous indicator, this covers a maximum limit on fixed interest rates.

Both of these are shown in the below table:

	2016/17 Original Indicator £m	Current Position – Actual at 30/09/16 £m	2016/17 Revised Indicator £m
Upper limits on fixed interest rates			
Debt only	66.000	31.980	66.000
Investments only	45.000	11.789	45.000
Upper limits on variable interest rates			
Debt only	66.000	0.000	66.000
Investments only	50.000	31.993	50.000

7.3 **Maturity Structures of Borrowing**

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

	2016/17 Original Upper Limit	Current Position – Actual at 30/09/16	2016/17 Revised Upper Limit
Maturity structure of fixed rate borrowing			
Under 12 months	50%	16%	50%
1 year to under 2 years	50%	2%	50%
2 years to under 5 years	50%	32%	50%
5 years to under 10 years	55%	11%	55%
10 years to under 20 years	50%	21%	50%
20 years to under 30 years	50%	9%	50%
30 years to under 40 years	50%	6%	50%
40 years to under 50 years	50%	3%	50%
50 years and above	50%	0%	50%

The current position shows the actual percentage of fixed rate debt the authority has within each maturity span. None of the upper limits have been breached.

8 **Options**

8.1 The recommended option (to ensure regulatory compliance as set out in section 1 of this report) is that Council approves this report and the prudential and treasury indicators that are shown.

8.2 Alternatively, Council may decide not to do this and advise the reason(s) why.

9 Disclaimer

9.1 This report (including annexes) is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

Contact Officer:	Tim Willis, Director of Corporate Resources & Section 151 Officer, extn 7617
Reporting to:	Madeline Homer, Chief Executive

Annex List

Annex 1	Economic Update and Debt Maturity
Annex 2	Guidance on the Treasury Management Strategy Statement and Annual Investment Strategy – Mid Year Review Report 2016/17

Corporate Consultation Undertaken

Finance	Peter Timmins, Interim Head of Financial Services
Legal	Tim Howes, Director of Corporate Governance & Monitoring Officer

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ANNEX 1 – ECONOMIC UPDATE AND DEBT MATURITY

1.0 Capita's Economic Update (issued by Capita on 5 October 2016)

1.1 UK Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the Group of 7 (G7) countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the European Union (EU), China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

1.2 The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced, after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

1.3 The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. The Consumer Price Index (CPI) has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the Monetary Policy Committee (MPC) is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

1.4 The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Federal Reserve (Fed) embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more

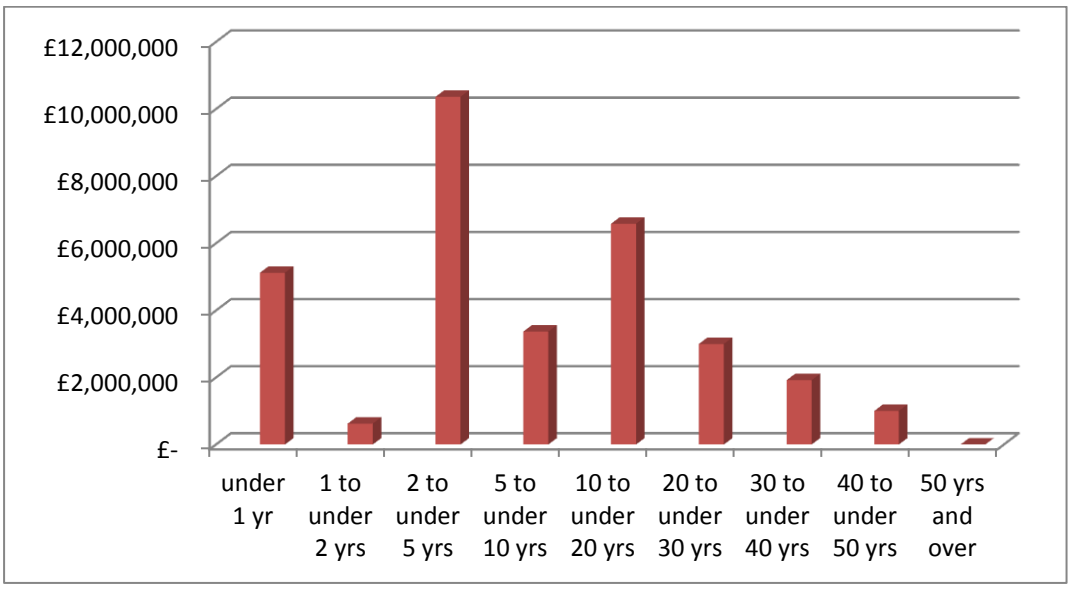
downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

1.5 In the Eurozone, the European Central Bank (ECB) commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected Eurozone (EZ) countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

1.6 Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

2.0 Debt Maturity

2.1 The maturity structure of the Council's borrowing as at 30 September 2016 (as per section 7 of the main report) is shown below in graph format.



ANNEX 2 – GUIDANCE ON THE TREASURY MANAGEMENT STRATGEY STATEMENT AND ANNUAL INVESTMENT STRTAGEY – MID YEAR REVIEW REPORT 2016/17

Prudential Code

The Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice for capital finance, to which local authorities must have regard.

Capital Expenditure

The Capital Expenditure table (section 4.3 of report) is split between the Council's Housing Revenue Account (HRA) and General Fund (GF or non-HRA). The HRA is a 'ring-fenced' account for local authority housing.

The table also shows the resources used to fund the capital expenditure (being capital receipts from the sale of assets, capital grants, capital reserves and revenue) and any shortfall in resources. This shortfall represents the Council's borrowing need.

Borrowing Limits

The Capital Financing Requirement (CFR) represents the Council's aggregate borrowing need. i.e. the element of the capital programme that cannot be funded. Borrowing may only be undertaken for capital expenditure purposes.

The Limits to Borrowing Activity table (section 4.5 of report) shows that the Council's debt is not more than the CFR because, as above, the CFR represents the Council's aggregate borrowing need.

Borrowing limits (sections 4.5, 7.2 and 7.3 of report) – there are various general controls on the Council's borrowing activity (operational boundary, authorised limit, fixed and variable interest rate exposures, and maturity profiles).

Investments

General controls on the Council's investment activity to safeguard the security and liquidity of its investments (as set out in the Council's Annual Investment Strategy), include:

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.
- Limits on the Council's fixed and variable interest rate exposures.
- Minimum size of the Council's bank overdraft facility.

Borrowing Sources/ Types

PWLB (section 6 of report) is the Public Works Loan Board which is a statutory body operating within the UK Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities, and to collect the repayments.

The Council has the following types of fixed rate loan with the PWLB:

- Annuity: fixed half-yearly payments to include principal and interest.
- Equal Instalments of Principal: equal half-yearly payments of principal together with interest on the outstanding balance.
- Maturity: half-yearly payments of interest only with a single payment of principal at the end of the term.

Financing Costs as a Proportion of Net Revenue Stream

This shows (section 7.1 of report), separately for HRA and GF, the percentage of the Council's revenue stream that is used to finance the CFR (net interest payable and Minimum Revenue Provision (MRP)).

MRP is the annual resource contribution from revenue which must be set against the CFR so that it does not increase indefinitely.

TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2017/18

Meeting	**Council – 9 February 2017**
Report Author	**Tim Willis, Director of Corporate Resources & Section 151 Officer**
Portfolio Holder	**Councillor John Townend, Portfolio Holder for Financial Services and Estates**
Status	**For Decision**
Classification:	**Unrestricted**
Previously Considered by	**Governance and Audit Committee – 7 Dec 2016** **Cabinet – 17 Jan 2017**

Executive Summary:

This report and annexes includes the proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2017/18.

Recommendation(s):

That Council approves this report and annexes.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications are highlighted in this report and annexes.
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, this is the Director of Corporate Resources, Tim Willis, and this report and annexes is helping to carry out that function.
Corporate	Failure to undertake this process will impact on the Council's compliance with the Treasury Management Code of Practice.

Equalities Act 2010 & Public Sector Equality Duty	There are no equity and equalities implications arising directly from this report and annexes, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these. It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council.

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	
Promoting inward investment and job creation	
Supporting neighbourhoods	

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report and annexes) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit Committee.

1.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was last undertaken by members on 21 September 2015 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 External service providers

The Council uses Capita Asset Services, Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The Council uses the ICD Portal to invest or redeem trades in its Money Market Funds (MMFs). The portal provides advanced reporting tools so that the authority can assess its exposure to certain banks or countries.

Some investments via the ICD portal are made via JP Morgan who act as a clearing house for six of the nine MMFs the Council currently uses. The clearing house allows the authority to make several investments in different MMFs but only requires one payment to the clearing house, therefore saving the authority costs in CHAPS fees.

2 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	12.720	12.311	8.478	3.492	3.247
HRA	5.030	22.177	3.855	4.160	3.325
Total	**17.750**	**34.488**	**12.333**	**7.652**	**6.572**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	12.720	12.311	8.478	3.492	3.247
HRA	5.030	22.177	3.855	4.160	3.325
Total	**17.750**	**34.488**	**12.333**	**7.652**	**6.572**
Financed by:					
Capital receipts	1.377	4.092	0.582	0.205	0.205
Capital grants	6.303	8.988	3.421	3.037	2.542
Capital reserves	2.959	8.798	3.705	3.810	2.900
Revenue	1.393	2.334	0.350	0.350	0.425
Net financing need for the year	**5.718**	**10.276**	**4.275**	**0.250**	**0.500**

Other long term liabilities: The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council had £3.655m of long term liabilities (excluding pensions) as at 31 March 2016.

The Council is asked to approve the CFR projections below:

£m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Financing Requirement					
CFR – non housing	27.067	29.189	32.237	31.053	30.098
CFR – housing	20.241	27.477	27.332	26.360	26.215
Total CFR	**47.308**	**56.666**	**59.569**	**57.413**	**56.313**
Movement in CFR	**4.044**	**9.358**	**2.903**	**(2.156)**	**(1.100)**

Movement in CFR represented by					
Net financing need for the year (above)	5.718	10.276	4.275	0.250	0.500
Less HRA – loan repayments and downward revaluations*	(0.828)	0	(0.145)	(0.972)	(0.145)
Less MRP/VRP and other financing movements	(0.846)	(0.918)	(1.227)	(1.434)	(1.455)
Movement in CFR	**4.044**	**9.358**	**2.903**	**(2.156)**	**(1.100)**

**The Department of Communities and Local Government has proposed that, from April 2017, all HRA downward revaluations/impairments subsequently charged to the HRA can be reversed and hence cease to have an impact on the CFR.*

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Fund balances / reserves	14.586	13.783	13.686	13.339	14.039
Capital receipts	3.923	1.813	1.813	1.813	1.813
Earmarked reserves	11.647	10.016	10.132	10.132	10.132
Total core funds	**30.156**	**25.612**	**25.631**	**25.284**	**25.984**
Balances incl working capital*	14.117	12.305	12.164	12.350	11.406
Under/over borrowing	(14.433)	(12.917)	(12.795)	(12.634)	(12.390)
Expected investments	**29.840**	**25.000**	**25.000**	**25.000**	**25.000**

*Working capital balances shown are estimated year end; these may be different mid-year.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 1 April 2015, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt					
Debt at 1 April	30.659	29.220	40.434	43.799	42.144
Expected change in Debt	(1.439)	11.214	3.365	(1.655)	(0.516)
Other long-term liabilities (OLTL) at 1 April	4.259	3.655	3.315	2.975	2.635
Expected change in OLTL	(0.604)	(0.340)	(0.340)	(0.340)	(0.340)
Actual gross debt at 31 March	**32.875**	**43.749**	**46.774**	**44.779**	**43.923**
The Capital Financing Requirement	47.308	56.666	59.569	57.413	56.313
Under / (over) borrowing	**14.433**	**12.917**	**12.795**	**12.634**	**12.390**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar

figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	46.000	50.000	50.000	50.000
Other long term liabilities	12.000	12.000	12.000	12.000
Total	58.000	62.000	62.000	62.000

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	51.000	55.000	55.000	55.000
Other long term liabilities	15.000	15.000	15.000	15.000
Total	66.000	70.000	70.000	70.000

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt cap	27.792	27.792	27.792	27.792
HRA CFR	27.477	27.332	26.360	26.215
HRA headroom	0.315	0.460	1.432	1.577

3.3 Capita's economic and interest rate forecast (issued by Capita on 17 November 2016)

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita's central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and Public Works Loan Board (PWLB) rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a

historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
    - Italian constitutional referendum 4.12.16;
    - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
    - Dutch general election 15.3.17;
    - French presidential election April/May 2017;
    - French National Assembly election June 2017;
    - German Federal election August – October 2017.

- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than Capita currently anticipates.
- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for **upside risks to current forecasts** for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates:

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

The Council has some flexibility to borrow funds this year for use in future years. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed rates will be economically beneficial or meet budgetary constraints. Whilst the Section 151 Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

Borrowing in advance will be made within the constraints that:

- The authority would not look to borrow more than 18 months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Cabinet at the earliest meeting following its action.

3.7 Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Annex 2 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Capita Asset Services our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria may be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality **–** the Council will only use banks which:
    i. are UK banks; and/or
    ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AA-

  and have, as a minimum, the following credit rating from at least one of Fitch, Moody's and Standard and Poors (where rated):
    i. Short term – F1 (or equivalent)
    ii. Long term – A (or equivalent)
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland Group. This bank can be included if it continues to be part nationalised or it meets the above criteria.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operations - The Council will use these where the parent bank has the necessary ratings outlined above.
- Building societies: The Council will use all societies which meet the ratings/criteria for banks outlined above.
- Money market funds (including enhanced money market funds) – AAA
- UK Government (including gilts and the DMADF)
- Local authorities, parish councils, community councils, companies controlled by the Council (either alone or with other public sector organisations) etc
- Supranational institutions

A limit of £5m will be applied to the use of investments with a maturity of over 364 days.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long Term Rating (or equivalent)*	Money Limit	Time Limit
Higher quality	**AA-**	**£6m per institution**	**370 days**
Medium quality	**A**	**£5m per institution**	**370 days**
Part nationalised	**N/A**	**£7m per institution**	**370 days**
Debt Management Account Deposit Facility	**UK sovereign rating**	**unlimited**	**6 months**
Money market Funds (including enhanced money market funds)	**AAA**	**£6m per fund**	**370 days**
Local authorities, parish councils, community councils, companies controlled by the Council (either alone or with other public sector organisations), Supranational institutions etc	**N/A**	**£4m per institution**	**5 years**

**The institution must have this minimum credit rating from at least one of Fitch, Moody's, and Standard and Poors (where rated).*

The proposed criteria for specified and non-specified investments are shown in Annex 2 for approval.

4.3 Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from the UK (irrespective of the UK sovereign credit rating) or other countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- no more than £5m will be placed with any non-UK country at any time (this limit applies to each non-UK country individually and not to non-UK countries in total);
- limits in place above will apply to a group of companies;

The above country restrictions do not apply to money market funds (including enhanced money market funds). The Council only invests in sterling denominated money market funds (including enhanced money market funds).

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for interest rates.

Capita's Investment returns expectations (issued by Capita on 17 November 2016). Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

2016/17 0.25%
2017/18 0.25%
2018/19 0.25%
2019/20 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%
2021/22	1.00%
2022/23	1.50%
2023/24	1.75%
Later years	2.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	**2017/18**	**2018/19**	**2019/20**
Principal sums invested > 364 days	£5m	£5m	£5m

For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and term deposits in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio (excluding unrated investments).

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be 0.5 years, with a maximum of 5 years.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

And in addition that the security benchmark for each individual year is (excluding unrated investments):

	1 year	2 years	3 years	4 years	5 years
Maximum	**0.05%**	**0.05%**	**0.05%**	**0.05%**	**0.05%**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7 Use of external fund managers

It is the Council's policy not to use external fund managers for any part of its investment portfolio.

5 OPTIONS

That Council:

a) Approves this report and annexes, including each of the key elements of this report and annexes listed below.

- The Capital Plans, Prudential Indicators and Limits for 2017/18 to 2019/20, including the Authorised Limit Prudential Indicator.
- The Minimum Revenue Provision (MRP) Policy.
- The Treasury Management Strategy for 2017/18 to 2019/20 and the

Treasury Indicators.

- The Investment Strategy for 2017/18 contained in the Treasury Management Strategy, including the detailed criteria.

b) Does not approve this report and annexes (advising the reason(s) why); thereby not complying with the Treasury Management Code of Practice.

6 DISCLAIMER

This report (including its annexes) is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

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Reporting to:	Madeline Homer, Chief Executive

Annex List

Annex 1	The Capital Prudential and Treasury Indicators 2017/18 – 2019/20 and MRP Statement
Annex 2	Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Annex 3	Guidance on Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy (TMSS)

Corporate Consultation Undertaken

Finance	Peter Timmins, Interim Head of Financial Services
Legal	Tim Howes, Director of Corporate Governance & Monitoring Officer

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ANNEX 1 - THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2017/18 – 2019/20 AND MRP STATEMENT

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1. Capital expenditure

Capital expenditure £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	**12.720**	**12.311**	**8.478**	**3.492**	**3.247**
HRA	**5.030**	**22.177**	**3.855**	**4.160**	**3.325**
Total	**17.750**	**34.488**	**12.333**	**7.652**	**6.572**

2. Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1).

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual PFI or finance leases are applied as MRP.

3. Affordability prudential indicators

Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	5.6%	6.9%	9.1%	10.2%	10.2%
HRA	5.4%	8.3%	7.6%	7.4%	6.7%

The estimates of financing costs include current commitments and the proposals in this budget report.

b. Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D *	(1.36)	(9.22)	(1.19)	2.05	37.40

**The 2019/20 estimate is higher than the other years because, being the final year estimate, there is no comparison shown in the Treasury Management Strategy Statement for last year. In other words, the incremental 2019/20 estimate reflects the full cost of the 2019/20 capital programme. The main element of the 2019/20 estimate is the Minimum Revenue Provision charge.*

c. Estimates of the incremental impact of capital investment decisions on housing rent levels

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report

compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Incremental impact of capital investment decisions on housing rent levels

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly housing rent levels *	(0.82)	0.02	0.03	0.03	0.14

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

**The 2019/20 estimate is higher than the other years because, being the final year estimate, there is no comparison shown in the Treasury Management Strategy Statement for last year. In other words, the incremental 2019/20 estimate reflects the full cost of the 2019/20 capital programme.*

d. HRA ratios

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt £m	20.041	27.277	27.131	26.159	26.014
HRA rents £m	13.253	13.127	13.234	13.158	13.395
Ratio of debt to rents %	151.2%	207.8%	205.0%	198.8%	194.2%

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt £m	20.041	27.277	27.131	26.159	26.014
Number of HRA dwellings	3,031	3,040	3,097	3,098	3,088
Debt per dwelling £	6,612	8,973	8,761	8,444	8,424

4. Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

£m	2017/18	2018/19	2019/20
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates: • Debt only • Investments only	70.000 45.000	70.000 45.000	70.000 45.000
Limits on variable interest rates • Debt only • Investments only	70.000 50.000	70.000 50.000	70.000 50.000
Maturity structure of fixed interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	50%
12 months to under 2 years		0%	50%
2 years to under 5 years		0%	50%
5 years to under 10 years		0%	55%
10 years to under 20 years		0%	50%
20 years to under 30 years		0%	50%
30 years to under 40 years		0%	50%
40 years to under 50 years		0%	50%
50 years and above		0%	50%

ANNEX 2 - TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of the annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments - These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. Local authorities, parish councils, community councils, companies controlled by the Council (either alone or with other public sector organisations).
4. Pooled investment vehicles (such as money market funds including enhanced money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds

including enhanced money market funds, rated AAA by Standard and Poor's, Moody's and/or Fitch rating agencies (where rated).

5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum short term rating of F1 (or the equivalent) and minimum long term rating of A (or the equivalent) as rated by at least one of Standard and Poor's, Moody's and/or Fitch rating agencies (where rated).
6. Any part nationalised UK bank or building society.
7. Any subsidiary and treasury operations where the parent bank or building society has the necessary ratings outlined above.
8. The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies, as set out in the Councils annual investment strategy.

Non-specified investments

Non-specified investments are any other type of investment (i.e. not defined as specified above). The Council may only use non-specified investments with a maturity of no more than 5 years and which otherwise meet the above criteria for specified investments.

The monitoring of investment counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

ANNEX 3 - GUIDANCE ON TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY (TMSS)

Prudential Code

The Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice for capital finance, to which local authorities must have regard.

Capital Expenditure

The Capital Expenditure table (section 2.1 of report) is split between the Council's Housing Revenue Account (HRA) and General Fund (GF or non-HRA).

The table also shows the resources used to fund the capital expenditure (being capital receipts from the sale of assets, capital grants, capital reserves and revenue) and any shortfall in resources. This shortfall is described as the 'net financing need' and represents the Council's borrowing need.

Borrowing Need (Capital Financing Requirement)

The Capital Financing Requirement (CFR) represents the Council's aggregate borrowing need. i.e. the element of the capital programme that cannot be funded.

The table (section 2.2 of report) shows how the net financing need (borrowing requirement) increases the CFR.

So that the CFR does not increase indefinitely, an annual resource contribution from revenue must be set against it (called the Minimum Revenue Provision or MRP), which is shown in the table.

MRP Policy Statement

This describes the method for calculating the annual MRP contribution described above (annex 1 of report).

Core Funds and Expected Investment Balances

This table (section 2.3 of report) shows that the Council may satisfy its net financing need by borrowing from its own reserves or cashflow (internal borrowing) rather than from an external provider (external borrowing).

Either form of borrowing may only be undertaken for capital expenditure purposes.

Borrowing

Current portfolio position – this table (section 3.1 of report) shows that the Council's debt is not more than the CFR because, as above, the CFR represents the Council's aggregate borrowing need.

HRA debt cap (section 3.2 of report) – as part of the HRA self-financing regime, the Council's HRA CFR (and hence HRA borrowing) is not allowed to exceed a certain limit (currently £27.792m for the Council).

Borrowing limits (section 3.2 and annex 1 of report) – there are various general controls on the Council's borrowing activity (operational boundary, authorised limit, fixed and variable interest rate exposures, and maturity profiles).

Annual Investment Strategy

This section (section 4 and annex 1 of report) sets out general controls on the Council's investment activity to safeguard the security and liquidity of its investments, including:

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.
- Limits on the Council's fixed and variable interest rate exposures.
- Minimum size of the Council's bank overdraft facility.

Ratio of Financing Costs to Net Revenue Stream

This table (annex 1 of report) shows (separately for HRA and GF) the percentage of the Council's revenue stream that is used to finance the CFR (net interest payable and MRP).

Incremental Impact of Capital Investment Decisions on Council Tax

This table (annex 1 of report) shows the revenue impact on the Council from funding the GF capital expenditure set out in the Treasury Management Strategy Statement (TMSS) compared to that set out in the TMSS for the previous year.

Incremental Impact of Capital Investment Decisions on Housing Rent Levels

This table (annex 1 of report) shows the revenue impact on the Council from funding the HRA capital expenditure set out in the TMSS compared to that set out in the TMSS for the previous year.

CHANGES TO 2016-17 CAPITAL PROGRAMME AND 2017-18 TO 2020-21 CAPITAL PLAN

Meeting	**Council – 9 February 2017**
Report Author	**Tim Willis, Director of Corporate Resources & Section 151 Officer**
Portfolio Holder	**Councillor John Townend, Portfolio Holder for Financial Services and Estates**
Status	**For Decision**
Classification:	**Unrestricted**
Key Decision	**No**
Previously Considered by	**Cabinet – 17 January 2017**

Executive Summary:

This report deals with changes to the General Fund 2016-17 capital programme and 2017-18 to 2020-21 capital plan as per the Budget Strategy considered by Cabinet on 17 November 2016.

Recommendation(s):

That Council approves the General Fund capital programme project changes, budget changes and funding changes identified in this report.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications are highlighted in this report.
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, this is the Director of Corporate Resources, Tim Willis, and this report is helping to carry out that function.
Corporate	Failure to undertake this process will impact on the Council's compliance with the Treasury Management Code of Practice.
Equalities Act 2010 & Public Sector Equality Duty	There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

	It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council.

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	✓
Promoting inward investment and job creation	✓
Supporting neighbourhoods	✓

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	

1 Introduction and Background

1.1 The Budget Monitoring Report presented to Cabinet on 17 November 2016 showed a shortfall in capital receipts of £799,723 to balance the General Fund 2016-17 capital programme.

1.2 A capital budget increase of £679,000 has been agreed for the Port Berth project (now incorporating berths 2, 3, 4 and 5) as per the Urgent Decision by Individual Cabinet Member on 29 September 2016 and 9 November 2016.

1.3 The original Port Berth project (berths 4 and 5) of £1m was intended to be funded from a new lease to generate income to fund debt repayments. There is some uncertainty as to the deliverability of the new lease, which will place an additional burden on the Port revenue budget to fund the debt repayments.

1.4 There are also several new proposed projects in 2017-18 onwards which are detailed in section 3.

2 Underspend/Shortfall in 2016/17 capital programme

2.1 If the £1m funding issue for the Port (berths 4 and 5) is considered to be contained within the Port budget as previously agreed, then there is a funding shortfall of £1,478,723 (being £799,723 plus £679,000 described in sections 1.1 and 1.2 respectively). However, a critical review of the programme suggests that some projects will not achieve the level of expenditure previously budgeted.

2.2 Some £30k for the existing Swimming Pool/ Sports Hall Essential Capital Repairs budget can be removed, on the basis that no specific projects have been identified for 2016-17.

2.3 Some £900k of the Vehicle Replacement Programme is proposed to be deferred to 2017-18.

2.4 Some £600k identified for Berth 4-5 works at the Port will now be deferred, pending the outcome of the new lease.

2.5 Some £80k identified for the Dalby Square scheme can be deferred.

2.6 The CCTV project of £400k is not now programmed to go ahead until 2017-18.

2.7 The tables below summarises these changes to forecast General Fund capital expenditure for 2016-17:

Total Amount £000	2016-17 Capital Expenditure Change
679	Increase to the Port Berth budget (section 1.2 above)
(30)	Removal of Swimming Pool/ Sports Hall Essential Capital Repairs budget (section 2.2 above)
(900)	Deferral of Vehicle Replacement Programme budget (section 2.3 above)
(600)	Deferral of Berth 4-5 budget (section 2.4 above)
(80)	Deferral of Dalby Square budget (section 2.5 above)
(400)	CCTV project not now programmed to go ahead until 2017-18 (section 2.6 above)
(1,331)	**Decrease in 2016-17 Capital Expenditure**

Total Amount £000	2016-17 Funding Change
264	Revenue Contribution
320	Reserves
(1,065)	Capital Receipts
(850)	Prudential Borrowing
(1,331)	**Total as Above**

2.8 All funding for the deferrals will be carried over to 2017-18. Funding for the £679k overspend at the Port was addressed in the Urgent Decision by Individual Cabinet Member of 9 November 2016, which identified £320k of reserves and the balance from receipts. The £800k shortfall in 2016-17 capital receipts is addressed by the £1,065k reduction in the capital receipts funding requirement, shown in the above table.

2.9 The above deferrals represent the initial capital receipts target from now to the end of 2017-18, before adding the cost of new 2017-18 capital schemes. In addition, to improve the Council's borrowing cost budget, it is proposed that £400k of the £850k prudential borrowing deferred to 2017-18 (as shown in the above table) is switched to capital receipts.

3 Capital programme for 2017-18 onwards

3.1 It is proposed that the following projects be added to the General Fund capital programme for 2017-18 onwards, and also that the annual Better Care Fund capital budget be increased to £742,000 for 2017-18 onwards.

i) Ramsgate Harbour Water Supply Upgrade - to complete the water supply upgrade at Ramsgate Harbour to comply with water supply regulations: £150,000 budget (spread equally over 2017-18, 2018-19 and 2019-20).

ii) Margate Harbour Railings and Lighting - to improve safety for residents and visitors at Margate Harbour: £100,000 in 2017-18.

iii) Ramsgate Harbour Railings - to improve safety for residents and visitors on Military Road and alongside the Western Inner Marina at Ramsgate Harbour: £100,000 in 2017-18.

3.2 If there is the level of slippage in 2016-17 as identified in section 2 above, then this will occur in 2017-18.

3.3 It is proposed that the following projects be added to the capital programme for 2017-18 onwards:

Project Name	**Deferral from 2016-17 to 2017-18 £**	**New projects 2017-18 £**	**New projects 2018-19 £**	**New projects 2019-20 £**
Vehicle Replacement Programme	900,000			
CCTV	400,000			
Dalby Square	80,000			
Ramsgate Harbour Water Supply Upgrade		50,000	50,000	50,000
Ramsgate Port Berth 4/5	600,000			
Margate Harbour Railings and Lighting		100,000		
Ramsgate Harbour Railings		100,000		
Total Expenditure	**1,980,000**	**250,000**	**50,000**	**50,000**
Prudential Borrowing	450,000			
Capital Receipts	1,530,000	250,000	50,000	50,000
Total Funding	**1,980,000**	**250,000**	**50,000**	**50,000**

3.4 In addition to the above, it is proposed that the annual Better Care Fund capital budget be increased from £700k to £742k for 2017-18 onwards (grant funded).

3.5 It is intended that the new Head of Asset Management will develop a four year asset disposal programme to facilitate the funding of the capital programme.

4 Options

4.1 The recommended option is that Council approves the General Fund capital programme project changes, budget changes and funding changes identified in this report.

4.2 Alternatively, Council may decide not to do this, and provide reason(s).

Contact Officer:	Tim Willis, Director of Corporate Resources & Section 151 Officer, extn 7617
Reporting to:	Madeline Homer, Chief Executive

Corporate Consultation Undertaken

Finance	Nicola Walker, Technical Finance Manager
Legal	Tim Howes, Director of Corporate Governance & Monitoring Officer

MEMBERS ALLOWANCES REPORT 2017/18

Council – 9 February 2017

Report Author	**Committee Services Manager**
Portfolio Holder	**Derek Crow-Brown, Director of Corporate Governance and Monitoring Officer**
Status	**For Decision**
Classification:	**Unrestricted**
Previously Considered by	**Council – 1 December 2016**

Executive Summary:

This report gives Members the feedback from the East Kent Joint Independent Remuneration Panel (EKJIRP) on the amendments to the 2017/18 Members' Allowances scheme and allows Council to amend the scheme based on the feedback from the EKJIRP.

Recommendation(s):

That the Thanet District Council Members' Allowances Scheme 2017/18 be approved subject to a change in the Dependent Carers Allowance to reflect the April 2017 National Living Wage of £7.50 per hour.

CORPORATE IMPLICATIONS	
Financial and Value for Money	If Members agree the draft scheme of Members allowances as outlined at annex 2 to this report, which has been approved by the EKJIRP then there will be no direct financial implications as a result of this report. If Members chose to increase the rate of Members' Allowances by more than 1%, then additional budget or commensurate savings would need to be identified within the 2017/18 budget build to cover this increase and the scheme would need to be re-referred to the EKJIRP.
Legal	The Council is required to have regard to the recommendations of EKJIRP in making a scheme of allowances. Section 18 of the Local Government and Housing Act 1989 permits the Secretary of State, by regulations, to make a scheme providing for the payment of a basic allowance, an attendance allowance and a special responsibility allowance to members of a local authority. Section 100 of the Local Government Act 2000 permits the Secretary of State, by regulations, to provide for travelling and subsistence allowances for members of local authorities, allowances for attending conferences and meetings and reimbursement of expenses. In exercise of these powers the Secretary of State has made the Local Authorities (Members' Allowances) (England) Regulations 2003.

	The Regulations require the council to make a scheme before the beginning of each year for the payment of basic allowance. The scheme must also make provision for the authority's approach to special responsibility allowance, dependants' carers' allowance, travelling and subsistence allowance and co-optees' allowance. The scheme may also provide for other matters of the kind dealt with in the proposed scheme. When considering the scheme, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty). This consideration should be supported by a proportionate level of equality analysis.
Corporate	The level of allowances may be seen as both impacting on the public's perception of the Council and a factor in making public services as a Councillor attractive to a broad range of potential candidates.
Equalities Act 2010 & Public Sector Equality Duty	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it. Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership. Please indicate which aim is relevant to the report. Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, ✓ Advance equality of opportunity between people who share a protected characteristic and people who do not share it ✓ Foster good relations between people who share a protected characteristic and people who do not share it. Although it does not directly relate to protected groups, the draft scheme contains the ability to pay a dependent carers allowance to Councillors. This contributes to aims 1 and 2 of the Equality Act as it removes barriers to Councillors standing who have relatives that may be in need of dependent care.

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	
Promoting inward investment and job creation	
Supporting neighbourhoods	

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	
Supporting the Workforce	✓
Promoting open communications	

1.0 Introduction and Background

1.1 The Council is required to have regard to the recommendations of the EKJIRP in making a scheme of allowances. The 2017/18 scheme of Members Allowances was agreed by Council subject to approval by the EKJIRP at its meeting on the 1 December 2016.

2.0 East Kent Joint Independent Remuneration Panel Review of 2017/18 Members' Allowances Scheme

2.1 Following approval at Council on 1 December 2016, the 2017/18 Members' Allowances scheme was reviewed by the EKJIRP at its meeting on 11 January 2017. The EKJIRP agreed the following motion:

"That it be recommended to Thanet District Council that the Members' Allowances Scheme 2017/18 be approved subject to a change in the Dependent Carers Allowance to reflect the April 2017 National Living Wage of £7.50 per hour."

2.2 It is for Council to decide upon whether to accept or reject this change; however Democratic services would strongly support this recommendation, as it was omitted in error from the first draft of the 2017/18 scheme of allowances and therefore reflected in Annex 2 to this report.

Contact Officer:	Nicholas Hughes, Committee Services Manager
Reporting to:	Tim Howes, Director of Corporate Governance and Monitoring Officer

Annex List

Annex 1	Minutes of the EKJIRP meeting of 11 January 2017
Annex 2	Draft TDC Members Allowances Scheme for 2017/18

Background Papers

Title	Details of where to access copy
None	

Corporate Consultation

Finance	Nicola Walker, Finance Manager - HRA, Capital & External Funding
Legal	Ciara Feeney, Head of Legal Services and Deputy Monitoring Officer

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Minutes of the meeting of the **EAST KENT JOINT INDEPENDENT REMUNERATION PANEL** held at the Council Offices, Whitfield on Wednesday, 11 January 2017 at 10.00 am

Present:

Chairman: Councillor Mr K London

Councillors: Mr W Ferrier
Mr A Goodall
Mrs S Longden
Mrs K Sabin-Dawson

Officers: Team Leader – Democratic Support

1 ELECTION OF A CHAIRMAN

The Team Leader – Democratic Support called for nominations for Chairman for the Panel for the forthcoming year 2017.

It was proposed by Mr A R Goodall and duly seconded that Mr K London be elected Chairman.

In the absence of any other nominations it was:

RESOLVED: That Mr K London be appointed Chairman for the forthcoming year 2017.

2 APOLOGIES

There were no apologies for absence.

3 MINUTES

The Minutes of the meeting held on 29 February 2016 were approved as a correct record and signed by the Chairman.

4 THANET DISTRICT COUNCIL MEMBERS' ALLOWANCES SCHEME 2017/18

The Team Leader – Democratic Support presented the report to the Panel for its consideration.

The consensus view of members of the Panel was that the Members' Allowance Scheme was within the limits of the Panel's previous recommendations.

It was noted that the National Living Wage, which was used as the basis of the Dependent Carers Allowance was due to increase in April 2017 from the current £7.20 per hour to £7.50 per hour. It was the consensus view of the Panel that as the Dependent Carers Allowance was index linked to the National Living Wage, the level in the Scheme for 2017/18 should be increased to reflect the April 2017 level.

RESOLVED: That it be recommended to Thanet District Council that the Members' Allowances Scheme 2017/18 be approved subject to a change in the Dependent Carers Allowance to reflect the April 2017 National Living Wage of £7.50 per hour.

5 DOVER DISTRICT COUNCIL MEMBERS' ALLOWANCES SCHEME 2017/18

The Team Leader – Democratic Support presented the report to the Panel for its consideration. The Panel was advised that it was proposed that no changes be made to the Members' Allowance Scheme for 2017/18.

It was noted that the 2016/17 Scheme had remained frozen from 2015/16 and was still below the original target levels of allowances set by the Panel at its last Quadrennial Review.

It was the consensus view of the Panel that the Dependent's Carers Allowance, which was a cost recovery payment, was at a level that would not adequately reimburse claimants and that it should be set at the National Living Wage level of £7.50 per hour (from April 2017) in line with Thanet District Council.

RESOLVED: That it be recommended to Dover District Council:

(a) That while the Panel would support an increase in the Members' Allowances Scheme of up to, but not exceeding, its recommendations in the last Quadrennial Review it recognises that in light of budgetary pressures on local authorities the Council may not choose to implement this.

(b) That the Dependent Carers Allowance be increased to £7.50 per hour in line with the National Living Wage (from April 2017).

The meeting ended at 10.08 am.

Draft Members' Allowances Scheme

Members' Allowances Scheme 2017/2018

Introduction

1.1 This scheme is made in exercise of the powers conferred by The Local Authorities (Members' Allowances) (England) Regulations 2003 and of all other enabling powers, the Council having had regard to the recommendations made to it by an independent remuneration panel.

1.2 This scheme shall take effect on and from the 1 April 2017 and shall remain effective for the purposes of the determination and payment of any allowances to Members until it is next reviewed by Council.

1.3 Where a Member of the Council is also a Member of another authority, that Member may not receive allowances from more than one authority in respect of the same duties.

1.4 This scheme shall be construed in accordance with the meanings contained within the above Regulations.

Basic Allowance

1.5 The annual entitlement to Basic Allowance for each Member is the amount detailed in **Schedule 1.**

Special Responsibility Allowance

1.6 The annual entitlement to a Special Responsibility Allowance for each Member having a special responsibility is the relevant amount in relation to that responsibility detailed in **Schedule 1**.

1.7 Where a Member would otherwise be entitled to claim more than one Special Responsibility Allowance only one shall be payable, normally the higher unless the member gives notice in writing to the Democratic Services and Scrutiny Manager that he or she wishes to receive the lower.

1.8 Where Members of the Council are divided into at least two political groups and a majority belong to the same political group a Special Responsibility Allowance shall be paid to at least one person who is not a member of the controlling group.

Dependants' Carers' Allowance

1.9 Members are entitled to claim Dependants' Carers' Allowance for expenses necessarily incurred in arranging care on account of any 'Approved Duty'. The current allowance is included in **Schedule 1**.

1.10 The definition of a dependant for the purpose of payment of this allowance is that used in S57A (3) of the Employment Rights Act 1996. This is a spouse or partner, a child, a parent, a person who lives in the same household but who is not an employee, tenant, lodger or boarder.

1.11 Additionally the secondary carer must not be a member of the claimant's immediate family i.e. spouse or partner, other children of the Member or the Member's spouse or any member of the Member's family who lives at the same address as the Member. Nor can it be an employee, tenant, lodger or boarder who lives at that address.

1.12 Payment of Dependants' Carers' Allowances will be on the production of invoices and is limited to no more than one hundred hours per quarter. [**Note:** To avoid excess administration in processing claims, these should be submitted on a quarterly basis.]

Travelling and Motor Mileage Allowances

1.13 Members will be reimbursed car mileage only from their home to place of duty and return in respect of attendance at Approved Duties, or as the Council's representative, in accordance with the rates set out in **Schedule 1**.

1.14 If a Member visits the vicinity of the place of duty for some other purpose and then goes directly to the approved duty, a claim should not be made.

1.15 Subject to paragraph 1.16 below, for journeys outside the District, car mileage reimbursement will be capped at the cost of an equivalent journey by public transport (meaning the standard open rail fare together with reasonable taxi/bus fares, parking charges and underground fares incurred, or which would have been incurred if the Member had travelled by public transport). If, however, the costs of an equivalent journey by public transport equals or exceeds car mileage costs, full mileage costs will be reimbursed.

1.16 Notwithstanding that the cost of car mileage reimbursement would exceed the cost of an equivalent journey by public transport, a Member will nevertheless be entitled to claim mileage for out of district travel:-

(i) If he or she car shares with either an officer or one or more members, any of whom would have been entitled to make a mileage claim had they travelled independently; or

(ii) If the Committee Services Manager agrees in writing that the meeting, seminar, conference, event, presentation, service or other approved duty that necessitated the journey was not reasonably practical to make by public transport due to any or a combination of the following factors:-

- the distance from the members home to the nearest railway station;
- the location of the meeting;
- the start or finish time of the meeting;
- the amount of luggage to be taken; and
- the overall journey time on public transport compared to travel by car

1.17 The written agreement of the Committee Services Manager under paragraph 1.16 above should normally be sought in advance of the intended journey but in exceptional circumstances may be obtained subsequently. In addition, where it is likely that a Member will be travelling to the same destination one

more than one occasion, the Committee Services Manager shall be entitled to give the Member his agreement in writing to all such journeys.

1.18 Travelling and motor mileage allowances may be payable for attendance at any official meetings of the Council to which members of more than one party are invited to attend and also for representation on those bodies included in **Schedule 2.**

Subsistence

1.19 Payment of subsistence allowances in connection with any approved duty shall be in accordance with the provisions, including the maximum amounts payable, set out in **Schedule 1**.

Explanation of "Approved Duty"

1.20 Approved Duties comprise the following:-

a) a meeting of the authority or of any committee or sub-committee of the authority, or of any other body to which the authority makes appointments or nominations, or of any committee of such a body;

b) any other meeting, the holding of which is authorised by the authority, or a committee or sub-committee of the authority, or a joint committee of the authority and one or more other authorities, or a sub-committee of such a joint committee, provided that –

   i) where the authority is divided into two or more political groups, it is a meeting to which members of at least two such groups have been invited, or

   ii) if the authority is not so divided, it is a meeting to which at least two members of the authority have been invited;

c) a meeting of any association of authorities of which the authority is a member.

d) the carrying out of any other duty approved by the Council, or any duty of a class so approved, for the purpose of or in connection with the discharge of the functions of the Council or any of its committees or sub committees. [Attendances at meetings of the bodies listed in Schedule 2 have been approved.]

e) There is also a general duty permitting the Leader or nominated deputy to represent the Council at formal meetings not specified elsewhere, with other authorities, official bodies or agencies for the purposes of any function of the Council, but excluding meetings organised by private individuals or commercial organisations.

1.21 Scrutiny Panel Members attending meetings of the Cabinet are entitled to claim travelling allowance and any Member speaking on an issue relevant to their Ward at a meeting of the Cabinet with the consent of the Leader or in accordance with Council rules is also entitled to claim travelling allowance.

1.22 If any Overview or Scrutiny Panel requires a Member of the Cabinet to attend before it in relation to matters within that Member's remit, then that Member is entitled to claim travelling expenses.

1.23 Where Cabinet Members attend non-executive meetings to observe only this is not deemed to be an approved duty and travelling expenses will not be

paid.

1.24 Where any Member attends any Committee to speak on an item with the Chairman's consent, this attendance will be an approved duty for payment of travelling expenses.

1.25 Members are entitled to claim travelling expenses for Committee briefings and for all Partnership meetings or Chairman and Vice-Chairman meetings with the Lead Officer and these meetings are therefore approved duties.

1.26 This Scheme does not allow for travelling expenses to be paid to individual Members arranging meetings with officers as this is deemed to be part of the Member's role and Members' allowances paid are calculated to reflect these extra duties.

1.27 For any other ad hoc briefings e.g. on major developments, Members from all political groups with in excess of 5 Members will need to be invited to these briefings in order for travelling allowances to be paid.

1.28 No allowance shall be payable if such payment would be contrary to provision made by or under any enactment.

1.29 Members who attend committee meetings of which they are not a member (under Council Procedure Rule 24(1)) shall be entitled to claim travelling expenses.

1.30 Co-opted and Independent members shall be treated as Members of the Council for the purposes of Approved Duties.

Renunciation

1.31 A Member may, by notice in writing given to the Democratic Services and Scrutiny Manager, elect to forego any part of his/her entitlement to an allowance under this scheme.

Part Year Entitlements

1.32 The provisions of this paragraph shall have effect to regulate the entitlements of a Member to Basic and Special Responsibility Allowances where in the course of the year

- The Scheme is amended; or
- That Member becomes, or ceases to be, a Member, or
- He/she accepts or relinquishes a special responsibility in respect of which a Special Responsibility Allowance is payable

1.33 If an amendment, or amendments, to this scheme change(s) the amount of the Basic Allowance or a Special Responsibility Allowance to which a Member is entitled, then for each period in a particular year during which the relevant amounts are applicable, the entitlement to such allowance(s) shall be calculated on the basis of the equivalent daily rate(s) that is/are applicable to the relevant periods.

1.34 Where the term of office of a Member begins or ends at any time other than at the beginning or end of a year, the entitlement of that Member to a Basic Allowance shall be calculated on the basis of the equivalent daily rate that is applicable to the relevant period.

1.35 Where both:

- this Scheme is amended as described in sub-paragraph 1.32; and
- the term of office of a Member begins and/or ends as described in paragraph 1.33; then
- the entitlement of any such Member to a basic allowance shall be calculated on the basis of the equivalent daily rate that is applicable to the relevant periods.

1.36 Where a Member has during part of, but not throughout, a year such special responsibilities as entitle him/her to one or more Special Responsibility Allowances, that Member's entitlement shall be calculated on the basis of the equivalent daily rate(s) that is/are applicable to the relevant periods.

1.37 Where this scheme is amended as mentioned in paragraph 1.32 and a Member has during part, but does not have throughout the whole, of any period mentioned in paragraph 1.33 any such special responsibilities as entitle him/her to one or more Special Responsibility Allowances, that Member's entitlements shall be calculated on the basis of the equivalent daily rate(s) that is/are applicable to the relevant periods.

Repayment and Withholding of Allowances

1.38 Where payment of any Basic Allowance or Special Responsibility Allowance has already been made after a Member, ceases to be a Member of the Council or is in any other way not entitled to receive any such allowance in respect of that period, the Council may require that such part of the allowance as relates to any such period be repaid.

Payments and Claims

1.40 Allowances will be paid in instalments of one-twelfth of the amounts specified in this scheme by BACS transfer on the 19th of the month, one month in arrears.

1.41 Where a payment of one-twelfth of the amount specified in this scheme in respect of a Basic Allowance or a Special Responsibility Allowance would result in the Member receiving more than the amount to which, by virtue of paragraph 1.33, he/she is entitled, the payment shall be restricted to such amount as will ensure that no more is paid than the amount to which he/she is entitled.

1.42 Claims for Dependants' Carers' Allowances, Travel and Subsistence Allowances and Co-optee's Allowance (if applicable) shall be made within three months from the date on which an entitlement arises.

1.43 Nothing in the above paragraph shall prevent the Council from making a payment where an allowance is not claimed within that period.

Pensions

1.44

In accordance with the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, no Member of Thanet District Council is entitled to be a member of the Local Government Pension Scheme after 11 May 2015.

With effect from the 1st day of April 2017 pursuant to a resolution of the Thanet District Council passed on the XX February 2017.

SCHEDULE 1

MEMBERS' ALLOWANCES SCHEME – 2017/2018

Basic Allowance

£4,570 each Member x 56 = £255,920

Special Responsibility Allowances

Position	Number	Allowance £	Possible maximum expenditure £
Executive			
Leader	1	18,082	18,082
Deputy Leader	1	10,776	10,776
Cabinet Portfolio Holder	4	7,990	31,960
Non-Executive			
Chairman of Council	1	2,188	2,188
Vice Chairman of Council	1	1,530	1,530
Opposition Group Leader	1	5,204	5,204
Opposition Deputy Group Leader	1	2,304	2,304
Shadow Cabinet	4	2,304	9,216
Overview and Scrutiny Committee Chairman	1	7,990	7,990
Overview and Scrutiny Committee Vice-Chairman	1	3,216	3,216
Planning Committee Chairman	1	5,204	5,204
Planning Committee Vice-Chairman	1	1,216	1,216
Licensing Committee Chairman	1	3,216	3,216
Licensing Committee Vice-Chairman	1	805	805
Governance and Audit Committee - Chairman	1	5,204	5,204
Governance and Audit Committee – Vice-Chairman	1	1,216	1,216
Standards Committee - Chairman	1	1,216	1,216

Position	Number	Allowance £	Possible maximum expenditure £
Standards Committee – Vice-Chairman	1	400	400
Standards Committee – other Independent Member	2	250	500
“Independent Person”	1	250	250
Substitute “Independent Person”	1	100	100
JTB Chairman	1	1,216	1,216
TOTAL SRAs only			**113,009**

Total basic + SRAs = £368,929

(1) Co-optees and "independent" Members shall be treated as Members of Thanet District Council for this purpose

Dependants' Carers’ Allowances

An allowance for any approved duty of £7.50 per hour *(or the national living wage whichever is higher)* subject to the conditions set out in paragraph 4 of the ‘Members’ Allowances Scheme’.

Motor Mileage Allowance

Payable in accordance with the Mileage rates as set out in the TDC staff travel plan:

For the duration of this scheme the rates are as follows:

(i) For journeys within the District (casual user rate)

21.69 pence per mile

(ii) In exceptional circumstances and provided approval of the Democratic Services and Scrutiny Manager is obtained prior to the journey (see paragraph 1.16 of the Scheme) for journeys outside the District (essential user rate)

45 pence per mile*

(iii) Journeys by rail outside the District

standard open class rail fare

(iv) Cycling Allowance (HMRC Guidance)

20.4p per mile

* Normally for journeys outside of the district the equivalent of a standard open class rail will be paid.

Subsistence Allowances

Subsistence allowances will be payable to Members who are prevented by their official duties from taking a meal at their home, or place of work where they normally take their meals, and thereby incur additional expenditure. A Member will be required to submit receipts in order for reimbursement to be made.

Overnight Accommodation

Members who are required to make overnight stays in the performance of their official duties should, whenever possible, pre-book accommodation of an appropriate standard and obtain approval from the Head of Legal and Democratic Services. Arrangements should be made for an invoice to be submitted directly to the Council. If this is not possible, a detailed VAT receipt MUST be obtained to substantiate the claim.

Out of Pocket Expenses

Expenses are claimable if a Member is required to stay away from home overnight. They cover such items as newspapers and personal telephone calls.

Allowances payable as at 01/04/2017

	Subsistence Allowances (£)	
Subsistence	Breakfast	7.36
	Lunch	10.17
	Tea	4.03
	Evening Meal	12.59
Out of pocket expenses	Per night	5.73
	Per week	22.90

SCHEDULE 2

DUTIES WHICH ARE APPROVED FOR THE PURPOSE OF CLAIMING TRAVELLING & SUBSISTENCE

Representation on the following bodies

Action with Communities in Rural Kent (T)
Age UK: Thanet (T)
British Ports Association (TS)
British Destinations (AGM, Annual Conference and Executive meetings) (TS)
Campaign to Protect Rural England (T)
Canterbury Festival (T)
Citizens' Advice Bureau, Thanet (T)
Community Safety Partnership (T)
Domestic Violence Forum (T)
East Kent Housing Board (T)
East Kent Housing Area Board (T)
East Kent Opportunities Ltd
East Kent Relate (T)
East Kent Spatial Development Company
Kent and Medway Independent Persons Forum (T)
Kent International Airport Consultative Committee (T)
Kent Police and Crime Panel (T)
Local Government Association Coastal Special Interest Group (TS)
Local Government Association Strategic Aviation Specialist Interest Group
Local Government Association District Council's Network (TS)
Local Government Association (General Assembly) (TS)
Local Government Association (Rural Commission) (TS)
Margate Town Partnership (T)
Millmead Children's Centre Partnership
Multiple Sclerosis Society (T)
Parking and Traffic Regulation Outside London (Adjudication Joint Committee) (T)
Powell Cotton Museum and Quex House (T)
River Stour (Kent) Internal Drainage Board (T)
Sandwich and Pegwell Bay National Nature Reserve Steering Group (T)
South East England Councils (SEEC) (TS)
Supporting People in Kent Commissioning Body (T)
Thanet Countryside Trust (T)
Thanet Harbour Users' Groups (T)
Thanet Quality Bus Partnership (T)
Thanet Rural Regeneration Group (T)
Thanet Sports Network (T)
Thanet Volunteer Bureau (T)
The Friends of Margate Cemetery Trust (T)
Trust for Thanet Archaeology (T)
Tourism South East (T)
Your Leisure Thanet Sub-Group (T)
Youth Advisory Group (T)

(TS) Travel and Subsistence allowance may be claimed.
(T) Travel allowance only may be claimed.

BUDGET 2017-18 AND MEDIUM TERM FINANCIAL STRATEGY 2017-21

Council	**9 February 2017**
Report Author	**Director of Corporate Resources and S151 officer**
Portfolio Holder	**Cllr John Townend, Cabinet Member Finance and Estates**
Status	**For Decision**
Classification:	**Unrestricted**
Key Decision	**Yes**
Reasons for Key	**Budget and Policy Framework**
Ward:	**All Wards**

Executive Summary:

This report presents the budget for the General Fund, Housing Revenue Account and Capital Programme for 2017-18 and the Medium Term Financial Strategy for 2017-21.

The report was considered by Overview and Scrutiny Panel on 26 January and Cabinet met on 31 January to consider the Panel's recommendations. Cabinet's response to those recommendations and any proposed amendments to this report will be reported to Council verbally by the Cabinet Member for Finance and Estates.

Recommendations:

1. That Members approve the draft Medium Term Financial Strategy at **Annex 1**.
2. That Members approve the draft General Fund Revenue budget estimates for 2017-18 to 2020-21 and the resulting budget requirement for 2017-18.
3. That Members agree to a reduction in the grant to minor preceptors as per section 2.15.

4.	That Members approve the General Fund and Housing Revenue Account Capital Budgets for 2017-18 as detailed at **Annexes 2** and **5**.
5.	That Members approve the Flexible Use of Capital Receipts Strategy as detailed at **Annex 3**.
6.	That Members approve the HRA budget estimates for 2017-18 to 2020-21 and the Housing Revenue Account services charges as shown at **Annex 4**.
7.	That Members approve the level of general reserves be held at £2.011m and the approval of earmarked reserves as identified in **Table 5** of the MTFS**.**

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications of the budget are laid out within the body of the report. Based upon the financial risk assessment contained within Annex 1, it would at this stage be appropriate to maintain the general level of reserves of at least 12% of the net service revenue base.
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, this is the Director of Corporate Resources, and this report is helping to carry out that function. The requirements of other relevant statute have been referenced within the body of this report, where relevant.
Corporate	Corporate priorities can only be delivered with robust finances. Both the draft budget and the level of reserves recommended in this report are believed to be sufficient to meet these priorities and develop services.
Equalities Act 2010 & Public Sector Equality Duty	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010), to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it. Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

Please indicate which aim is relevant to the report.	
Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,	
Advance equality of opportunity between people who share a protected characteristic and people who do not share it	
Foster good relations between people who share a protected characteristic and people who do not share it.	

There are no equality issues identified in respect of the savings highlighted in these budget proposals as these budget cuts will not impact on service delivery. Any further impacts of the budget proposals identified at service level will be assessed by the service managers where there is a relevance to the duty. A full assessment of the equality impact will be undertaken for any specific service changes.

A six week public consultation was held giving local residents and businesses an opportunity to comment on the budget proposals. The consultation was available to complete online and hard copy surveys were made available on request, for collection from the council offices and local libraries and printed in the local newspaper. Promotion was undertaken throughout the six week period, including social media, website, press and posters. A total of 442 responses were received by the closing date.

The HRA budget, including the proposed rent and service charge increases, was presented to the Tenant Area Board on 23 November. The new contract for repairs and maintenance awarded to Mears has identified that the pricing module for blocks of flats has changed resulting in some large increases for block costs that are required to be recharged to tenants and leaseholders at actual cost as per tenancy and leasehold agreements. Further analysis of the financial impact of all service charges to tenants has been undertaken and is detailed in section 13 of the report.

It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council, as a result a full equality impact assessment will be undertaken for any specific service changes where appropriate.

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	✓
Promoting inward investment and job creation	✓
Supporting neighbourhoods	✓

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	✓

1.0 Introduction and purpose of report

1.1. The purpose of this report is to present the Budget for 2017-18 and financial projections for the following years up to 2020-21.

1.2. The report finalises the funding position for 2017-18 based on the Provisional Local Government Financial Settlement. It also sets out budget pressures and service priorities that are reflected in setting the 2017-18 budget.

1.3. The existing Medium Term Financial Strategy (MTFS) has been rolled forward to cover 2017-21 with updated assumptions where appropriate. It also reflects savings themes to manage the future financial position.

1.4. The annual review of the council's reserve holdings has been undertaken. The proposed reserve balances are considered to be adequate for supporting the council's ongoing needs and plans.

1.5. The budget assumptions for the Housing Revenue Account (HRA) are outlined within the report and the proposed HRA balance is considered to be sufficient to support the initial requirements of the HRA Business Plan, although further work is required to balance later years post-2024. The proposed Housing Revenue and Capital budgets were presented to the East Kent Housing Tenant Board for consultation and comment on 23 November 2016.

1.6. The capital programme is dependent on the council's ability to generate capital receipts or to support borrowing to fund the programme. The programme within this report reflects health and safety requirements, corporate priorities and schemes that will generate a revenue saving.

2.0 Background

National Context

2.1 The detail of Government grant funding for each local authority was announced on 15 December 2016 in the Provisional Settlement. This will be confirmed in the Final Settlement in late January/early February. The four-year funding settlement that this council signed up to provides some certainty regarding 2017-20 in respect of Non-Domestic Rate baseline funding and Revenue Support Grant. The certainty, however, is for reduced funding each year: 13.1% in 2017-18, 8.1% in 2018-19 and 9.8% in 2019-20.

2.2 The provisional New Homes Bonus (NHB) allocation for 2017-18 was also revealed with the Provisional Settlement. The Government had consulted on changing the calculation of NHB and the outcome of the consultation resulted in reductions. NHB will be paid for four years instead of six years, with a transitional year in 2017-18 when five years NHB will be paid. Also, there is the introduction of a new 0.4% growth threshold before any NHB is payable.

2.3 During the summer, the Government consulted on changes to the income that local authorities receive from Business Rates. All these changes bring uncertainty, firstly to how much businesses will pay, and secondly to local authorities. They include:

- Retention – where local authorities retain all Business Rate income, but take on additional responsibilities and cease to receive Revenue Support Grant by 2020;
- Revaluation – altering the distribution of how much businesses pay to better reflect their ability to pay;
- Appeals – making the appeals process quicker. Initially, a backlog of cases will be cleared at the same time as the new cases are processed quicker, producing a bulge of decisions.

2.4 Cabinet noted the budget and service planning timetable at its meeting on 17 November 2016 as part of the budget strategy. Full Council approved fees and charges at its meeting on 1 December 2016.

Council Tax Support Scheme funding

2.5 RSG includes funding to compensate for the impact of the Council Tax Support Scheme (CTSS) on the Council Tax base. This funding is no longer distinguished as a separate component. The Council meeting on 1 December 2016 approved the CTSS for 2017-18. The revised scheme will go some way towards bridging the gap between the notional element of RSG set aside for the CTSS and the real cost of the scheme. However, the cost of the exceptional hardship scheme will reduce any savings.

2.6 The current scheme adopted by the Council reflects a county-wide agreement, with local discretion. Kent County Council pays TDC a contribution of £125k per annum towards the cost of the administration of the scheme. The approval of the revised CTSS in December ensured that KCC will be presented with budget proposals that assume the continuation of the payment, although this will not be known for sure until KCC has approved its budget.

Council Tax Base Adjustments for Minor Preceptors

2.7 The Council shares the RSG with parish councils to reflect that parishes do not have direct funding for Council Tax support and a reduced tax base. This was paid at the level of £130k in 2016-17. It is proposed that the level of this support should continue to be reduced by 10% in accordance with existing policy, as indicated in the 17 November Cabinet report and shared with parishes at the Parish Forum on 27 October. This results in Council RSG funding for parishes of £117k for 2017-18.

Council Tax and Collection Fund

2.8 For the purpose of the budget build, it is assumed the Council Tax base for 2017-18 is 2% higher than the 2016-17 level and a 2% increase is expected for future years.

2.9 Each year Council Tax is calculated based on assumed levels of collection rates. At the end of the year any surplus achieved in the collection fund is available to be shared proportionately between the Council and major preceptors. It is expected that a small surplus will be achieved in 2016-17 of which £100,000 would be available in 2017-18.

2.10 Taking into account all the above, the overall estimated funding position is illustrated in Table 1 below:

Table 1: Funding Position 2017 - 2021

FUNDING	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Council tax	9,250	9,647	10,057	10,479
Revenue Support Grant	1,446	809	98	0
Non-Domestic Rates Baseline	4,716	4,855	5,010	5,010
New Homes Bonus	1,877	1,163	989	755
Business Rate Retention	200	200	200	0
Council Tax Collection Fund	100	100	100	100
Total	**17,589**	**16,774**	**16,454**	**16,344**

3 Budget Pressures

3.1 Given the economic context in which the council finds itself, the overarching approach to developing the budget is to minimise budget pressures wherever possible, to reduce the need to find savings to deliver a balanced budget. Main pressures are set out in Table 3 below:

Table 2: 2017-18 Budget Pressures

Growth	Detail	£000's
Economic factors including inflation	Budget assumes on-going impact of Pay for Contribution, Pay inflation and contractual increases for such items as insurance, utilities, business rates and service contracts.	700
Pension Fund	Increased contribution in pension costs resulting from 2016 revaluation.	340
Policy	Ongoing reduction in financial settlement and NHB funding offset against changes in council tax and business rates	1,560
Total		**2,600**

4 The Budget Gap

4.1 Given the above budget pressures, the latest forecasts of Government funding, estimates of expected increased costs such as inflation, volume changes from increased demand and demographics, the costs of legislative changes and slippage on the delivery of savings have resulted in a savings requirement for 2017-18 of £2.6m. A breakdown of income generation and cost savings proposals are set out in Table 3 below:

Table 3: Bridging the 2017-18 Budget Gap

Action	Detail	£000's
Income generation initiatives	Income generation opportunities across a range of services including in respect of car parking, planning, housing, the port and a lottery	-890
Comprehensive review of fees and charges income	A complete review of fees and charges including new fees and benchmarking of old fees in order to gauge the impact on customers and comparison against the wider market.	-490
Savings agreed as part of the previous MTFS	Cost savings including a review of assets, contract arrangements and service efficiencies including from Shared Services.	-770
Reserves	One off contribution from reserves to be repaid over the period of the MTFS	-450
Total		**-2,600**

4.2 Description of the income generation and cost savings are as follows:

- **Income Generation:** A range of reviews are under way to generate new and additional income. These reviews are: creation of a housing company; fundamental review of car parking; power generation on council owned sites; commercial charging for minor works and workshop; and a review of Planning. The MTFS already includes an assumption of additional income from the port; and a new lottery is expected to generate a new income stream.

- **Fees and charges:** Council approved new fees and charges on 1 December.

- **Existing MTFS cost savings:** the MTFS 2016-20 included cost savings in 2017-18 which are included here, the main ones being greater efficiencies from shared services and leisure management, savings in asset management and provisions for inflation.

- **Reserves:** In order to comply with the requirements of the Local Government Act 2003, the Council undertakes a review of the level of reserves as part of the annual budget preparation Given that the current level of reserves is relatively low, following a series of one-off costs and liabilities and the challenging economic environment following further changes to the annual settlement from central government a robust sensitivity analysis has been carried out. Whilst it is necessary to use some of these reserves in the short term, the MTFS sets out a plan to replenish them over the following three years and additional work is in progress to improve the position further.

5 Council Reserves

5.1 The Local Government Finance Act 1992 requires all authorities issuing a precept, such as Thanet District Council, to have regard to the level of reserves needed for future expenditure when calculating the budget requirement.

Earmarked Reserves

5.2 It is good practice to use reserves to 'save' funds over a period of time to manage risk and spread the impact on the Council Tax of large fluctuating expenditures. The MTFS shows the planned level of reserves which will be used to fund anticipated expenditure during the year.

5.3 In recent years, the council has drawn on reserves to fund one-off costs and liabilities that arose as a result of past decisions. To some extent, this is the purpose of holding such reserves – to fund unexpected costs without causing a financial crisis for the council in the year that such costs have to be accounted for. However, the council needs to try to re-establish reserves so that, if liabilities of the magnitude of those of the recent past were to occur again, then it could cope financially without a serious impact on services.

5.4 The External Auditor has recommended in the Annual Audit Letter that "*going forward, cost savings and income generation need to be developed in excess of the estimated funding gap to help cover the possibility of unforeseen additional financial pressures …"* The council's response, which was accepted by the External Auditor and approved at Governance & Audit Committee on 7 December, stated "*Steps will be taken to replenish reserves where possible to help manage the known and unknown financial risks".*

5.5 Whilst reserves have fallen over the last two years, they have been used to fund specific one-off costs. They have not been used to fund ongoing expenditure or income losses. The sensible and necessary use of reserves, along with tighter financial stewardship and a willingness to make the decisions to deliver balanced budgets has helped place the council on a firm financial footing. Assuming the 2017-18 budget and 2017-21 MTFS are agreed, it will be possible for the council to move forward from a solid financial platform and replenish reserves in the medium term.

5.6 A review of the council's reserve holdings has been undertaken by the S151 Officer. The proposed reserve balances are considered to be adequate for supporting the council's ongoing needs and plans. However, the risks associated with the low level of reserves can be mitigated by making net contributions over the life of the MTFS and by maintaining tight financial controls over budgets and decision making.

5.7 Useable reserves as at 31 March reported in the 2015-16 annual statement of accounts were £30.2m (£32.3m 2014-15) and are analysed below together with projected movements as a result of the budget proposals in this report.

Table 4: Council Reserves

Reserves	31 Mar 16	Movement	31 Mar 17	Movement	31 Mar 18
	£'000	£'000	£'000	£'000	£'000
General Fund	2,011	-	2,011	-	2,011
HRA	5,296	(545)	4,751	984	5,735
Earmarked - GF	6,152	(677)	5,475	(564)	4,911
Earmarked - HRA	5,495	(5,495)	0	0	0
Capital Receipts	4,031	(1,982)	2,049	(312)	1,737
Major Repairs Reserve	7,171	395	7,566	(510)	7,056
Total	**30,156**	**(8,304)**	**21,852**	**(402)**	**21,450**

5.8 The General fund reserve is fixed at approximately 12% of the net revenue budget in line with the policy agreed in 2015/16.

5.9 Movements in General Fund earmarked reserves in 2016-17 included contributions to NNDR appeals costs, capital projects, Local Plan and pension costs. The main movement in 2017-18 reserves is projected to be the £450k short term contribution to services which will be repaid over the life of the MTFS.

5.10 The HRA balance is analysed in Table 10 below and the earmarked reserve of £5,495k is planned to match fund the Homes & Communities Agency grant for the affordable housing programme. The overall timetable for affordable housing is being examined and it is likely that some of the activity will be delayed into 2017-18 and the value of slippage will be confirmed at the end of the financial year. This is being monitored closely to ensure the HCA funding deadline of 31 March 2018 is met.

5.11 Capital receipts are identified in the capital financing section of tables 6 (General Fund) and 11 (Housing Revenue Account) below and capital receipts from asset sales in 2017-18 are projected to be £2m.

6 Fees and Charges

6.1 The fees and charges proposals were agreed by Council on 1 December. As a result of benchmarking all the council's fees and charges and the income targets, an additional income contribution of £490k has been factored into the budget for 2017-18 as identified above.

7. Budget Consultation

7.1 The budget consultation was launched on 11 November which examined the priority of council services and satisfaction levels within the district. 442 responses were received in total with 399 from residents and 43 from businesses. 2 business respondents were not resident in Thanet.

7.2 Services ranked as a high priority by residents included; Household Waste & Recycling Street Cleansing & Community Safety.

7.3 Services ranked as a low priority included: Land Charges, Allotments & Sports Development.

7.4 Some 52% of respondents agreed with, or had no view on, the approved changes to fees & charges for 2017-18.

7.5 The budget proposals in this report take into account the priorities highlighted by respondents in the consultation.

7.6 The council's housing budget was discussed at the East Kent Housing Tenant and Leasehold Board on 23 November 2016 with representatives of our residents and leaseholders in attendance. The budget was agreed with a recommendation from the Board to cap service charge increases at £5 (excluding heating service charges) although the recommendation in this report is for a cap of £3.

8 Medium Term Financial Strategy 2017-21

8.1 A Medium Term Financial Strategy (MTFS) was approved by Council in February 2016, covering the period 2016-17 to 2019-20. In the light of the continuing unprecedented economic climate, this document has been reviewed and updated, not only to reflect the external environment, but also new developments and changes to internal policies and practices. The revised MTFS covering the period 2017-18 to 2020-21 is shown at Annex 1. It captures what is expected in terms of funding opportunities and the general economic environment for the next four years against budgetary demands, as a result of inflationary and other pressures. It presents outline financial plans that show what the council intends to do in order to deliver its statutory services and priority discretionary services whilst continuing to deliver its key financial strategies. The plan addresses the assumptions used in the budget calculations, the risks that could have an impact on future financial standing and the degree to which the budget models are sensitive to change.

8.2 Where future years' figures have been referenced in the text below, these have all been prepared based on the strategies and assumptions that are laid out in the MTFS at Annex 1.

8.3 At the time of writing, merger discussions are taking place with other East Kent districts. No decisions have been made but it is possible that a consensus will be agreed during the process of 2017-18 budget approval. The degree of uncertainty is such that it is not possible to factor into the MTFS any assumptions about merger – the MTFS assumes TDC will continue in its current form throughout the four year period. Despite this necessary assumption, TDC is playing an active part in the examination of merger options.

8.4 Future challenges and opportunities include consultations that this Government will undertake in relation to the future of local government funding. Government has a stated desire to change the current methodology for Business Rate retention, moving to 100% being retained by local authorities and with it, the potential for self-financing. This will present opportunities, as in principle local authorities will not be reliant on central Government, but will also bring with it additional responsibilities and therefore challenges. Currently no more information has been made available as a result of this consultation and we maintain a watching brief.

9 Overall 2017-18 General Fund Revenue Budget Projection

9.1 The impact of the above changes when applied to the 2016-17 base give a net budget requirement of £18,457k for 2017-18 which is considered sufficient to enable the delivery of the council's statutory services as well as its priority discretionary services.

9.2 A summary of the key changes that have been made to arrive at the draft General Fund Revenue Budget for 2017-18 is shown in Table 5 below:

Table 5: General Fund Revenue Budget 2017-18

	£'000	£'000
Opening Funding Position		19,159
Budget Pressures (including Inflation and excluding Settlement Funding)		1,070
Income Generation	-890	
Efficiencies	-770	
Fees & Charges	-490	
Total Savings		-2,150
Net Service Revenue Budget		18,079
Contribution from reserves		-490
Net Budget Requirement		**17,589**
Funded by:		
Government Funding (including RSG Business Rates and New Homes Bonus)		8,239
Collection Fund Surplus		100
Council Tax		9,250
Net Financing		**17,589**
Tax Base		**42,069**
Indicative Band D Council Tax		**219.87**
% increase on Band D		2.31%
£ Increase on Band D		£4.95

10 Council Tax for 2017-18

10.1 The council's net budget requirement is met from the settlement funding assessment, made up of Revenue Support Grant and the Baseline Funding Level (the local share of business rates), plus New Homes Bonus. The rest (known as the Precept) has to be raised by local taxes in the form of Council Tax.

10.2 The 2.31% increase identified in the above table represents increased income of £208k when applied to the revised tax base of 42,069.

11 General Fund Capital Programme

11.1 A minimum level of £10k has been set for capital expenditure on a fixed asset which is expected to be in use for more than one year. Expenditure below this value is not treated as capital.. Capital expenditure also includes qualifying grants, such as those provided for the enhancement of buildings to increase the extent to which they can be used by a disabled or elderly person. Capital expenditure can be met from loans, capital receipts, capital grants or revenue contributions.

11.2 Due to the complex and large scale nature of capital projects, the original budgets have to be based on estimations that often need revising as the project advances. This in turn leads to re-phasing of the capital programme, in order to keep the overall costs within the agreed bottom line.

The Asset Management Plan

11.3 By far the largest element of the council's capital worth (as represented by the fixed asset values on the balance sheet) is in its property holdings, with a total of £210 million showing as the net book value of all property assets as at 31 March 2016 (after depreciation has been applied). In line with Government and best practice guidelines, the council is required to have prepared and published an Asset Management Plan (AMP) which outlines its approach to its material asset holdings. This is to ensure that it acts responsibly in terms of undertaking a stewardship role over valuable public assets whilst deriving the maximum use from them in terms of service delivery so that value for money is able to be evidenced.

11.4 The Asset Management Plan outlines the principles, criteria and processes that form the cornerstone of the draft Capital Programme. This requires a continuous assessment of the relative value of an asset (both financial and non-financial) in order to ensure that investment in assets is working to optimum effect. This is especially important in the current financial climate, where assets that are no longer viable or surplus to requirements need to be disposed of in order to reduce liabilities and to generate capital receipts to fund new developments or be transferred for community benefit.

12 The Capital Budget Strategy

12.1 Although the Asset Management Plan is used to inform the contents of the capital budget, it is only one element. The Capital Programme is underpinned by a Capital Strategy as set out in the MTFS.

12.2 Applications for capital bids are reviewed by the Capital Programme Group and scored against a weighted matrix to ensure they focus on core priorities, health and safety requirements, the generation or protection of income streams and affordability. The level of resources available raises a number of issues and risks for future years, which need to be addressed. Over the past few years the council has seen significant constraints in its available capital receipts. It is difficult to estimate the funding level achievable as a number of changes often arise to the asset disposal programme once the consultation process has been completed. In the event that sufficient disposals cannot be realised in 2017-18 onwards this will result in a need reduce or defer the capital programme or to borrow, thus increasing the revenue pressure on the General Fund. Regular monitoring will need to be reported back to members and the Capital Programme adjusted accordingly.

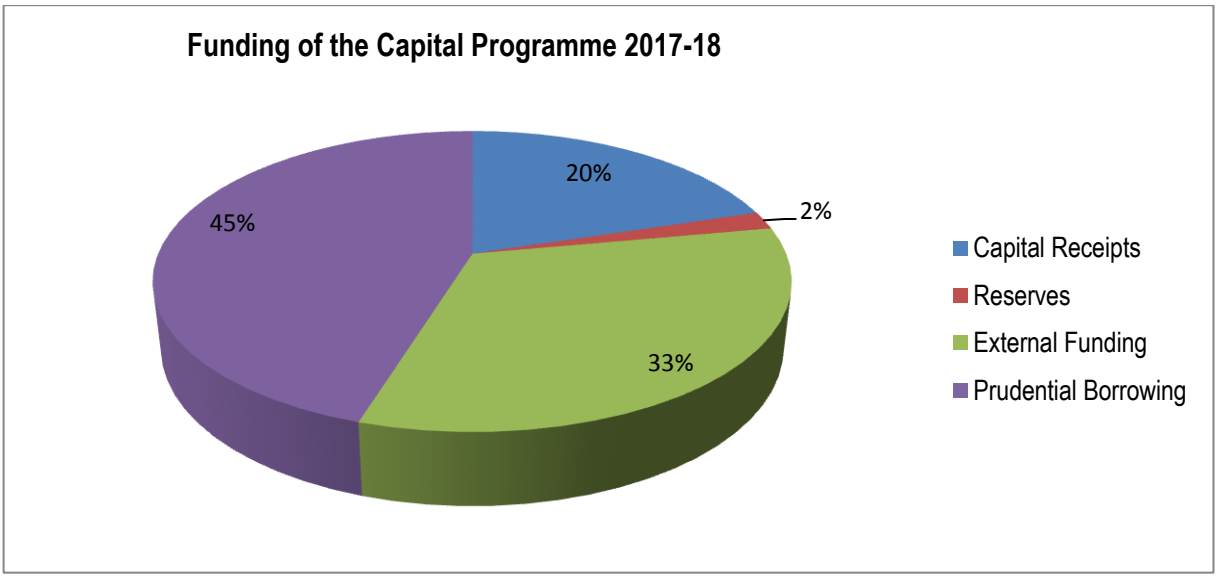
12.3 There is limited scope for future investment in new assets or making improvements to existing buildings. The Asset Management Plan is key to deliver the Capital Strategy and to reduce the financial and risk burden of the property portfolio. The current

portfolio is not maintainable with the current funding available for repairs and maintenance and given the council's funding position, this is unlikely to improve. It is likely that over the next four years some difficult decisions will need to be made on some of the asset holdings. Any additional schemes will require an existing scheme to be deferred or funds re-allocated unless there is headroom in the General Fund to borrow.

Available Capital Funding

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

12.5 A summary of the 2017-2021 capital resources utilised to fund the capital programme is detailed in Annex 2, but shown graphically below.



12.6 **Capital Grants** – these are offered by external funders to assist with certain types of expenditure. Capital grants include: Environment Agency, Lottery funding and European grants. The Better Care Fund allocation for 2017-18 is estimated at £2.342m of which £1.6m has been set aside to fund the Disabled Facilities Grants within the capital programme. Plans are still being agreed for the remainder of the determination. The 2017/18 Capital Programme also includes a number of projects to bolster sea defences and these are fully funded by the Environment Agency.

12.7 **Capital Receipts** – When a fixed asset is sold, provided that the sale receipt is over £10k, the income has to be treated as a "capital receipt", which means that it can only be used (with one or two specific exceptions) to fund capital expenditure. All of the monies received from the disposal of General Fund assets are available for use.

12.8 Before the start of each financial year, a Flexible Use of Capital Receipts Strategy is prepared as part of the budget documents. This strategy sets out the rare occasions the council can apply to Government to capitalise expenditure that would normally be deemed as revenue. Government have advised that it is now possible to apply to

capitalise the costs of transformational revenue reform projects. The Capital Receipts Strategy is set out in Annex 3 and details the criteria where this may be considered as per guidance issued by Government.

12.9 The level of capital receipts available from the sale of surplus assets has been very constrained over the last few years. Reasons for this have included the economic situation, assets being removed from the disposal list following consultation, and capital funding being switched from reserves to capital receipts wherever possible due to significant pressures on the council's revenue budget. Members should note that an estimated £2.025m in capital receipts has been forecast to fund the 2017-18 programme derived in part from the asset disposal report approved by Cabinet on 17 November. This will be monitored closely during the financial year, as it may be necessary to adjust the programme in-year depending on asset disposal and funding outcomes.

12.10 The balance of capital receipt from the Royal Sands Development has not yet been allocated to capital project(s) within the capital bid process and scoring regime.

12.11 **Unsupported Borrowing** – The Local Government Act 2003 gave local authorities the ability to borrow for capital expenditure above the level supported by Government Grant, provided that such action complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Prudential Borrowing ("The Prudential Code"); the objectives of which are to ensure that capital investment plans are affordable, prudent and sustainable. Essentially, it provides a number of controls to ensure that the Council does not incur additional debt without fully understanding the financial implications both now and in the future. It is anticipated that borrowing of £4.725m will be required to support the General Fund Capital Programme in 2017-18.

12.12 Capital Projects Reserve – Balances in this reserve were materially reduced in 2015-16 due to significant pressures on the budget, and it is anticipated this will continue in 2017-18 onwards.

13 The Capital Programmes for 2017-18 to 2020-21

13.1 The following budget amounts have been re-profiled from 2016-17 to 2017-18: Port Low Carbon Plan (£239k), Vehicle Replacement Programme (£900k), Dalby Square (£80k), CCTV (£400k), and Ramsgate Port Berths (£600k). The existing, new and reserve capital projects are set out in the MTFS in Annex 1.

The Draft Capital Budgets 2017-18 to 2020-21

13.2 The draft General Fund Capital Expenditure Budget for 2017-18 that is proposed for Members' approval is £10.458m (including 2016-17 re-profiling identified below), which will be funded in the main from capital grants, usable capital receipts and prudential borrowing. This is shown in summary format overleaf

Table 6: Capital Programme 2017-2021

	2016-17 Slippage £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Statutory and Mandatory Schemes		1,600	1,600	1,600	1,600
Schemes continuing from prior years	1,319	250			
Annual Enhancement Schemes	900	580	330	580	2,285
Wholly/Part Externally Funded Schemes		1,981	1,437	942	2,742
Construction, Replacements and Enhancements		3,753	50	50	3,000
Capitalised Salaries		75	75	75	75
Total Capital Programme Expenditure	**2,219**	**8,239**	**3,492**	**3,247**	**9,702**
Capital Resources Used:					
Capital Receipts and Reserves	1,530	782	205	205	310
Capital Grants and Contributions		3,421	3,037	2,542	4,342
Contributions from Revenue		0	0	0	0
Prudential Borrowing	689	4,036	250	500	5,050
Total Funding	**2,219**	**8,239**	**3,492**	**3,247**	**9,702**

14 Housing Revenue Account Budget and Housing Capital Programme

14.1 The council's responsibilities in respect of the need to keep a Housing Revenue Account (HRA) are contained within Section 74 of the Local Government and Housing Act 1989 ('The Act') and its use is heavily prescribed through statute. The HRA records all of the revenue expenditure and income relating to land, dwellings and other buildings provided under Part II of the Housing Act 1985 and corresponding earlier legislation. Activities are reported separately from the General Fund Revenue Account reflecting the ring-fenced nature of tenants rent payments. Although the HRA for an individual year may result in a deficit, it is a requirement of 'The Act' that overall it must maintain a surplus, which means that expenditure must be carefully planned to remain within the limits of the anticipated income streams over the medium term.

14.2 The Operation of the Housing Revenue Account

Before the estimates are able to be calculated, the context in which the budget is to be built must be considered.

Main items of Income within the HRA are as follows:-

- Rents
- Charges for Services
- Leaseholders

- Other Rents
- Interest on balances

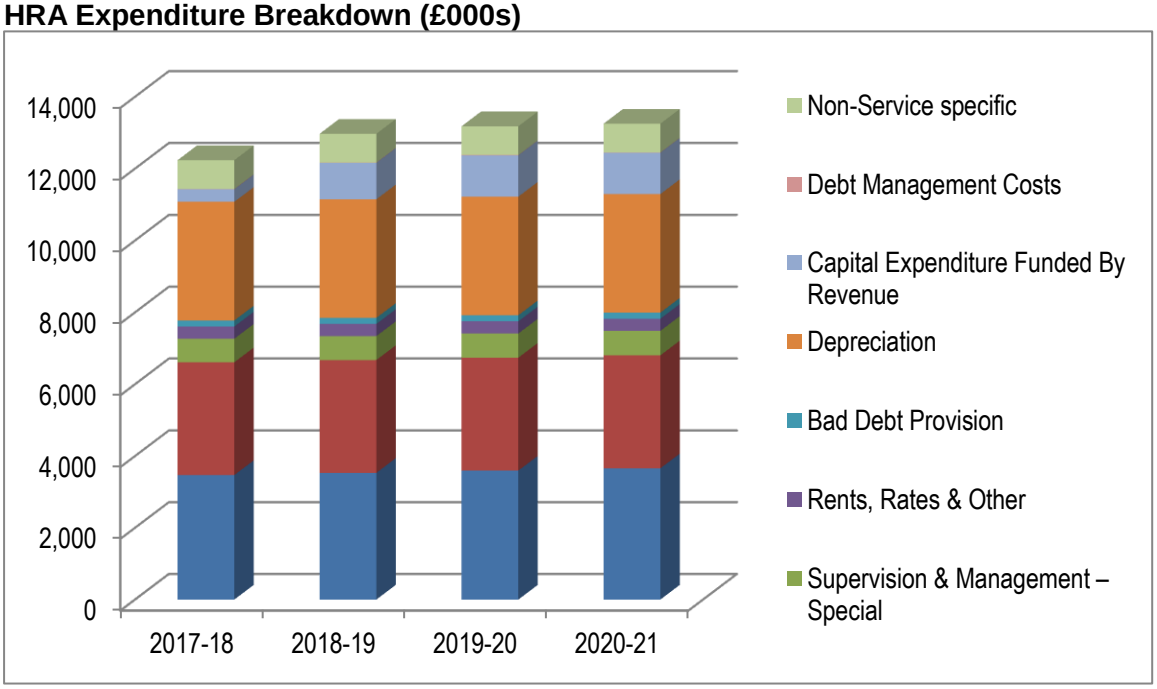
Main items of Expenditure are:-

- Repairs & Maintenance
- Management Costs
- Borrowing Costs
- Depreciation on Council Stock (used to fund Capital Expenditure)
- Other land lord costs i.e. council tax charges for void properties, insurance costs
- Provision for Bad Debts

14.3 The current HRA Business Plan is forecast to fall into deficit post 2024 and further work is required to identify sufficient efficiencies to allow for a sustainable 30 year HRA Business Plan. A new detailed financial model has recently been purchased and both Finance and the Head of Housing will work together to remodel a sustainable plan. This will include a review of charges and costs from the General Fund, maximising income generation opportunities such as aerial rental charges, contract efficiencies through EKH by procuring with neighbouring councils and asset management.

The main assumptions that have been applied to the HRA for the 2017-18 expenditure budgets are summarised below:

HRA Expenditure Breakdown (£000s)



14.4 **Repairs and Maintenance**

Table 7: Proposed HRA Repairs and Maintenance Growth and Savings

Expenditure	Details of Growth and Savings
Day to Day Repairs Contract	A new 4 year contract started in January 2016. The contract includes new services that were previously contracted on an ad-hoc basis. This has assisted in generating an overall saving to the repairs and maintenance budgets.
Refuse Chute & Paladin Bin cleaning	The day to day repairs contract now includes these services and has generated a saving of £2k.
Door Entry Systems	The day to day repairs contract now includes these repairs and maintenance works. Growth of £45k will be required from 2017-18.
Cleaning Contract	A new 3 year contract started in July 2016 with an option to extend for a further 2 years. This has resulted in a saving of £23k.
Cyclical External Refurbishment and Repairs Contract	A new 7 year contract started in April 2016. This has generated a saving of £92k in 2017-18 and a saving of £17k from 2018-19.
Gas Servicing	The contract is due to be re-tendered in 2016-17. The new contract is due to include properties with storage heaters as well as gas boilers.
Rodent Control and Damp Proofing Works	Works have increased and growth of £14k has been factored in from 2016-17 onwards.
Housing Officer Funds	Housing Officer funds will be reduced by £20k as this is a demand led budget. The £20k will be used to fund the growth required for asbestos removal.
Asbestos Removal	Asbestos removal is now being undertaken while the property is void. Growth of £45k will be required from 2017-18 onwards, however other revenue budgets have been reduced where possible.

14.5 A stock condition survey was commissioned in 2016-17 to re-evaluate the Council's stock to ensure that we continue to meet Decent Homes Plus standard. The survey results are due in March 2017. An Asset Management Strategy and Stock Options Appraisal will follow in 2017-18.

14.6 **Supervision and Management General** – The East Kent Housing management fee is calculated on an activity based costing basis, in that the Council's charge is based on the amount of staff provided to deliver the service and their supporting budgets. The core management fee will remain the same for 2017-18. The software support budget for the housing management system will be included in the management fee once the new single system is live. The management fee base budget for 2017-18 will be £1.4m.

14.7 **Supervision and Management Special** – Gas and electricity contracts are due for review in September 2017. For 2017-18 an assumed percentage increase of 1% for electricity and 3% for gas has been applied.

14.8 **Rents, Rates, Taxes and Other Charges** –The budgets that the Council holds as a landlord have been reviewed in light of the completion of the Empty Homes Programme and reduced for running costs. These include Council Tax and utility standing charges on void properties and have generated a saving of £11k.

14.9 **Provision for Bad or Doubtful Debts** – The provision for bad or doubtful debts for 2017-18 will remain the same at £170k.

14.10 **Depreciation for Fixed Assets** – In accordance with the statutory requirements, the Council has to make a depreciation charge to reflect the use of the HRA assets over their useful lives. Depreciation is the decline in the value of asset over time due to wear and tear. The estimated depreciation charge for dwellings is calculated at £3.08m in 2017-18, the depreciation charge for other HRA assets is estimated to be at £210k.

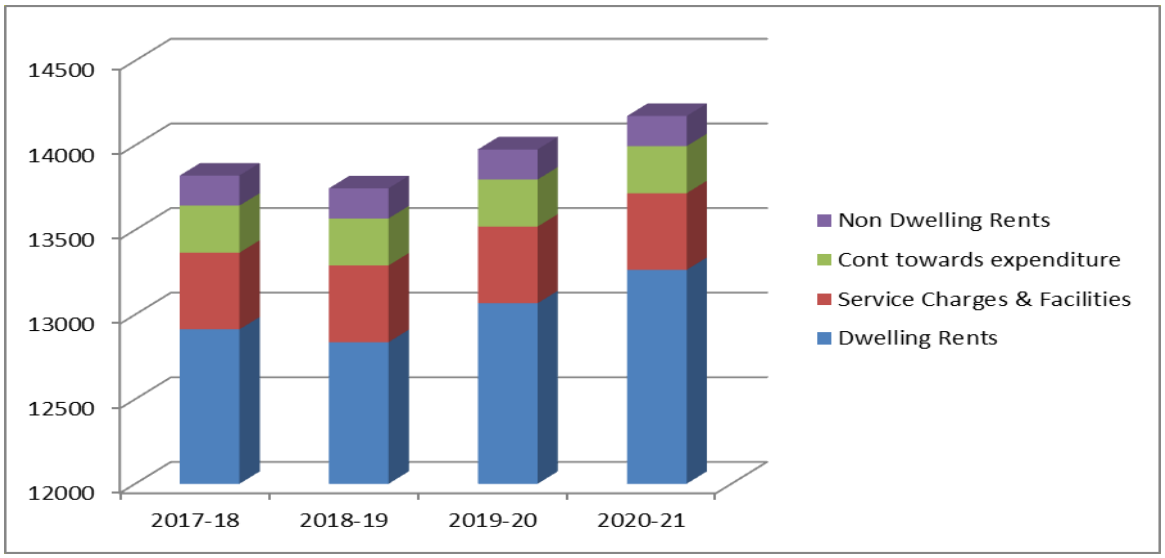
14.11 As part of the self-financing settlement, substantial changes were made to the accounting treatment of capital assets. A five year transitional period was put in place to help local authorities manage the impact of these changes. The transitional period ends on 31 March 2017 and in preparation the Government began consulting on the effect of its proposed treatments during May 2016. The findings from the consultation are yet to be published and may impact on the calculation of the depreciation or impairment charges to the HRA from April 2017.

14.12 **Debt charges** – Since the self-financing settlement, the council has operated a two loan pool approach whereby the HRA and GF are each responsible for the repayment of their own apportionment of loans. As part of the self-financing settlement, the HRA had its debt capped at £27.792m. As at the 1 October 2016 the HRA had £20.041m of loans outstanding.

Income Estimates

14.13 The main assumptions that have been applied to the HRA for the 2017-18 Income budgets are summarised below:

HRA Income Breakdown (£000s)



14.14 **Rent Increases** –Since April 2002, most rents for social housing have been set based on a formula set by Government. The intention was to align council rents with those of housing associations by adopting a formulaic approach to calculating rents, known as rent restructuring. Landlords were expected to move the actual rent of a property to the formula rent over staged increases through applying the guidance set by Government of Retail Price Index plus 0.5% plus up to an additional £2 where the rent is below the formula rent for the property.

14.15 As part of the Summer Budget 2015 the Government announced that both Social and Affordable Rents would be reduced by 1% a year for four years resulting in a 12% reduction in rental income by 2020-21. The rent baseline for the reductions is the rent payable on 8th July 2015.

14.16 The financial impact of the 1% baseline reduction in rents continues to reduce the available income within the Housing Revenue Account. As a result the Council's New Build Programme has been reviewed and scaled back to ensure affordability and a report was taken to Cabinet on 3rd March 2016 to agree this.

14.17 A local authority may be granted an exemption (in full or in part) if the Secretary of State considers the authority would be unable to avoid financial difficulties if it were to comply with the requirements. Local authorities must explore thoroughly what it can do to mitigate any financial risk, including looking at contractual commitments, before applying for an exemption. Although the council has had to scale back development programmes and is estimating a deficit in 2018-19, it has generated a surplus in previous financial years, so currently does not qualify for an exemption. However once the higher value assets determination payment has been circulated, this will need to be reviewed.

14.18 In the 2013 guidance the Government confirmed that social landlords could charge tenants with an income of over £60,000 a market rent. The Housing and Planning Act 2016 confirmed that the 'Pay to Stay' scheme was to be compulsory and tenants with a household income of £30,000 or more must pay rent equal to the market rent. The Government has decided not to proceed with the policy in its current compulsory form. Local Authorities will continue to have the discretion to implement the policy for tenants with incomes over £60,000.

14.19 Rental estimates are based on the new government guidance for rental decrease of 1% for 2017-18 to 2019-20 and a 1% inflationary increase from 2020-21 onwards until further guidance is received.

14.20 Social rents will be decreased by 1% in line with the Summer Budget 2015 announcement and government rent guidance. Across the whole stock the average rent is £81.13, this is an average decrease of £0.83p per property.

14.21 New units created as part of the Margate Intervention Programme and Empty Homes Programme come under the Affordable Rent Programme. Affordable rents are calculated at up to 80% of the market rental income and are inclusive of service charges. They will be decreased by 1% in line with the Summer Budget 2015 announcement and government rent guidance.

14.22 Affordable rent guidance requires that on each occasion that an affordable tenancy is issued, whether let to a new tenant or if an existing tenancy is re-issued, the rent must be re-set based on a new valuation. The only exception is where the property is re-let to the same tenant following a probationary period coming to an end.

Table 8: HRA Average Property Rents

Property	Average Social Rent	Average Affordable Rent
Bedsits	£56.87	N/A
1 Bed Flat	£67.11	£73.62
1 Bed House	£77.72	£77.72
2 Bed Flat	£75.28	£100.69
2 Bed House	£83.70	£92.46
3 Bed Flat	£87.11	£129.09
3 Bed House	£93.72	£111.22
4 Bed Flat	£89.95	£146.34
4 Bed House	£102.57	£140.67
5 Bed Flat	N/A	N/A
5 Bed House	£110.76	N/A

14.23 **Non Dwelling Rents** - Income generated from aerials on tower blocks is expected to increase as a number of leases are due for renewal; £8k is anticipated in extra income. Garage rents have been reviewed and continue to be in line with market rents and so will see no increase this year.

14.24 **Service Charge Increases** – It has been identified that the lowest increase in chargeable service charges is £1.62 per week and the highest increase is £15.06 per week (before caps). The breakdown of the impact is detailed below:

Table 9: **Service charge increases**

Weekly Service Charge Increase	Number of Tenants Affected
£0-£1	493
£1-£2	488
£2-£3	107
£3-£4	13
£4-£5	0
£5-£10	14
£10-£16	16

14.25 The impact was highlighted at the Tenant Area Board and consultation was undertaken to discuss potentially limiting the financial impact to tenants. The tenant board voted unanimously to cap service charge increases at £5 (excluding heating charges) to enable the recovery of actual costs to take place over a longer period of 3 years and reduce the financial hardship on tenants.

14.26 The impact of this decision is that 30 tenants will receive capped service charges, this will leave an annual recovery shortfall of £9,340 in the first year, reducing to £2,436 in year 2 and £10.05 in year 3 a total impact of £11,786 which the HRA would be required to fund. The service charge increases are eligible for Housing Benefit and housing tenants have received a 1% decrease on rents.

14.27 Since the Tenant Board meeting the Portfolio Holder for Community Services has requested that the impact of a £3 cap is modelled. The impact of which would mean that 43 tenants receive a capped service charge. This will leave an annual recovery shortfall of £12,885 in the first year, reducing to £7,780 in year 2 and £3,424 in year 3 a total financial of impact of £24,089 which the HRA would be required to fund. It should be noted that by year 3, it is estimated that 19 properties will still not be at full recovery cost for service charges. The Cleaning Contract is due for re-tendering in July 2019 and the Mears contract is due for re-tendering in 2020. If the cost of these contracts sees an increase in costs this will in turn impact on service charge increases and could affect those already not at full recovery.

14.28 **Heating Charges** – These will be recovered on actual cost based on usage and contract price and then apportioned across the block dependant on bedroom size.

14.29 **Investment Income** – This consists of interest accruing on mortgages granted in respect of Right to Buy sales and interest on HRA balances. The base rate remains low which in turn means that investment interest will be low. The budget for 2017-18 of £55k is based on achieving an average interest rate of 0.25%.

Draft Housing Revenue Account 2017-2021 (£000s)

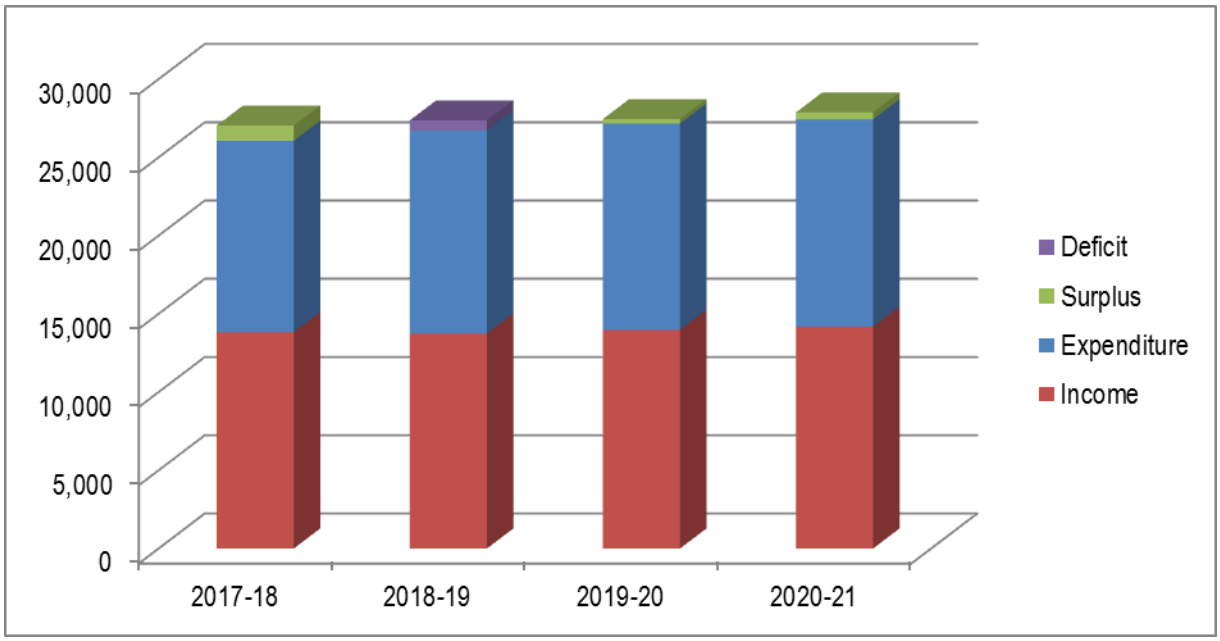


Table 10: Draft Housing Revenue Account Budget 2017 - 2021

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Expenditure				
Repairs & Maintenance	3,486	3,548	3,611	3,675
Supervision & Management – General	3,213	3,213	3,100	3,100
Supervision & Management – Special	666	674	683	692
Rents, rates, taxes and other charges	241	249	258	267
Bad or doubtful debts provision	170	170	170	170
Depreciation/impairment of fixed assets	3,300	3,300	3,300	3,300
Capital Expenditure funded from HRA	350	1,015	1,150	1,150
Debt Management Costs	9	9	9	9
Non-service specific expenditure	800	800	800	800
Gross Expenditure Sub Total	**12,235**	**12,978**	**13,081**	**13,163**
Income				
Dwelling Rents (gross)	(12,913)	(12,837)	(13,067)	(13,264)
Non-dwelling Rents (gross)	(178)	(178)	(178)	(178)
Charges for services and facilities	(453)	(453)	(453)	(453)
Contributions towards expenditure	(290)	(290)	(290)	(290)
Income Sub Total	**(13,834)**	**(13,758)**	**(13,988)**	**(14,185)**
Net Costs of Services Sub Total	**(1,599)**	**(780)**	**(907)**	**(1022)**
HRA Investment Income	(20)	(47)	(90)	(128)
Debt Interest Charges	1,024	1,019	990	994
Government Grants and Contributions	0	0	0	0
Adjustments made between accounting basis and funding basis	(389)	439	(389)	(389)
(Surplus)/Deficit on HRA	**(984)**	**631**	**(396)**	**(545)**
Housing Revenue Account Balance:				
Estimated Surplus at Beginning of Year	(4,751)	(5,735)	(5,104)	(5,500)
(Surplus)/Deficit for Year	(984)	631	(396)	(545)
Estimated Surplus at End of Year	**(5,735)**	**(5,104)**	**(5,500)**	**(6,045)**

15 The HRA Capital Budget

15.1 A minimum level of £10k has been set for capital expenditure on a fixed asset which is expected to be in use for more than one year. Capital expenditure below this value is not treated as capital.

15.2 Due to the complex and large scale nature of capital projects, the original budgets have to be based on estimations that often need revising as the project advances.

The HRA Asset Management Strategy

15.3 The Strategic Housing Team is currently developing a new HRA Asset Strategy. On-going work has been undertaken to identify underutilised garage areas and a programme of New Build sites have been identified for development. The council continues to review the land holdings within the HRA to develop a long-term new build programme. As part of the review, those small areas of land that no longer meet housing requirements and are not considered suitable for development will be reviewed for disposal to generate further capital receipts for re-investment into the new build programme.

15.4 The existing housing stock is continually reviewed for its suitability to provide good quality housing. Stock that requires considerable capital investment or has a high market value will be considered for disposal to fund new developments. The disposal of Coast Guard Cottages has recently been identified and the sale of some of these units is underway.

Available Capital Funding

15.5 Capital expenditure can be financed from revenue resources, capital grants, usable capital receipts and borrowing.

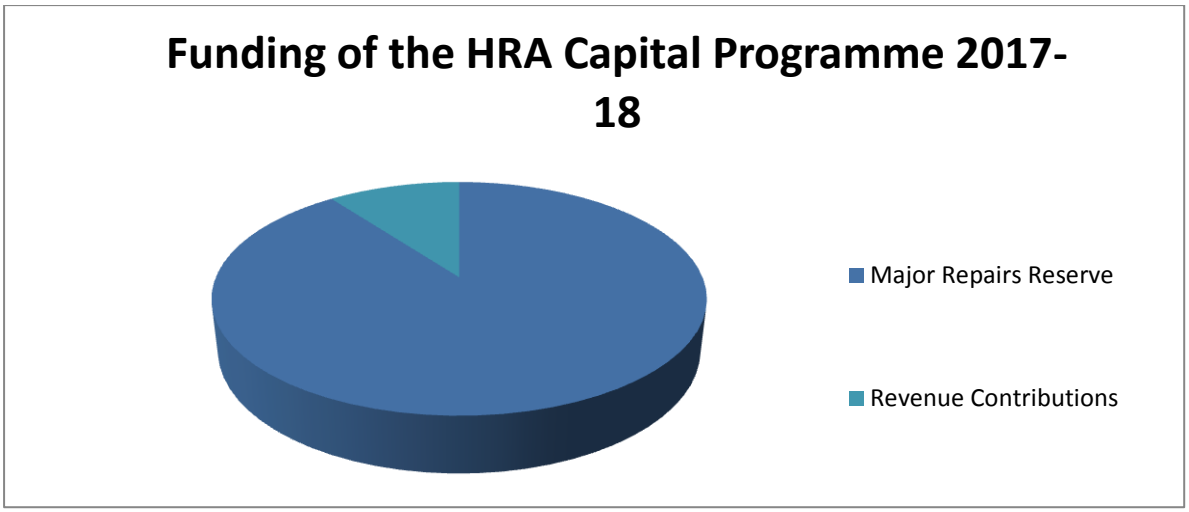
15.6 **Capital Grants** – These are offered by Government Departments to assist with certain types of expenditure. The Council was awarded £1.37m funding towards the delivery of a new build programme for 58 new affordable units within the district from the Homes and Communities Agency (HCA) Affordable Homes Programme 2015-18 and work is continuing on this programme

15.7 **Housing Capital Receipts** - On the 26 July 2012 Cabinet gave approval to enter into an agreement with the Secretary of State for Communities and Local Government which allows the Council to retain additional Right to Buy receipts over and above that budgeted by Treasury. Under this regime, Treasury receive 75% of income on sales for approximately the first four right to buy properties and the council is able to keep all of the sales income over and above.

15.8 **Unsupported Borrowing** –. As part of the self-financing settlement a housing debt cap of £27.792m was set for the council, being the maximum amount the HRA can borrow which must not be exceeded.

15.9 **HRA Capital Reserves** –The major repairs reserve is used to fund expenditure on the council housing stock and debt repayment, whilst the new properties reserve is utilised to fund the creation of new affordable homes.

15.10 **Revenue Contribution to Capital** – Revenue contributions from surpluses generated from rental income can be utilised to fund any budgetary shortfall within the capital programme.



The Capital Programmes for 2017-18 to 2019-20

15.11 **Housing Revenue Account Capital Programme** – The Housing Revenue Account Capital Programme has been set to ensure that the council's social housing stock meets Decent Homes Standard Plus. The programme has been set based on existing stock data, however, a stock condition survey is due to be carried out in 2017and the programme may require revision following completion. .

15.12 The Roofing programme is due to be re-tendered in 2016-17. A number of blocks have been surveyed and are in need of roof replacements in 2017-18 and 2018-19. These properties also require structural works and so both works will be carried out at the same time to make best use of scaffolding costs.

15.13 A number of properties have been identified as needing window and door replacements. Some of these properties require specialist works and the budget has been increased by £40k to carry out these replacements. A new contract is due to be tendered in 2017-18.

15.14 Kitchen and Bathroom replacement budgets have been reduced as the previous backlog is now complete.

15.15 A report was carried out to review fire safety in 2015-16. The three year programme will complete in 2017-18 and the budget reflects the remaining contract works to be carried out.

15.16 A number of properties have been identified as needing structural and repointing works which will generally be carried out at the same time as roofing works to make best use of scaffolding costs.

15.17 Thermal Insulation works are currently being carried out when the property becomes void. The properties in rural locations are due for a review and are most likely to require works to be carried out following the survey. As a result the budget has been increased by £30k in 2017-18.

15.18 The lift programme is currently under review. Two lifts have been completed and the budget has been reduced for the remaining lifts based on the costs of the completed works.

15.19 Disabled adaptions will remain the same for 2017-18. This is a demand-led budget and will be reviewed annually.

15.20 Estate Improvements has been reduced to £50k for 2017-18 and 2018-19 in order to fund the identified large scale structural works programme. The budget will resume to £125k once the programme has been completed.

15.21 The Margate Housing Intervention Programme sets out to transform the housing market in two of England's most deprived wards, Clintonville West and Margate Central. The properties that are currently in the programme will continue to be developed. The programme will continue to be closely monitored and the rental income generated re-invested to continue the programme.

15.22 With the flexibilities now available as part of the self-financing changes, the council is currently developing an HRA Asset Management Strategy to review land and buildings within the HRA, including garage sites to ensure they are being put to best use and obtaining value for money for the tenants. This has been the driving factor towards the first tranche of a new development programme for the HRA consisting of 58 new units. The new build development programme is funded by HCA grant funding, HRA reserve balances and prudential borrowing and the programme is scheduled to complete in 2018-19.

15.23 A detailed breakdown of the HRA capital programme is provided in Annex 5.

16 The Draft HRA Capital Budgets 2017-18 to 2020-21

16.1 The draft Housing Revenue Capital Programme for 2017-18 that is proposed for Members' approval is £3.255m, which will be funded from the HRA reserves and revenue contributions to capital. A summary of this programme and the proposed funding sources are shown in the following table:

Table 11: HRA Capital Programme

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
HRA Major Repairs Reserve	2,905	3,145	2,175	2,075
HRA Revenue Contributions	350	350	425	425
New Properties Reserve		665	725	725
Total Funding	**3,255**	**4,160**	**3,325**	**3,225**

17 Options

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

Contact Officer:	Ken Trotter– Interim Head of Finance
Reporting to:	Tim Willis–Director of Corporate Resources and S151 Officer

Annex List

Annex 1	Medium Term Financial Strategy
Annex 2	General Fund Draft Capital Programme
Annex 3	Flexible Use of Capital Receipts Strategy
Annex 4	HRA Service Charges
Annex 5	HRA Draft Capital Programme

Background Papers	**Details of where to access copy**
Medium Term Financial Plan 2016-2020	Full Council 4th February 2016 http://democracy.thanet.gov.uk/documents/s49468/Annex%201%20MTFP%202016%20final%20v2.pdf
Budget Strategy 2017-18	Cabinet 17th November 2016 http://democracy.thanet.gov.uk/ieListDocuments.aspx?CId=151&MId=4346
Fees and Charges	Full Council 1st December http://democracy.thanet.gov.uk/ieListDocuments.aspx?CId=141&MId=4361
Council Tax Support Scheme	Full Council 1st December http://democracy.thanet.gov.uk/ieListDocuments.aspx?CId=141&MId=4361

Corporate Consultation

Finance	Tim Willis, Director of Corporate Resources and S151 Officer
Legal	Tim Howes, Director of Corporate Governance

The Medium Term Financial Strategy 2017 - 2021

Thanet District Council

Introduction

The Medium Term Financial Strategy (MTFS) sets out the council's strategic approach to the management of its finances and presents indicative budgets and council tax levels for the medium term. It covers the General Fund Revenue Account, the Housing Revenue Account and the Capital Programme, and includes grant funded projects. It also comments on the significant risks facing the council in the forthcoming years and explains what is being done to reduce those risks.

The main objectives of the MTFS are to:

- explain the financial context within which the council is set to work over the medium term
- identify the financial resources needed to deliver the council's priority outcomes
- provide a medium term forecast of resources and expenditure
- achieve a stable and sustainable budget capable of withstanding financial pressures.

Separate four-year plans have been developed that accord with the respective budget strategies for each of the council's separate financial accounts, namely; the General Fund Revenue and Capital Accounts and the Housing Revenue Account. The objective of these plans is a safe and sustainable budget over the medium term.

The National and Local Economic Outlook

There are a range of future Government policy changes which will have a fundamental impact on local government. First of these is its stated desire to establish a financial regime where local government is self-funded, by allowing the sector as a whole to retain all business rate income. This will result in the loss of other Government funding; the transfer of additional functions; and a redistribution of the current proportions of business rates that go to (in two-tier areas) districts, counties and the Government. It is not yet known how this will be done, but it creates a great deal of uncertainty when considering the medium term, 2017-21.

Current Government grant includes RSG which is calculated with some reference to relative deprivation, which benefits authorities such as Thanet. The new financial regime may not result in such a redistributive effect across the country or region, to the detriment of Thanet. Additionally, it is very likely that authorities will be incentivised to attract new businesses to their area, and keen not to lose existing or potential businesses, as there will be a direct impact on their major source of income. There is already some incentivisation with the existing scheme, but the new regime is likely to be more dynamic. This exposes the council to increased financial risk and will have to be addressed when considering a variety of decisions, especially related to planning and regeneration.

The other major source of income in the longer term will continue to be council tax. For Thanet, increases are effectively capped at £5 per Band D property which equates to just over 2% per annum. To go beyond this would require a referendum, which itself would have a cost as well as a low likelihood of approval of an above £5 increase. Hence, the income per property cannot be changed radically from one year to the next. What there is a little more scope to influence is the council tax base: the number and type of properties that are eligible to pay council tax. Simply, an increase in the number of dwellings in Thanet will generate more council tax; and the figure will be higher if the additional dwellings are larger or of greater value (e.g. a council tax band of D or higher, such as E or F). The council can influence this by its planning policy including the Local Plan; an increase in housebuilding,

setting aside any other considerations, will increase council tax income. This same issue is compounded by the New Homes Bonus, which (until the Government decides otherwise) is set to continue. Even though eligibility for NHB has recently been restricted, it is directly related to the number of new dwellings created (as well as the number of empty properties brought back into use). The link to planning policy is reinforced by the rule that NHB can be withheld in respect of new dwellings created if the local authority refuses planning permission for a development that is subsequently overturned on appeal.

In terms of the macro economic environment, the council finds itself in an extremely challenging financial period as Government continues with its drive to reduce the national deficit. Local government as a whole has continued to face larger reductions than other parts of the public sector. This authority has, as a result, seen significant cuts in funding over the last four years and as a result of the 4-year settlement funding, further cuts are known for years 2017-18, 2018-19 and 2019-20 with uncertainty remaining for 2020-21. The council has already made substantial savings, primarily due to the reduction in government grant. These savings have been achieved through a variety of approaches including sharing services with our neighbouring councils, reviewing staff structures and service efficiencies. However there remains pressure to deliver further savings to balance the 2017-18 budget and it is increasingly difficult to find these without impacting on services.

The General Fund Revenue Account

The General Fund Revenue Account is where all of the expenditure and income that relates to the day-to-day running costs of the core services of the Council is recorded.

The net budget requirement (after taking into account income from fees and charges and other specific grants) is met by a combination of Central Government Funding (53.16%) and Council Tax (46.84%). With just over half of the council's net budget being funded from Government, a reduction in this funding makes the task of continuing to improve and evolve whilst honouring the commitment to keep council tax increases as low as possible very difficult to achieve.

The budget estimates for the General Fund Revenue Account over the next four years are summarised in Table 1.

Table 1

Summary General Fund Revenue Proposals 2017–21

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Net Budget Requirement	18,079	16,814	16,494	16,384
Increase in Council Tax %	2.31%	2.25%	2.20%	2.15%
Increase in Council Tax £	£4.95	£4.95	£4.95	£4.95

Reserves

Local authorities must have regard to the level of reserves needed for estimated future expenditure when calculating the budget requirement. The council has reviewed its level of reserves, taking account of the financial risks that could pose a threat over the medium term. As a result of this exercise, the council has set its optimal level of general reserves of at least 12% of the net revenue budget, which is felt to be a sufficient level of contingency. There are no plans over the medium term to use any of the general reserves to support the base budget.

In addition to the general reserve, a number of earmarked reserves exist. These reserves have been drawn down substantially and are further proposed to be used in 2017-18. The remaining reserves are set aside for specific purposes and essentially allow funds to be saved over a number of years for large and often one-off items of expenditure, thereby smoothing the impact on council tax. The need for these reserves has also been considered over the medium term.

The Housing Revenue Account

The Housing Revenue Account is used by the council to record expenditure and income that relates to the operation of its council houses. These include costs of maintaining the houses, expenses for running communal areas and the overheads associated with council house services.

The Housing Revenue Account has to be budgeted and accounted for separately. Strict rules govern what can be charged to this account. Any money remaining in the budget at the end of the financial year is carried forward in a special reserve for future housing needs and cannot be used by the council for other purposes.

The budget projections for the Housing Revenue Account for the medium term are shown in the table below.

Table 2

Summary Housing Revenue Account Revenue Proposals 2017–21

	2017-18 £'000	**2018-19 £'000**	**2019-20 £'000**	**2020-21 £'000**
Expenditure	12,235	12,978	13,081	13,163
Income	-13,834	-13,758	-13,988	-14,185
Net Cost of Services	**-1,599**	**-780**	**-907**	**-1,022**
Other	615	1,411	511	477
Net Operating Expenditure	**-984**	**631**	**-396**	**-545**
HRA Balance:				
Surplus at the start of the year	-4,751	-5,735	-5,104	-5,500
Surplus at the end of the year	-5,735	-5,104	-5,500	-6,045

The Capital Programme

The council's Capital Programme includes capital expenditure associated with both the General Fund and Housing Revenue Account. The programme is driven by the need to achieve maximum value for money from the council's assets by ensuring they are well maintained and remain fit for purpose, within the limits of available funding.

Although the council can borrow to fund its capital expenditure, the cost of the repayments often makes this option unaffordable and so its future capital requirements in the medium term will depend upon a well-managed programme of asset disposals: using assets that are no longer suitable or cost effective to fund the acquisition and development of assets for improved service delivery. The council's Asset Management Strategy outlines the principles, criteria and processes that form the cornerstone of the Capital Programme. This requires a continual assessment of the relative value of an asset (both financial and non-financial) in order to ensure optimal investment in assets. This is especially important in the current

financial climate, where assets that are no longer viable or surplus to requirements need to be disposed of in order to reduce liabilities and to generate capital receipts for investment.

Due to the limited availability of capital receipts and the need to contain the level of borrowing undertaken to minimise the revenue impact, it has been necessary to review the Capital Programme. This is to ensure sufficient funding is available for existing schemes that have commenced and that any new projects meet the corporate priority and/or reduce the pressure on the revenue account. Bids have been assessed, scored and reviewed to ensure they focus on corporate priorities. It is important therefore, that only the most important schemes are selected against the limited resources.

The asset investment plans over the next four years are summarised in the table below.

Table 3

The Capital Programme 2017–21

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Statutory and Mandatory Schemes	1,600	1,600	1,600	1,600
Schemes continuing from prior years	250			
Annual Enhancement Schemes	580	330	580	2,285
Wholly/Part Externally Funded Schemes	1,981	1,437	942	2,742
Construction, Replacements and Enhancements	3,753	50	50	3,000
Capitalised Salaries	75	75	75	75
Housing Revenue Account Schemes	3,255	4,160	3,325	3,225
Total Capital Programme Expenditure	**11,494**	**7,652**	**6,572**	**12,927**
Capital Resources Used:				
Capital Receipts and Reserves	3,687	4,015	3,105	3,110
Capital Grants and Contributions	3,421	3,037	2,542	4,342
Contributions from Revenue	350	350	425	425
Prudential Borrowing	4,036	250	500	5,050
Total Funding	**11,494**	**7,652**	**6,572**	**12,927**

Detailed Medium Term Financial Strategy

The following pages provide more detail of the council's financial plans over the medium term. The 2017-18 budget is balanced, and general reserves are forecast to remain above £2m. The net budget requirement, for the council's own purposes, is £18.079m.

The Local Government Finance Environment

The cost of local authority services are funded primarily from fees and charges, Government grants, council tax and other grants.

The council is able to generate income from charging for a range of discretionary services, however the ability to raise revenues through this route is limited, due to the constraints that are placed on it through a variety of different legislation.

Government grant is allocated by a complex model which amongst other things takes account of the relative need of an area and the ability to raise taxes locally (based on an area's council tax base). It is made up of two elements: the baseline funding level (in respect of business rates) and the Revenue Support Grant (to support council services). The council has faced significant cuts in funding over a number of years, which have seen the net revenue budget reduced substantially, although the four year settlement did give some assurance regarding future funding. For the purpose of the MTFS these reductions have been factored in as follows: 13.1% 2017-18, 8.1% 2018-19 and 9.8% 2019-20.

The impact of other welfare reforms associated with reducing housing benefit entitlement may potentially lead to an increase in homelessness and rent arrears. This is yet another uncertainty that could impact on MTFS assumptions and the effect of this will continue to be monitored.

Council Tax Base and Council Tax Referendum

The council tax system requires local householders to contribute directly to the cost of local service provision. The collection of council tax is administered by the council on behalf of itself, parish and town councils, Kent County Council, the Kent and Medway Fire and Rescue Authority and Kent Police Authority. The element of council tax that relates specifically to TDC is calculated after having taken into account expenditure needs and ability to fund these from all other income sources. The Government has determined that any council tax increases above the greater of 2% or £5 will be considered excessive and therefore any authority proposing an increase above this level will therefore be subject to consultation with the public via a referendum. The cost of such a referendum for this council would be in the region of £80k-£100k (which equates to around a 1% increase in council tax).

This MTFS assumes increase of circa £4.95 year on year and the 2017-18 increase is proposed to be £4.95 equivalent to 2.31%. The tax base upon which the council tax is set has been agreed as 42,069 Band D equivalents for 2017-18. This reflects a proposed collection rate of 97.25% which is considered reasonable in light of recent payment trends.

The Local Context

Quality Services Directed Towards Community Priorities

District councils have a duty to provide a range of services for the local community and visitors and much of these services are governed by statute. Although this sets out what the council must do, there is often some choice as to how it is done. For example, there is a legal responsibility to collect refuse, however there is a choice as to frequency and method of collection.

Each local area or district will have its own particular needs and so, in addition to its statutory services, most authorities also provide a range of services that are discretionary, where it believes the outcomes of providing a particular service are worth the inputs in terms of resources needed.

As part of the development of the Budget and MTFS, all statutory services should be adequately resourced and discretionary services for which funding is to be provided should deliver beneficial outcomes that are proportional to the cost of providing them.

The constraints on the budget mean that services and future developments need to be prioritised. In some cases, planned service enhancements have had to be scaled back and future investments re-phased. The council previously adopted new ways of working, including shared services, to enable it to concentrate on the core council aims whilst still

delivering basic council services well. There remains a commitment to promoting a culture of continuous improvement to ensure there delivery of good value for money.

The Corporate Plan Framework

The Council's Corporate Plan has been approved for the period 2015-19. The plan sets out the council's programme of priorities for the four year period and identifies three core aims that will help focus efforts towards achieving the vision:

Priority 1: A clean and welcoming environment – We want to encourage pride in our district by keeping Thanet clean. We are determined frontline services get it right.

This will involve us:

- Continuing to improve waste and recycling services, reducing waste and increasing recycling.
- Keeping streets, parks and open spaces clean for residents and visitors
- Maintain zero tolerance to encourage positive behaviour to help improve our environment

Priority 2: Supporting neighbourhoods – We will work with partner agencies through the Thanet Health and Wellbeing Board to support people to make better lifestyle choices and operationally though our range of services provided directly to residents;

This will involve us:

- Continuing our commitment to work with the public, private, voluntary and community sector to ensure the best outcomes for Thanet.
- Ensuring local residents have access to good quality housing, which meets people's changing needs and aspirations that is safe and affordable.
- Continuing to work with partners to improve community safety.
- Proactively enabling a collaborative partnership to reduce health inequalities.

Priority 3: Promoting inward investment and job creation – Our vision is to accelerate growth and achieve greater economic prosperity for our district. We will seek opportunities for inward investment, high quality job creation and work with partners to ensure we have the right skills, infrastructure and plans in place.

This will involve us:

- Actively seeking inward investment, exploring the potential for using Enterprise Zones; encouraging new and existing businesses which support growth in the local and visitor economy.
- Working with partners to make the most of buildings and land we own. Maximising commercial opportunities for key assets.
- Writing a Local Plan which sets planning strategies and policies that support growth of the economy.
- Working with education training providers to develop the skills agenda for the benefit of residents and local businesses.

The Council has agreed a list of corporate values to identify the way the council will work in order to deliver its priorities and these are as detailed below:

Value 1: Delivering value for money – Transforming and targeting resources to deliver services in a cost effective and efficient way that is open, honest, accountable and sustainable financially.

Value 2: Supporting the workforce – Maintaining a skilled and motivated workforce that are encouraged to achieve high performance standards encouraging new ways of working and new ideas, whilst delivering a good quality of customer service.

Value 3: Promoting open communications – Listening to the needs of the community and using this information to continue to improve our services Providing clear, meaningful and timely communication in the most efficient manner in a way that is easy to access and understand.

Co-existing alongside the Corporate Plan are a number of other service related plans, such as the HRA Business Plan individual service plans, and capital and asset management strategies.

This Medium Term Financial Strategy and the Annual Budget Report provide a key link between all of these plans. They underpin all of these other strategic documents, by translating the plans, actions and non-financial resources into financial terms so as to evidence their affordability and sustainability. In addition to presenting the budget projections of the council's plans, these financial strategy documents cover the planned approach to the financial management arrangements needed to obtain the maximum value from the council's assets.

The General Fund Revenue Account

Overview

The General Fund Revenue Account is charged with any expenditure incurred on delivering services or meeting day to day expenses that are not covered by legislation relating to the Housing Revenue Account, or can not be treated as capital expenditure. The majority of Thanet's expenditure (circa 90%) is charged here.

Expenditure is funded from income raised through charging for goods and services (except if it relates to council houses or is of a capital nature) plus grants and council tax.

Fees and Charges

The fees and charges policy establishes the corporate principles for charging for services. The three key principles are:

- Compliance with all legal requirements for setting charges and income generation. Where appropriate, this will override other factors to ensure the risk of legal challenge is minimised.
- The charging arrangements for any service should meet the full cost of providing the service where possible and include sound arrangements for income collection. The full cost of provision includes a share of central costs and a forecast for the effects of inflation.
- The appropriateness of charges set may be dependent on the wider aims and context of the service and as a result other aspects, such as the impact on service users, must be considered rather than just financial gain when setting fees and charges.

To adhere to these principles, the following guidelines are used when setting fees and charges each financial year:

- Charging decisions will be taken in the context of the council's priorities as set out in its Corporate Plan;
- Access, affordability and elasticity of demand will be considered;
- Charges will be consistent with the council's policies e.g. consideration will be given to any disproportionate impact on vulnerable groups and those least able to pay;
- Where services are provided on a trading basis, charges will be set at the maximum level the market can bare without eroding demand such that the overall financial position of the service offering is weakened;
- Charges will be benchmarked with comparable local authorities and where they are identified as being significantly lower than in other comparable authorities, increases will be fast tracked in order to bring them in line;
- Any exemptions and concessions on standard charges will be clearly justified. They will only be provided for services where benefits to the recipient groups are clearly evidenced. The council will consider the adoption of a concessions policy as part of the review of fees and charges to help address inequalities within the district. Any approved policy will be included on the council's website; and
- Enforcement charges will be set at a level proportionate to the nature of the offence and comparable charges in comparable authorities.

Application of these guiding principles aims to ensure that fees and charges are set within a framework of value for money management; whereby financial, performance, access and equity are considered fully and appropriately and decisions taken represent a transparent and balanced approach.

External Funding

Historically, the council has been very successful at attracting external funding. External funding is potentially a very important source of income to the council, but funding conditions need to be carefully considered to ensure that they are compatible with aims and objectives. The external funding and grants protocol standardises the process relating to external funding to ensure consistency and clarity and to protect the council from unidentified risks. The protocol has improved processes over external funding streams by:

- Identifying and publicising the terms and conditions relating to external funding;
- Ensuring risks associated with external funding are identified, considered and managed;
- Ensuring exit strategies are considered where appropriate;
- Ensuring that all financial implications are identified e.g. match funding requirements and ongoing unsupported revenue costs;
- Ensuring that legal and VAT issues are identified and considered;
- Ensuring capacity issues are considered i.e. do we have the resources to deliver the project?
- Ensuring that the external funding being sought is considered within the context of the Corporate Plan and council priorities;

- Ensuring that projects are monitored and that evidence and output data required by funders is collected, and any issues around these areas are highlighted in a timely manner;
- Increasing robustness particularly when there are staffing changes;
- Clarifying roles and responsibilities.

Developing the General Fund Revenue Budget

The General Fund Budget Strategy

Fundamental to the development of the budget and Medium Term Financial Strategy is an overarching Budget Strategy, the objective of which is a safe and sustainable budget that will deliver the policies and aspirations of the Council over the medium term. The strategy was noted by Council on 1 December 2016 and is as below:

- To adequately resource the council's statutory services and the corporate priorities as set out within the Corporate Plan.
- To maintain a balanced General Fund such that income from fees and charges, council tax and Government and other grants is sufficient to meet all expenditure.
- To maintain council tax increases as low as possible to avoid a local referendum, subject to a satisfactory level of Government Grant.
- To maintain the General Fund Reserve at a level that is sufficient to cover its financial risks and provide an adequate working capital.
- To maximise the council's income by promptly raising all monies due and minimise the level of arrears and debt write offs, so as to optimise its treasury management potential.
- To actively engage local residents in the financial choices facing the council.
- To minimise the impact on the general public and business communities from charges levied by the council as set out within its approved fees and charges.

These principles will enable the development of a budget that is sufficient to meet the council's ongoing day to day business activities as well as progress its priorities as contained within the Corporate Plan. Such clear linkages between financial and business planning are the cornerstone of robust budget management practices.

The budget for 2017-18 and the three years that follow is developed by building in anticipated inflationary increases and budgetary growth needed for service developments, after which planned savings, growth in income and the use of reserves are reflected. This all has to be done so as to keep to a minimum the resulting increase in council tax.

The Budget Build Process

The paragraphs that follow show how the base budget for 2017-18 is created.

Budgetary Pressures

Each of the different types of base budget pressure is discussed in turn below:

Employee Costs – A large proportion of expenditure is on staff related costs, the majority of which relates directly to service delivery. For the purposes of presenting an illustrative model of the impact of the budget strategy contained within this MTFS, a vacancy level of 1.96% of the employee budget has been assumed along with a provision for Pay for Contribution and cost of living.

Other Inflationary Increases – As a general rule, there is no provision for price increases on goods and services, so increased costs need to be contained within existing budgets or a better price needs to be negotiated with suppliers. The only budgetary growth for price increases built into the budget is where it is unavoidable, such as where it is part of the terms of an existing contract or for supplies such as energy and fuel. Where provided for, contractual increases are derived from that specified in the contract. The inflationary growth has been increased in 2017-18 to reflect the increase in insurance costs due to changes in the Insurance Premium Tax.

Service Delivery Pressures –Given the economic context, the overarching approach to developing the budget is to keep budgetary growth to a minimum to reduce the need to find compensating savings to deliver a balanced budget. Some budgetary growth is inevitable and therefore an allowance has been made for enabling the delivery of income generation and cost savings and to deliver corporate priorities.

Increase in Fees and Charges – Fees and charges have been increased in line with benchmarked data for other service providers, there are also a number of new schemes. However, the level of some fees and charges are set by statute (e.g. planning fees) and some services are required to set their fees to break-even over a three year period (e.g. land charges), therefore the fees for these services will be increased accordingly.

Themes for delivering the Medium Term Financial Strategy

Projecting funding for 2017-18 onwards is challenging in light of the localisation of business rates and New Homes Bonus changes, but there is now more certainty regarding the four year settlement. What is clear is an overall reduction in Government funding over the medium term. In light of this, some broad themes are being pursued which will enable a balanced budget and a robust MTFS:

- **Income Generation:** A range of reviews are under way to generate new and additional income. These reviews are: creation of a housing company; fundamental review of car parking; power generation on council owned sites; commercial charging for minor works and workshop; and a review of Planning.
- **Making the most of the assets we own:** A revised Asset Management Strategy will be key to working with partners to maximise the benefits of the buildings and land we own. We will seek commercial opportunities for key assets including changing use, sharing facilities and disposal as well as investing in assets to earn a return.
- **Alternative Delivery Vehicles:** There may be better ways of delivering services to achieve improved outcomes; just because services have been delivered in a certain way in the past, it doesn't mean the same service delivery model should continue. Thanet already has shared services regarding revenues and benefits, ICT, customer services, audit and social housing; it already outsources some services such as leisure. It is actively looking at new models as part of the income generation initiatives above.
- **Digitalisation:** The Implementation of a digital strategy will help achieve efficiencies by streamlining back-office processes and improve front line services by providing them in a modern form more relevant to today's digital age. Work is under way with various partners to review in real terms the benefits of this moving forward.

Table 4

The Medium Term General Fund Revenue Budget 2017 – 2021

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Opening Base Budget	19,159	18,079	16,815	16,494
Budget Pressures including Inflation	1,070	514	374	384
Savings Income Generation	-890	-600		
Savings Efficiencies	-770	-100	-100	-100
Fees and Charges	-490	-240	-240	-240
Future year reviews	0	-988	-505	-304
Contribution to reserves	0	150	150	150
Net Service Revenue Budget	**18,079**	**16,815**	**16,494**	**16,384**
Use of Earmarked Reserves	-490	-40	-40	-40
Net Revenue Budget Requirement	**17,589**	**16,775**	**16,454**	**16,344**

General Fund Reserve

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

Earmarked Reserves

In addition to the General Reserve, a number of earmarked reserves are set aside for specific purposes. Essentially these allow funds to be saved over a number of years for large and often one-off items of expenditure, thereby smoothing the impact on council tax.

The earmarked reserves over the medium term are shown below. Where the exact demand on the reserve is not known sufficiently far enough in advance over the medium term, no estimates are allowed for within the MTFS.

The council has faced a number of one off costs over the past year and in order to meet its liabilities has had to undertake a review of all reserves and the projects they have been set aside to deliver. It is intended, as parts of the MTFS, to generate sufficient savings/surplus over the next few years to be able reinstate the reserves utilised in 2017-18.

Table 5

The Earmarked Reserves over the medium term are listed overleaf:

- Director of Corporate Resources and S151 Officer (DCR/S151)
- Director of Corporate Governance (DCG)
- Director of Community Services (DCS)
- Director of Operational Services (DOS)
- Chief Executive (CEO)

Reserve	Description	Approval
Capital Projects	Revenue monies and other contributions set aside for capital projects.	DCR/S151
Council Elections	This is a saving account for the elections which occur every four years.	DCG
Cremator and Cemeteries	The Council has an obligation to be environmentally compliant. A surcharge on both cremations and burials is set aside in this reserve to support cremator burner replacement and works required at the cemeteries.	DOS
Decriminalisation Fund	The Council administers on street parking but has to account for the income and expenditure separately. This reserve holds any unused revenues from parking charges. These are used to fund future parking, transport or environmental improvement related schemes.	DCR/S151
Destination Management	This reserve is for enhancing council assets that help to support and encourage tourism.	DCR/S151
Dreamland Reserve	This reserve has been set up to bolster the contingency for the Dreamland project.	DCR/S151
East Kent Services Reserve	This reserve is ring fenced for future investment within the services delivered by East Kent Services to enable further savings to be identified in future years.	DCR/S151
Economic Development & Regen	This reserve is to cover one off service improvements and initiatives within Economic Development and Regeneration, including feasibility works and match funding.	DCS
Asset Management reserve	To make provision for necessary essential repairs and maintenance and minor improvements to the Council's assets.	DCR/S151
Homelessness Fund	This represents the roll forward of any underspends on the service to be used for future expenditures due to the volatility of this area.	DCR/S151
Housing Intervention Reserve	To fund anticipated costs associated with the Authority's Intervention Schemes.	DCS

Information Technology Investment	To control and enhance the development of new Information Technology initiatives with the objective of improving efficiency throughout the Council's activities.	DCR/S151
Insurance Risk Management	To meet potential increases in insurance premiums and to cover the cost of large excesses relating to insurance claims as well as unforeseen one-off risk related expenditure.	DCR/S151
Local Development Framework/Local Plan	Due to the variable profile of spend on this activity and the variable cost in relation to consultation and inspection, any underspend is set aside to be drawn against as and when required.	DCS
Maritime Reserve	To fund potential future works at the Port and Harbour and for income protection/maximisation works.	DOS
New Homes Bonus Reserve	This reserve holds the balance of monies from the New Homes Bonus.	DCR/S151
NDR Equalisation	To offset significant variations from one year to the next. To set aside underspends that arise in this area as a contingency for future years. This reserve will support any potential shortfall in business rates, under the business rates retention scheme, as well as benefits subsidy movements.	DCR/S151
Pay & Reward Reserve	To be used to fund costs associated with the implementation of the Pay and Reward Scheme using past set aside vacant post savings.	CEO
Pensions Fund	Due to the uncertainty around Pensions any pension underspends identified are transferred to this reserve in order to mitigate future risk.	DCR/S151
Priority Improvement Reserve	This reserve is for one-off projects and pump priming investment into service improvements.	DCR/S151
Slippage Fund	To set aside sums at year end to meet ad hoc and specified liabilities on the General Fund which, due to timing difficulties, cannot be spent until after the 31 March.	DCR/S151
Strategic Reserve	This reserve is used to help facilitate the delivery of strategic objectives	DCR/S151
Unringfenced Grants	Any underspend against unringfenced grant funding is set aside in this earmarked reserve to be utilised in future years.	DCR/S151
VAT Reserve	To hold funds reimbursed in relation to our Fleming claim and will be used to cover any costs associated with a breach in the exemption calculation or to cover the cost of VAT advice	DCR/S151

HRA Properties Reserve	This is held to support the purchase and refurbishment of HRA properties. Its usage is ring-fenced for the HRA.	DCS

The General Fund Revenue Budget Requirements

All of the stages in developing the General Fund Revenue Budget that have been described above have been used to calculate the estimated budget requirement for 2017 – 2021 which are presented in summary in Table 5.

Funding the Medium Term General Fund Revenue Budget

Local Government Finance Settlement

The provisional Local Government Finance Settlement indicates figures for 2017-18 regarding NDR baseline funding, RSG and NHB. Together, the proposed 2017-18 sum for these funding streams is 13% less than the equivalent 2016-17 figure. The Settlement also included the agreed NDR baseline and RSG figures for 2018-19 and 2019-20.

New Homes Bonus

The New Homes Bonus (NHB) rewards local authorities that deliver sustainable housing development. Local authorities receive a New Homes Bonus equal to the national average for the council tax band on each additional property built in the area in the preceding year. This scheme which was previously paid for the following six years will now be paid for five years (in 2017-18) and four years thereafter. Additionally, there is a new threshold introduced, below which no NHB is paid. This threshold has been set at 0.4% of total dwellings, i.e. the first 0.4% of growth will not attract NHB. For Thanet, this results in a NHB loss in the order of £200k-£250k. The council has for some time treated NHB as part of its core government funding.

Council Tax

The council sets its net budget requirement (after having taken account of increased income from charges and the use of reserves) which is then part funded from Government grants and part from council tax. The total amount that is needed to be raised by council tax is known as the Precept. This is divided by the total number of equivalent Band D properties (the tax base) in order to calculate the individual council tax band amounts. For medium term planning purposes, the level of growth in the tax base has been assumed to be 2% for future years.

The council's budget plans, grant predictions and the assumed council tax base give the projected levels of council tax increases which are shown in Table 6 below.

Table 6

The Medium Term Revenue Funding Summary 2017 - 2021

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Net Budget Requirement	**17,589**	**16,774**	**16,454**	**16,344**
Funded From:				
RSG	1,446	809	98	0
NDR Baseline	4,716	4,855	5,010	5,010
New Homes Bonus	1,877	1,163	989	755
Collection Fund Surplus	100	100	100	100
Business Rate Retention	200	200	200	0
Council tax	9,250	9,647	10,057	10,479
Council Tax Base	42,069	42,910	43,768	44,644
Band D Council Tax				
£ Increase in Band D Council Tax	£4.95	£4.95	£4.95	4.94
% Increase in Band D Council Tax	2.31%	2.25%	2.20%	2.15%

The Housing Revenue Account

Overview

The council is required by the Local Government and Housing Act 1989 (section 74) to keep a Housing Revenue Account (HRA) which records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is heavily prescribed by statute and the council is not allowed to fund any expenditure for non-housing related services from this account.

The HRA 30 Year Business Plan

The current HRA Business Plan is forecast to fall into deficit post 2024 and further work is required to identify sufficient efficiencies to allow for a sustainable 30 year HRA Business Plan. A new detailed financial model has recently been purchased and both Finance and the Head of Housing will work together to remodel a sustainable plan. This will include a review of charges and costs from the General Fund, maximising income generation opportunities such as aerial rental charges, contract efficiencies through East Kent Housing by procuring with neighbouring councils and asset management.

In April 2015 the government announced a proposal to require that local authorities sell high value stock to fund the extension of Right to Buy to housing association tenants. As detailed in the Housing and Planning Act 2016, the Secretary of State has the power to make a council sell a proportion of their vacant stock to pay a 'high value asset levy' which will reflect the high value homes they are expected to sell. To finance the payment, an authority must consider selling its interest in any higher value housing that has become vacant. In November 2015 councils had to provide detailed stock data. However, the determination defining higher value and the method for calculating the amount of payment due to the Secretary of State has yet to be determined. Until further information is available it is has not been possible to understand the financial impact on the HRA Business Plan.

A stock condition survey was commissioned in 2016-17 to re-evaluate the council's housing stock to ensure that we continue to meet Decent Homes Plus standard. The survey results are due in March 2017 from which an Asset Management Strategy and Stock Options

Appraisal will follow in 2017-18. The financial impact of this will be modelled as part of the HRA 30 Year Business Plan review.

Developing the Housing Revenue Account

The Housing Revenue Account Budget Strategy

The main strategic objectives of the Housing Revenue Account, which provide the underlying principles for financial planning, are summarised in the box below. This strategy accords with the current HRA 30 Year Business Plan and has been used as the basis on which this Medium Term Financial Strategy has been developed.

The Council's Housing Revenue Account Strategy is:

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

As with the General Fund Revenue Account, the HRA budget is arrived at after the consideration of inflationary increases; growth in expenditure arising from service led demands and other pressures; reductions in expenditure through the realisation of efficiencies; and changes in income through rent increases and the impact of the sale of council houses.

Budgetary Growth

Contract and Price Inflation - For direct expenditure budgets, price increases have been included at 2%. Where there is a known inflate within a specific contract, this has been used.

Increased Income

The council receives income from a variety of sources in respect of its council houses, including that raised from rents and from service charges to residents of flats for communal services in order to recover its costs.

Rents – As part of the Summer Budget 2015 the Government announced that both Social and Affordable Rents would be reduced by 1% a year for four years resulting in a 12% reduction in average rents by 2020-2021. Over the rental decrease period of 2016-17 to 2019-20 it is estimated that the impact on the HRA Business Plan will be a loss in rental income of £4.56m. Future years' estimates in the MTFS after 2020 assume a 1% inflationary increase. Garage rents have been maintained in line with market rents.

Service Charges – A review of the service charges within the HRA has been undertaken to take into consideration Welfare Reform changes, Department of Work and Pensions requirements and feedback from the Tenant Board. Service charges are recovered at actual cost.

HRA Investment Income – This consists of interest accruing on mortgages granted in respect of Right to Buy sales and interest on HRA balances. The base rate has remained low, which in turn means that investment interest will be low. The budget for 2017-18 of £55k is based on achieving an average interest rate of 0.25%.

HRA Reserves

The Council keeps three HRA specific reserves: the HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties Reserve. These are explained in more detail below.

Housing Revenue Account Major Repairs Reserve – An amount equivalent of the actual depreciation charge for dwellings is transferred to the Major Repairs Reserve to fund capital works to the existing stock. The estimated transfer to the Major Repairs Reserve for 2017-18 is £3.08m.

This funding, together with previous allocations of supported borrowing and revenue contributions, with good management, has enabled the council to maintain the housing stock in a good condition. The council currently maintains its social housing to Decent Homes Plus standard. As at 1 April 2016 this reserve balance was £7.1m.

Housing Revenue Account Balance Reserve – This reserve holds the balance on the HRA and is used to draw down to balance the revenue budget and smooth any peaks and troughs within the 30 year business plan. It is maintained by annual contributions from the HRA. As at 1 April 2016 this reserve balance was £5.29m.

Housing Revenue Account New Properties Reserve – This reserve holds funds set aside to fund either new build properties or the acquisition of suitable properties for use within the HRA. Earmarked match funding for the Margate Intervention and New Build Programme has been set aside in this reserve as agreed by Cabinet. As at 1 April 2016 this reserve balance was £5.46m and is due to be drawn down during the 2017-18 and 2018-19 programmes. Income generated from affordable rents will continue to be set aside in this reserve for re-investment in a new build programme.

The Medium Term HRA Budget Requirements

The changes that are outlined in the aforementioned paragraphs have been applied to the 2017-18 budget for the Housing Revenue Account and the resulting financial projections for the HRA over the next four years are summarised in Table 7:

Table 7

The Medium Term Housing Revenue Account Budget 2017 – 2021

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
EXPENDITURE				
Repairs and maintenance	3,486	3,548	3,611	3,675
Supervision and management – General	3,213	3,213	3,100	3,100
Supervision and management – Special	666	674	683	692
Rents, rates, taxes and other charges	241	249	258	267
Bad or doubtful debts provision	170	170	170	170
Depreciation/impairment of fixed assets	3,300	3,300	3,300	3,300
Debt Management Charges	9	9	9	9
Non-service specific expenditure	800	800	800	800
Capital expenditure funded from HRA	350	1,015	1,150	1,150
Gross Expenditure	**12,235**	**12,978**	**13,081**	**13,163**
INCOME				
Dwelling Rents (gross)	-12,913	-12,837	-13,067	-13,264
Non-dwelling Rents (gross)	-178	-178	-178	-178
Charges for services and facilities	-453	-453	-453	-453
Contributions towards expenditure	-290	-290	-290	-290
Income	**-13,834**	**-13,758**	**-13,988**	**-14,185**
Net Costs of Services	**-1,599**	**-780**	**-907**	**-1,022**
HRA Investment Income	-20	-47	-90	-128
Debt Interest charges	1,024	1,019	990	994
Adjustments made between accounting basis and funding basis	-389	439	-389	-389
(Surplus)/Deficit on HRA	**-984**	**631**	**-396**	**-545**
Housing Revenue Account Balance:				
Surplus(-)/Deficit at Beginning of Year	-4,751	-5,735	-5,104	-5,500
Surplus(-)/Deficit For Year	-984	631	-396	-545
Surplus(-)/Deficit at End of Year	**-5,735**	**-5,104**	**-5,500**	**-6,045**

The Capital Programme

Overview

Maintaining and improving the council's infrastructure requires considerable resources and typically it covers three types of investment:

- Premises;
- Information and communication systems; and
- Vehicles and equipment.

Investment in such infrastructure qualifies as capital expenditure when it results in an asset that costs over £10k and has a useful life of more than one year. It can be funded from loans, capital receipts, capital grants and contributions from revenue.

Assets bought in this way form part of the 'worth' of the organisation, appearing on its balance sheet for years to come until disposed of. Due to the longer term nature of capital projects and the different funding sources that are available, the capital budget is shown separately to the revenue budget.

The council's Asset Management Strategy outlines the principles, criteria and processes that form the cornerstone of the following draft Capital Programme. This requires a continual assessment of the relative value of an asset (both financial and non-financial) in order to ensure that investment in assets is working to optimum effect. This is especially important in the current financial climate, where assets that are no longer viable or surplus to requirements need to be disposed of in order to reduce liabilities and to generate capital receipts to fund new developments or be transferred for community benefit.

Developing the Medium Term Capital Programme

The Capital Budget Strategy

The Capital Programme has been developed following the principles that are laid out in the capital budget strategy which is shown below.

The Capital Budget Strategy is:

- To maintain an affordable four-year rolling capital programme.
- To ensure capital resources are aligned with the council's strategic vision and corporate priorities.
- To undertake Prudential Borrowing only where there are sufficient monies to meet in full the implications of capital expenditure, both borrowing and running costs.
- To maximise available resources by actively seeking external funding and disposal of surplus assets.
- To engage local residents in the allocation of capital resources where appropriate.

Due to the limited availability of capital receipts and the need to contain the level of borrowing, the Capital Programme was reviewed to ensure sufficient funding is available for existing schemes that have commenced and that any new projects are of the highest corporate priority.

Planned investments

The Capital Programme has been very much driven by those capital schemes that are predominantly core priorities, have health and safety implication or deliver a revenue saving to the authority and sustainable income streams. The public budget consultation exercise has also been used to identify where funding should be prioritised.

The main capital projects that are planned in the medium term are outlined below:

Existing Programmes already agreed – Programmes already agreed from previous years within the four year programme are the Disabled Facilities Grant, Jackey Bakers Enhancements, Marina Management System, Boat Wash Separator, Property Enhancement Programme, Sea Wall Work East of Epple to Westgate Bay (now Minnis Bay to Grenham Bay), Operational Services Vehicle Replacement Programme, Thanet Crematorium Memorial Chapel Area, Ramsgate Port & Harbour Low Carbon Plan, Dalby Square, CCTV, Ramsgate Port Berths and Ramsgate Main Beach Timber Groyne Installation.

New Capital Projects

In-Cab and Back Office System for Refuse Collection - To allow better management of service delivery and a reduction of missed bins and service requests

Ramsgate Harbour Installation of Aquastores - To provide an innovative combination of bespoke storage containers and access solutions for vessels in the boat park.

Ramsgate Harbour Replacement of Self Storage Containers - To replace the existing containers which have reached the end of their service lives and respond to customer demand by increasing by a further nine units.

Dreamland Car Park Enhancement - To provide better management of the estate by improving the drainage and layout to maximise income and provide a permanent solution to the lighting scheme within the car park

Louisa Bay to Dumpton Gap Sea Wall Work, Westbrook to St Mildred's Sea Wall Work, Viking Bay Flood Defence Scheme, Stone Bay Sea Wall Work – Replacement/new sea defence measures against flooding and erosion risks in conjunction with the Environment Agency.

Thanet Groyne Reconstruction - To enable a greater level of sand retention on the beaches of Thanet in association with the Environment Agency

Mill Lane and Leopold Street Multi-Storey Car Parks - To take up the option within the existing agreements to purchase these two car parks, of which the council is currently the lessee

Better Care Fund - For the provision of services and investment that co-ordinate health, housing and social care services and help to ensure that vulnerable and disabled people are better able to remain living within their own home.

Ramsgate Harbour Water Supply Upgrade - To complete the water supply upgrade at Ramsgate Harbour to comply with water supply regulations

Margate Harbour Railings and Lighting - To improve safety for residents and visitors at Margate Harbour

Ramsgate Harbour Railings - To improve safety for residents and visitors on Military Road and alongside the Western Inner Marina at Ramsgate Harbour

The absence of a new Asset Management Plan and comprehensive disposals programme has made it difficult to forecast the estimated capital receipt income anticipated over the next four years. A further project has been identified as scoring suitably for consideration within the capital programme. However, until the asset disposal process commences it is not possible to identify sufficient funding within the current asset disposal programme and therefore the project has been placed on a reserve list in the event that the asset disposal programme over-achieves on the current projected receipts in 2017-18. The project is detailed below:

Re-Decking of Pontoon Walkways and Finger Pontoons within the Inner Basin at Ramsgate Royal Harbour- To replace the wooden decking of the structures with open mesh composite, Estimated capital cost is £300,000 spread over 3 years

Council Housing – The Housing Revenue Account Capital Programme has been set to ensure that the authority's social housing stock meets Decent Homes Standard Plus and provides a continuing maintenance scheme to the Council's housing stock.

The Margate Intervention programme sets out to transform the housing market in two of Britain's most deprived wards: Clintonville West and Margate Central.

With the flexibilities now available as part of the self-financing changes, the council is currently developing the HRA Asset Management Strategy to review land and buildings within the HRA, including garage sites, to ensure they are being put to best use and obtaining value for money for the tenants This has been the driving factor towards the first tranche of a new development programme for the HRA consisting of 57 new units. It has also led to the sale of a number of units at Coastguard Cottages being disposed of due to the cost of the large scale of investment required, which has generated a substantial receipt for re-investment into new affordable home programmes.

However, given the recent changes with regard to rent setting reductions and the proposed sale of higher value council homes to generate a levy payable to Government, the council will need to undertake regular project delivery reviews with regard to the new and affordable homes programmes to ensure affordability and sustainability within the set budget. The financial impact of the changes has put the housing account under considerable pressure to deliver schemes that have already been agreed and reduces the anticipated level of HRA balances available to contain any overspends or slippage.

Details of the planned capital projects for the next four years are summarised later in Table 8.

Capital Funding Sources

The capital investment proposals contained within this MTFS rely upon an overall funding envelope made up of a number of sources, including borrowing, capital receipts, capital grant and revenue contributions.

Borrowing

The Local Government Act 2003 gave local authorities the ability to borrow for capital expenditure provided that such borrowing was affordable, prudent and sustainable over the medium term. The council has to complete a range of calculations (Prudential Indicators) as part of its annual budget setting process to evidence this. These make sure that the cost of paying for interest charges and repayment of principal by a minimum revenue contribution (MRP) each year is taken into account when drafting the Budget and Medium Term Financial Strategy. Over the course of this MTFS, prudential borrowing of £4.036m has been assumed for the General Fund Capital Programme in 2017-18. A housing debt cap of £27.792m has been set for the council's HRA, being the maximum amount the HRA can borrow.

Capital Receipts

Capital receipts are generated when a fixed asset is sold and the receipt is more than £10k. Capital receipts can only be used to fund capital expenditure. All of the receipts from the disposal of an asset on the General Fund (i.e. for its main services) can be retained. In 2012 Ministers raised the cap on Right to Buy discounts to £75k and confirmed that receipts from the additional sales this would generate would be used to fund replacement stock on a one for one basis. At the same time, Ministers confirmed that their favoured option of delivering these new homes would be through local authorities retaining receipts to spend in their areas. In order to keep these additional receipts it was necessary to enter into an agreement with the Secretary of State for Communities and Local Government. This allows the council to retain additional Right to Buy receipts over and above that budgeted by Treasury. Under this regime Treasury receive 75% of income on sales for approximately the first four Right to Buy properties and the council is able to keep all of the sales income over and above.

The Asset Management Strategy (AMS) – The Council's planned level of capital expenditure means that significant levels of asset sales are required. The AMS provides a framework for determining which of the council's assets are suitable for disposal in order to fund new investments that will ensure that its property portfolio is fit for purpose. The absence of a new Asset Management Plan and comprehensive disposals programme has made it difficult to project the estimated capital receipt income anticipated over the next four years. Over the course of this MTFS the new AMS will enable the identification of a number of assets that can be disposed of with minimal detriment to service delivery, and yet improve the overall value for money derived from the asset portfolio. The affordability of the Capital Programme has been based on the assumption of a certain level of capital receipts being generated. As the value of receipts can be subject to change, the Capital Programme will be continuously reviewed and monitored.

Capital Grant

The council receives additional grant funding for a variety of purposes and from a range of sources. These include Communities and Local Government funding for Disabled Facility Grants, Lottery funding and European grants.

Revenue Contributions

General Fund Contributions - Although the council can use its General Fund revenue funds to pay for capital expenditure, as it has in the past, the current financial constraints on the revenue budget mean that this is no longer a common funding source.

HRA Contributions – Funding for capital expenditure on houses can be met from within the HRA. The future funding requirements will be informed by the revised 30 year HRA business plan.

Capital Reserves

HRA Capital Reserves –An amount equivalent of the actual depreciation charge for dwellings is transferred to the Major Repairs Reserve to fund capital works to the existing stock This is exclusively available for use on HRA capital expenditure.

Capital Projects Reserve – It is anticipated that this reserve will be fully utilised to help fund the 2016-17 Capital Programme.

The investment plans and the use of the different funding streams produce the budget for the General Fund Capital Budget that is shown in Table 8.

Table 8

The Medium Term General Fund Capital Budget

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Statutory and Mandatory Schemes	1,600	1,600	1,600	1,600
Schemes continuing from prior years	250			
Annual Enhancement Schemes	580	330	580	2,285
Wholly Externally Funded Schemes	1,981	1,437	942	2,742
Replacements and Enhancements	3,753	50	50	3,000
Area Improvement				
Capitalised Salaries	75	75	75	75
Total Capital Programme Expenditure	**8,239**	**3,492**	**3,247**	**9,702**
Capital Resources Used:				
Capital Receipts and Reserves	782	205	205	310
Capital Grants and Contributions	3,421	3,037	2,542	4,342
Contributions from Revenue	0	0	0	0
Prudential Borrowing	4,036	250	500	5,050
Total Funding	**8,239**	**3,492**	**3,247**	**9,702**

The plans that exist for capital investment into the council's housing stock are reflected in Table 9. The information in Table 8 and Table 9 comprise the Medium Term Capital Programme.

Table 9

The Medium Term Housing Revenue Account Capital Budget

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Total HRA Capital Programme Expenditure	**3,255**	**4,160**	**3,325**	**3,225**
HRA Capital Resources Used:				
HRA Major Repairs Reserve	2,905	3,145	2,175	2,075
HRA Revenue Contributions	350	350	425	425
New Properties Reserve		665	725	725
Total Resources	**3,255**	**4,160**	**3,325**	**3,225**

Treasury Management

The treasury management service is an important part of the overall financial management of the council's affairs. Treasury management can be defined as the management of investments and cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Its activities are strictly regulated by statutory requirements, the CLG's Investment Guidance and the CIPFA Treasury Management Code.

Prudential Code – The Local Government Act 2003 requires the council to have regard to the CIPFA Prudential Code and the production of Prudential Indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the underlying capital appraisal systems. As part of the budget process, the council approves a series of Prudential Indicators that demonstrate that its activities are affordable, prudent and sustainable.

Investment Strategy – The primary principle governing the investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the prudential indicators covering the maximum principal sums invested.

The Bank Rate was cut from 0.5% to 0.25% in August 2016 and therefore investment returns have been very low. Investments are regularly reviewed with a view to try and take advantage of the best rates available whilst minimising exposure to counterparty risk.

Councils should invest prudently and primarily seek to safeguard public funds rather than maximise returns. Security and liquidity should therefore take priority over yield. TDC is diligent in ensuring that monies are only placed in secure and liquid investments and also uses a wide range of information to ensure it is making informed investment decisions.

Borrowing – Active management of the debt portfolio is an important part of the treasury management function. The council takes a cautious approach to its borrowing strategy. The Section 151 Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecasts. There will need to be additional borrowing over the next few years to refinance maturing debt and for capital programme purposes. Decisions regarding options to take out borrowing or rescheduling or repaying debt will be taken in light of market conditions.

There are a number of factors that could impact on the interest payable/investment income:

- Bank Rate set by the Bank of England
- PWLB borrowing rate
- Cash flow variations
- Sums lost due to imprudent investment

These risks have been mitigated by seeking professional advice on interest rate forecasts, carefully modelling cash flow against anticipated financial forecasts and only investing with counterparties that meet the credit criteria set out in the Treasury Investment Strategy.

Managing the Financial Risks

With budgeted expenditure of over £70m and income targets of over £50m just for the General Fund alone, it is fundamental to the financial standing of the council that its budgets are realistic, affordable and meet its service requirements.

A number of different techniques have been employed to ensure that this Medium Term Financial Strategy represents an affordable needs-based budget that is robust and able to be sustained over the medium term. Each of these are discussed in turn below:

Longer Planning Timeframes – The latest government grant announcements provide a longer time period than in the past, which improves the ability to project resources over the life of the MTFS. However, there are still significant unknowns, e.g. the transition towards local government self-financing by 2020.

The Planning Cycle: Develop, Review and Revise – The Budget and this Medium Term Financial Strategy set out the expected levels of expenditure and income for the future. The estimates are arrived at through careful consideration of historic trends and actual expenditure levels and any factors which may have an impact in the future, such as known changes in legislation. It also requires a degree of estimation and assumption, such as to calculate the impact of a perceived increase or decrease in future demand as a result of demographic changes or patterns of behaviour that have a socio-economic impact. As time progresses the accuracy of the assumptions behind these figures will become clearer and in many cases will require the budgets within this MTFS to change if they are to continue to reflect the financial implications of delivering the council's aims and aspirations. There is regular monitoring through the financial year of performance against budgets and revisions and reallocations will be made where necessary, subject to remaining within the overall available funding envelope. By monitoring the actual expenditure against budget in this way, resources can be allocated to best meet the needs of the council and provide a sustainable Medium Term Financial Strategy.

Financial Risk Assessment

Even with the most sophisticated approaches to budget modelling there is always the chance that events happen which could not be foreseen and plans need to be revisited. The council holds reserves as a contingency to meet unanticipated expenditure that arises from such an unexpected change in circumstances. In order to be able to gauge the appropriate level of reserves, a detailed financial risk assessment is carried out and presented as part of the annual Budget Report. All of the main risks that face the council are considered, to assess the likelihood of the risk happening and the possible financial implications.

Sensitivity Analysis

As explained above, many of the figures contained within this MTFS are based on estimates, which could prove to be inaccurate. In order to assess the impact of the use of poor estimates a top level sensitivity analysis has been carried out, using a 10% variance to indicate the impact of that level of error in the estimate. The outcome of this is shown in the table below.

Table 10: Sensitivity Analysis

Area under consideration	Sensitivity of Estimates 2017-18
The opening base budget	The opening position of the 2017-18 budget is firm, as it is based on the budget approved in February 2016. The base for future years may change, however this would be identified as part of budget preparation work.
The pay estimates	A 10% change to the figure for pay increases that result from the pay award and pay for contribution would equate to c.£1.5m. However, such a large discrepancy would be unlikely as the pay budget is developed at a very detailed level (on a per post basis). The main impact on the accuracy of the budgets for pay headings results from vacancy estimates which are impossible to predict.
The vacancy savings and post reduction estimates	For 2017-18 the vacancy abatement saving has been budgeted at approximately £300k which is equivalent to approximately 10 posts. A variance of 2 posts equates to £60k. This will require a robust proactive approach to ensure that the savings that naturally arise due to staff turnover are retained. Based on experience in recent years, and considering the current staff turnover rate, this target is considered challenging but achievable.
Price Increases	In the main these are based on the terms of the contract. Inflation has been assumed at 2%. A 10% variance on this would equate to an increase in budget requirement of approximately £190k.
Pension Increases	As part of this year's MTFS assumptions it has been noted that the latest actuarial figures showed an increase required for pensions of approximately £340k.
The increased income targets	There is always a risk that increases in fees and charges reduce demand, which can have a detrimental impact on the budget. Some £490k has been added into the budget for 2017-18 for increased income targets; however, service managers have included within that figure an assessment of the achievability of collecting the additional income.
Other savings estimates	The budget and Medium Term Financial Strategy reflects a £100k savings expectation from EKS. A 10% change to this figure would equate to £10k. Regular monthly meetings are held with the Director of EKS to monitor budgets and performance.
The level of reserves	The level of general reserves have been determined based on a financial risk assessment which considers the likelihood of the main risks facing the council, and the possible financial implication should the risk occur. The estimated position on general reserves at year end is that they will stand at 12% of the net revenue budget which is the minimum level. Earmarked reserves are being used to enable funds provided for a specific purpose to be held until needed, and allows budgets that are needed on an irregular or periodic basis to be funded by setting aside an annual base budget at a fraction of the total cost. The funds held within earmarked reserves represent a one-off source of funding to meet planned expenditure. Their use is managed on a cash limited basis, and a shortage of reserved funds in year may be dealt with by re-phasing the expenditure, or by making use of emerging underspends.
Council Tax Reduction	The collection rate on the Council Tax base has been retained at 97.25% to reflect the collection trend within 2016-17. This will need to be carefully monitored during the

Area under consideration	Sensitivity of Estimates 2017-18
Scheme	year.
Welfare Reforms	To date there has been minimal impact from the proposed welfare reforms. Any change will impact on both the Housing Revenue Account and General Fund and will include potential increases in bad debts as a result of claimants being paid direct, being capped on the amount of benefits that they will be paid and also seeing reductions in benefit due to under-occupying accommodation; an increase in demand for smaller or cheaper accommodation; an increase in demand for debt management advice; possible increases in homelessness, as a result this will need to remain under review in terms of overall impact. Thanet District Council went live with the first tranche of Universal Credit on 12 October 2015 to date projections in relation to the number of applications provided by the Department of Work and Pensions (DWP) have been correct. As part of the implementation of Universal Credit the council was required to enter into a Delivery Partnership Agreement, as part of this partners have been identified to assist with providing budgetary support to applicants to enable them to manage their income to reduce the possibility of them falling into arrears. Budget of £50k has been set aside within the Housing Revenue Account to fund any schemes that take a pro-active approach to support Welfare Reform changes.
Settlement Funding	A 1% cut in government grant would equate to a loss of income in future years of approximately £80k. If a large business were to move out of the area or to go into liquidation, the council would face a loss in business rates income of circa £340k before the safety net mechanism would apply.

Annex 2 General Fund Draft Capital Programme

Draft Capital Programme £000	Capital Bid Score	Directorate	Estimated Slippage 2016/17	2017/18	2018/19	2019/20	2020/21
STATUTORY/MANDATORY							
Disabled Facilities Grants	104	Community Services		1,600	1,600	1,600	1,600
ONGOING SCHEMES FROM PREVIOUS YEARS							
Margate Pedestrian Connections	n/a	Community Services		24			
Dalby Square	110	Community Services	80				
CCTV	110	Operational Services	400				
Ramsgate Porth Berths	104	Operational Services	600				
Ramsgate Port & Harbour - Low Carbon Plan	101	Operational Services	239	226			
ANNUAL ENHANCEMENT PROGRAMMES							
Vehicle Replacement Programme	128	Operational Services	900	500	250	500	2,205
Property Enhancement Programme	n/a	Corporate Resources		80	80	80	80
WHOLLY/PARTLY EXTERNALLY FUNDED							
East of Epple to Westgate Bay - Sea Wall Work (now Minnis Bay to Grenham Bay)	114	Operational Services		244			
Better Care Fund	104	Community Services		742	742	742	742
Ramsgate Main Beach Timber Groyne Installation	104	Operational Services		607			
Louisa Bay to Dumpton Gap Sea Wall Work	121	Operational Services			95		1,000
Westbrook to St Mildred's Sea Wall Work	121	Operational Services			600		
Viking Bay Flood Defence Scheme	121	Operational Services				200	
Stone Bay Sea Wall Work	121	Operational Services					1,000
Thanet Groyne Reconstruction	110	Operational Services		388			
CONSTRUCTION, REPLACEMENT & ENHANCEMENT							
Thanet Crematorium - Memorial Chapel Area	110	Operational Services		40			
Ramsgate Harbour Water Supply Upgrade	102	Operational Services		50	50	50	
Margate Harbour Railings and Lighting	100	Operational Services		100			
Ramsgate Harbour Railings	106	Operational Services		100			
Jackey Bakers Enhancements	n/a	Community Services		50			
Marina Management System	106	Operational Services		78			
Boat Wash Separator	106	Operational Services		25			
In-Cab System	110	Operational Services		60			
Ramsgate Harbour - Aquastores	101	Operational Services		50			
Ramsgate Harbour - Self Storage Containers	115	Operational Services		50			
Mill Lane Multi-Storey Car Park	111	Operational Services		3,000			
Leopold Street Multi-Storey Car Park	111	Operational Services					3,000
Dreamland Car Park Enhancement	103	Operational Services		150			
Capitalised Salaries				75	75	75	75
Total for the Year			**2,219**	**8,239**	**3,492**	**3,247**	**9,702**

General Fund Draft Capital Programme Funded By

	Estimated Slippage 2016/17	2017/18	2018/19	2019/20	2020/21
Capital Receipts	1,530	582	205	205	155
Reserves	0	200	0	0	155
Capital Grants & Contributions	0	3,421	3,037	2,542	4,342
Contributions from Revenue	0	0	0	0	0
Prudential Borrowing	689	4,036	250	500	5,050
Total for the Year	**2,219**	**8,239**	**3,492**	**3,247**	**9,702**

Analysis of Prudential Borrowing	Budget Area	Estimated Slippage 2016/17	2017/18	2018/19	2019/20	2020/21	Total	MRP Life	MRP Cost £pa	Interest cost at 3% £pa
Ramsgate Port & Harbour - Low Carbon Plan	Port operations (savings)	239	226	-	-	-	465	10	47	14
In-Cab System	Recycling & refuse (savings)		60	-	-	-	60	5	12	2
Ramsgate Harbour - Aquastores	Port operations (income)		50	-	-	-	50	10	5	2
Ramsgate Harbour - Self Storage Containers	Port operations (income)		50	-	-	-	50	10	5	2
Mill Lane Multi-Storey Car Park	Car parking (savings)		3,000	-	-	-	3,000	50	60	90
Leopold Street Multi-Storey Car Park	Car parking (savings)		-	-	-	3,000	3,000	50	60	90
Dreamland Car Park Enhancement	Car parking (savings)		150	-	-	-	150	10	15	5
Ramsgate Port Berths	Port operations (income)	200					200	50	4	6
Vehicle Replacement Programme	Recycling & refuse (Existing budget and efficiency savings)	250	500	250	500	2,050	3,550	7	507	107
Total		**689**	**4,036**	**250**	**500**	**5,050**	**10,525**		**715**	**316**

Thanet District Council – Flexible Use of Capital Receipts Strategy

To support local authorities deliver more efficient and sustainable services, under the Local Government Act 2003 section 15(1)the government allows local authorities to spend up to 100% of their capital receipts on the revenue costs of reform projects (revenue reform costs) and subsequently issued revised guidance in March 2016.

Accordingly the Council can treat as capital expenditure, any expenditure that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services for any of the public sector delivery partners.

Revenue Reform Costs must be properly incurred by 31 March 2019 and can only be met from capital receipts which have been received from 1 April 2016 to 31 March 2019. Revenue Reform Costs cannot be financed from (i) Right to Buy receipts, (ii) pre 1 April 2016 capital receipts, and/or (iii) borrowing.

Revenue Reform Costs that generate ongoing savings may be funded from the Council's capital receipts for the following:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief-executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue; and
- Integrating public facing services across two or more public sector bodies to generate savings or to transform service delivery.

On a project by project basis details of the expected savings/service transformation will be provided.

The impact on the Council's Prudential Indicators from Revenue Reform Costs being treated as capital expenditure is:

- Estimated and actual capital expenditure will increase by the amount of the Revenue Reform Costs;

- Balance Sheet resources (capital receipts) will decrease by the amount of the Revenue Reform Costs;
- The 'incremental impact on capital investment decisions on the band D council tax' and the ratio of 'financing costs to net revenue stream' may increase or decrease depending on whether the reduction in treasury interest income from the utilisation of capital receipts is greater or less than any relevant revenue savings/enhancements achieved from successful implementation of the reform project(s).

Effect

Utilisation of capital receipts to fund expenditure that would usually be funded from revenue resources diverts the receipts available for re-investment in existing assets or the creation of new ones.

To date the Council has not utilised capital receipts to fund revenue reform costs.

Summary of Tenant Service Charges

Property	Heating Charges	Cleaning Charges	Communal Lighting	Grounds Maintenance	Fire Safety	Mechanical and Electrical	Water Pumps
ADDINGTON STREET (52)							
ALBION MEWS (1-6)		£1.98	£0.91	£0.17		£0.92	
APPLEDORE CLOSE							
1-8 Appledore Close		£1.77	£0.49	£0.40		£0.67	
9-13 Appledore Close		£2.84	£0.65	£0.59		£1.08	
14-21 Appledore Close		£1.77	£0.41	£0.46		£0.67	
22-25 Appledore Close		£3.54	£1.19	£0.57		£1.35	
26, 27 Appledore Close		£ -	£ -	£0.57		£2.70	
28-34 Appledore Close		£2.03	£0.38	£0.34		£0.77	
35, 36 Appledore Close		£ -	£ -	£0.34		£2.70	
37-40,Appledore Close		£3.54	£0.79	£0.34		£1.35	
41-47 Appledore Close		£2.03	£0.47	£0.56		£0.77	
48-54 Appledore Close		£2.03	£0.44	£0.52		£0.77	
55-58 Appledore Close		£3.54	£0.82	£0.51		£1.35	
59-65 Appledore Close		£2.03	£0.51	£0.79		£0.77	
66-72 Appledore Close		£2.03	£0.42	£0.54		£0.77	
73-76 Appledore Close		£3.54	£0.81	£0.48		£1.35	
77-83 Appledore Close		£2.03	£0.56	£0.40		£0.77	
BALMORAL ROAD							
2-12 Balmoral Road		£1.80	£0.51	£0.76		£1.10	
14-24 Balmoral Road		£1.80	£0.51	£0.76		£1.10	
26-36 Balmoral Road		£1.80	£0.51	£0.76		£1.10	
BELLE VUE AVENUE (1-20)		£1.31	£0.55	£0.13			
BELMONT COURT		£1.52	£0.70	£1.19		£1.08	
BIDDENDEN CLOSE							
15-23 Biddenden Close		£1.20	£0.45	£1.00		£0.58	
24-32 Biddenden Close		£1.20	£0.45	£1.00		£0.58	
BRUNSWICK COURT							
1 Bed	£3.32	£0.93	£1.99	£0.61	£1.58	£0.72	£0.29
2 Bed	£3.98	£0.93	£1.99	£0.61	£1.58	£0.72	£0.29
3 Bed	£4.54	£0.93	£1.99	£0.61	£1.58	£0.72	£0.29
CAMBOURNE AVENUE							
23a-27a Cambourne Avenue			£0.71				
28a-30a Cambourne Avenue			£1.46				
CAMDEN SQUARE (5-8)		£2.44	£1.02			£0.99	
CANTERBURY ROAD (70-76)			£0.79			£0.91	
CHATHAM COURT		£1.45	£0.40	£0.57		£0.58	
CHICHESTER ROAD (82-90)		£0.97	£1.00	£0.75		£0.58	

Annex 4

Summary of Tenant Service Charges

CHURCHFIELDS							
1 Churchfields		£3.61	£0.97	£0.41		£1.28	
3 Churchfields		£1.80	£0.63	£0.41		£0.72	
5 Churchfields		£1.80	£0.73	£0.41		£0.72	
7 Churchfields		£3.61	£1.23	£0.41		£1.28	
9 Churchfields		£3.61	£0.99	£0.41		£1.28	
11 Churchfields		£1.80	£0.46	£0.41		£0.72	
13 Churchfields		£3.61	£0.74	£0.41		£1.28	
CLARENDON ROAD							
3 Clarendon Road		£2.18	£0.77		£5.64	£0.91	
6 Clarendon Road		£2.18	£0.94		£5.64	£0.91	
CLEMENTS ROAD							
29-45 Clements Road		£1.01	£0.45	£0.70			
47-69 Clements Road		£0.76	£0.34	£0.70			
71-93 Clements Road		£0.76	£0.41	£0.70			
95-111 Clements Road		£1.01	£0.36	£0.70			
113-135 Clements Road		£0.76	£0.39	£0.70			
137-159 Clements Road		£0.76	£0.33	£0.70			
161-189 Clements Road		£0.61	£0.41	£0.70			
191-213 Clements Road		£0.76	£0.41	£0.70			
215-237 Clements Road		£0.76	£0.25	£0.70			
239-261 Clements Road		£0.76	£0.25	£0.70			
263-279 Clements Road		£1.01	£0.27	£0.70			
281-303 Clements Road		£0.76	£0.27	£0.70			
COASTGUARD COTTAGES			£0.93	£1.63			
COLLEGE ROAD							
92 College Road		£1.80	£0.55	£1.43		£0.72	
94 College Road		£1.80	£0.70	£1.43		£0.72	
CONFLANS COURT							
31-36 Conflans Court		£1.63	£0.77	£0.59		£0.72	
37-42 Conflans Court		£1.63	£0.77	£0.59		£0.72	
CONYNGHAM CLOSE		£1.41	£0.34				
DANE GARDENS (19-22)		£2.71	£0.71	£1.76		£0.91	
DANE MOUNT							
15-18 Dane Mount		£2.71	£0.80	£0.56		£0.91	
19-22 Dane Mount		£2.71	£0.63	£0.56		£0.91	
DANE VALLEY ROAD							
200 Dane Valley Road		£1.53	£0.50	£0.71		£0.71	
202 Dane Valley Road		£1.53	£0.46	£0.71		£0.71	
204 Dane Valley Road		£1.53	£0.32	£0.71		£0.84	
206 Dane Valley Road		£1.53	£0.33	£0.71		£0.84	
208 Dane Valley Road		£1.53	£0.31	£0.71		£0.84	
DUKE STREET (4)			£0.78		£2.82		

Annex 4

Summary of Tenant Service Charges

DUNSTAN AVENUE							
26-32 Dunston Avenue		£1.98	£0.38	£0.75		£1.14	
34-40 Dunston Avenue		£1.98	£0.38	£0.75		£1.14	
42-48 Dunston Ave nue		£1.98	£0.38	£0.75		£1.14	
EGBERT ROAD (3)		£2.18	£0.97		£5.42	£0.91	
ELHAM CLOSE							
17-25 Elham Close		£1.20	£0.42	£0.97		£0.58	
26-34 Elham Close		£1.20	£0.42	£0.97		£0.58	
ELLINGTON ROAD (59)			£0.80		£0.31	£1.22	
ELLINGTON ROAD (70)				£1.32		£1.83	
ETHELBERT CRESCENT (26)							
GRANGE ROAD (59)							
GROSVENOR PLACE (66-68)		£1.46	£0.62		£4.66	£0.61	
HARBOUR TOWERS		£1.19	£2.43	£0.25	£1.36	£0.94	£1.08
HIGHFIELD COURT		£1.36	£0.34	£0.75			
HIGH STREET, MARGATE							
145 High Street		£2.02	£0.59	£0.27		£0.72	
147 High Street		£4.05	£0.54	£0.27		£1.28	
149 High Street		£2.02	£0.54	£0.27		£0.72	
151 High Street		£4.05	£0.54	£0.27		£1.28	
153 High Street		£2.02	£0.49	£0.27		£0.72	
154 High Street		£2.02	£0.70	£0.27		£0.72	
155 High Street		£4.05	£0.63	£0.27		£1.28	
156 High Street		£2.02	£0.68	£0.27		£0.72	
157 High Street		£2.02	£0.63	£0.27		£0.72	
159 High Street		£4.05	£0.63	£0.27		£1.28	
161 High Street		£2.02	£0.47	£0.27		£0.72	
163 High Street		£2.02	£0.56	£0.27		£0.72	
HOLTON CLOSE							
7 Holton Close		£1.35	£0.30	£0.20		£0.91	
23 Holton Close		£1.35	£0.30	£0.20		£0.91	
INVICTA HOUSE	£10.44	£1.73	£0.63	£0.46	£0.88	£0.49	£0.32
JANICE COURT		£1.70	£0.96	£0.75	£3.00	£0.23	
KENNEDY HOUSE							
Bedsit	£3.19	£1.71	£1.74	£0.19	£0.92	£0.55	£0.29
1 Bed	£4.49	£1.71	£1.74	£0.19	£0.92	£0.55	£0.29
2 Bed	£5.39	£1.71	£1.74	£0.19	£0.92	£0.55	£0.29
LA BELLE ALLIANCE SQUARE (16 &17)		£2.15	£0.40	£0.84		£0.72	
LANCASTER CLOSE (11-32)		£1.41	£0.33				
LEONA COURT		£1.61	£0.47	£0.93	£0.06	£0.55	
LINLEY ROAD (1-33)				£1.29			
LOUGHBOROUGH COURT		£1.01	£0.39	£0.35			
MEETING COURT			£0.52		£2.80		
MILLMEAD ROAD (69-77)		£1.90	£0.82	£1.07		£0.83	

Summary of Tenant Service Charges

NEWLANDS HOUSE, PRESTEDGE AVE		£1.45	£0.33	£0.08			
PARKSIDE, PICTON ROAD				£0.40			
PENSHURST ROAD (5)		£1.63	£2.36	£0.05	£8.48		
PLAINS OF WATERLOO							
32A-40A Plains of Waterloo		£1.75	£0.33				
45A-47C Plains of Waterloo		£1.82	£0.40	£0.84		£0.72	
QUETTA ROAD (21-24)				£1.21			
REBECCA COURT		£1.84	£0.77	£0.70	£0.09	£0.54	
RICHARD COURT		£1.62	£0.45	£1.04	£0.06	£0.55	
ROSEDALE ROAD							
19 Rosedale Road		£1.80	£0.56	£1.43		£0.72	
21 Rosedale Road		£1.80	£0.65	£1.43		£0.72	
23 Rosedale Road		£1.80	£0.52	£1.43		£0.72	
25 Rosedale Road		£1.80	£0.60	£1.43		£0.72	
ROYAL CRESCENT							
4-15 Royal Crescent		£1.36	£0.41			£0.54	
19-23 Royal Crescent		£1.82	£0.89		£3.92	£0.61	
SOMERSET COURT		£1.59		£0.71			
ST MILDREDS ROAD							
40 ST Mildreds Road		£1.42	£0.48	£0.58	£0.10	£0.41	
42 ST Mildreds Road		£1.42	£0.53	£0.58	£0.10	£0.41	
STANER COURT							
Tower Block (2-89)							
Bedsit	£5.58	£1.73	£2.33	£0.46	£0.55	£0.30	£0.57
1 Bed	£7.47	£1.73	£2.33	£0.46	£0.55	£0.30	£0.57
2 Bed	£8.60	£1.73	£2.33	£0.46	£0.55	£0.30	£0.57
90-95 Staner Court		£1.67	£0.52	£0.46		£0.72	
96-101 Staner Court		£1.67	£0.57	£0.46		£0.72	
102-107 Staner Court		£1.67	£0.55	£0.46		£0.72	
108 -113 Staner Court		£1.67	£0.45	£0.46		£0.72	
STIRLING WAY (59-60)				£1.21			
STRINGER DRIVE							
4 Stringer Drive		£1.35	£0.62	£0.10		£0.91	
7 Stringer Drive		£1.35	£0.62	£0.10		£0.91	
SUNDEW GROVE				£0.76			
TOMLIN DRIVE							
2 Tomlin Drive		£1.53	£0.29	£0.73		£0.84	
4 Tomlin Drive		£1.53	£0.30	£0.73		£0.84	
6 Tomlin Drive		£2.30	£0.37	£0.73		£0.82	
8 Tomlin Drive		£2.30	£0.52	£0.73		£0.82	
10 Tomlin Drive		£2.30	£0.40	£0.73		£0.82	
12 Tomlin Drive		£2.30	£0.36	£0.73		£0.82	

Annex 4

Summary of Tenant Service Charges

TROVE COURT							
Bedsit	£5.32	£1.68	£1.38	£0.14	£0.67	£0.48	£0.29
1 Bed	£7.37	£1.68	£1.38	£0.14	£0.67	£0.48	£0.29
2 Bed	£8.82	£1.68	£1.38	£0.14	£0.67	£0.48	£0.29
TURNER COURT		£1.18	£0.89	£0.28	£1.92	£0.12	
TURNER STREET (32-54)		£1.63	£0.37	£0.21		£0.54	
WILLIAM AVENUE							
2 William Avenue		£2.30	£0.54	£0.20		£0.86	
4 William Avenue		£2.30	£0.58	£0.20		£0.86	
6 William Avenue		£2.30	£0.44	£0.20		£0.86	
24 William Avenue		£2.30	£0.57	£0.88		£0.92	
26 William Avenue		£2.30	£0.41	£0.88		£0.92	
28 William Avenue		£2.30	£0.47	£0.88		£0.92	
30 William Avenue		£2.30	£0.41	£0.88		£0.92	
32 William Avenue		£2.30	£0.40	£0.88		£0.86	
34 William Avenue		£2.30	£0.55	£0.88		£0.86	
36 William Avenue		£2.30	£0.39	£0.88		£0.86	

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Annex 5

HRA Capital Programme 2017-18 to 2021-22

SCHEME	Unit Number 2017-18	2016-17 Slippage/ Deferred £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	Scheme of Works 2017-18
Major Works								
Re – Roofing	**6 blocks**	**400**	**300**	**300**	**100**	**100**	**100**	4-15 Royal Crescent roofing works deferred from 16/17 to combine with Structural Works in 17/18. Richard Court, Loughborough Court, Leona Court, Rebecca Court and Turner Court roofing due in 17/18 and 18/19.
Replacement Windows & Doors	**50**		**150**	**110**	**110**	**110**	**110**	An extra £40k needed for timber windows in 17/18.
Kitchen Replacements	**100**		**400**	**400**	**700**	**700**	**700**	Backlog complete. To be reviewed once stock condition data received.
Bathroom Replacements	**100**		**200**	**200**	**300**	**300**	**300**	Backlog complete. To be reviewed once stock condition data received.
Electrical Re – wiring	**N/A**		**150**	**150**	**150**	**150**	**150**	To be reviewed once stock condition data received.
Heating	**320**		**415**	**415**	**415**	**415**	**415**	New contract to be tendered in 16/17.
Fire Precaution Works	**N/A**		**120**	**40**	**40**	**40**	**40**	The 3 year programme will complete in 17/18.
Planned Refurbishments	**33**		**50**	**50**	**50**	**50**	**50**	Door entry systems identified.
Structural Repairs/ Repointing	**7 Projects**		**1,050**	**1,050**	**180**	**180**	**180**	Structural repairs including balconies at Balmoral Court, Janice Court, Turner Court, Rebecca Court, Chatham Court and Loughborough Court. Churchfields will need further review but structural repairs due in 17/18. Royal Crescent structural and roofing repairs due in 17/18.
Thermal Insulation	**53**		**40**	**10**	**10**	**10**	**10**	Increased to £40k as works carried out when property becomes void.
Rainwater goods	**N/A**		**20**	**20**	**20**	**20**	**20**	Ad hoc works
Lift Replacement	**2 Blocks**	**200**	**0**	**200**	**100**	**0**	**0**	Programme currently under review. Two lifts have been completed. The budget has been reduced for the remaining lifts based on the costs of the completed works. Trove and Kennedy have been identified for 17/18.
Soil Stack	**N/A**		**10**	**200**	**0**	**0**	**0**	Trove Court and Kennedy House
Total Major Works		**600**	**2,905**	**3,145**	**2,175**	**2,075**	**2,075**	

Revenue Contribution to Capital								
Disabled Adaptations	**N/A**		**300**	**300**	**300**	**300**	**300**	This is a demand led budget and will be reviewed annually.
Estates Improvements	**N/A**		**50**	**50**	**125**	**125**	**125**	Reduced to £50k for 17/18 and 18/19. The budget will resume to £125k once the large scale structural programme has been completed.
Margate Housing Intervention	**N/A**	**3,684**	**0**	**665**	**725**	**725**	**725**	Development Programme 2011/12-2021/22 Affordable rent income to be re-invested
New Build Programme	**N/A**	**9,207**	**0**	**0**	**0**	**0**	**0**	Development Programme 2015-2018
Buy Back Scheme	**N/A**	**100**	**0**	**0**	**0**	**0**	**0**	
Fort Road Hotel	**N/A**	**950**	**0**	**0**	**0**	**0**	**0**	
Total HRA Capital Expenditure		**14,541**	**3,255**	**4,160**	**3,325**	**3,225**	**3,225**	**Stock condition surveys may identify additional works. The budget proposal is based on current stock condition data.**

Funding of the HRA Capital Programme		**2016-17 Slippage £'000**	**2017-18 £'000**	**2018-19 £'000**	**2019-20 £'000**	**2020-21 £'000**	**2021-22 £'000**	
Major Repairs Reserve		600	2,905	3,145	2,175	2,075	2,075	
Prudential Borrowing		6,675						
External Funding		1,682						
New Properties Reserve		4,775		665	725	725	725	
141-1		131						
Revenue Contributions		678	350	350	425	425	425	
Total HRA Capital Programme Funding		**14,541**	**3,255**	**4,160**	**3,325**	**3,225**	**3,225**	

Reserve	Balance 31.03.2016 £'000	Proposed Drawdown 2016-17 £'000	Proposed Contribution 2016-17 £'000	Estimated Balance 31.03.2017 £'000	Proposed Drawdown 2017-18 £'000	Proposed Contribution 2017-18 £'000	Estimated Balance 31.03.2018 £'000	
Major Repairs Reserve	7,171	3,678	3,089	6,582	3,047	3,300	6,835	Stock condition surveys may identify additional works.
New Properties Reserve	5,464	2,827	194	2,831	2,957	310	184	Affordable rent income to be re-invested in New properties Reserve to fund the New Build Programme and Housing Intervention Programmes.
HRA Balances	5,296	1,435	0	3,861	350	0	3,511	

New Development Programmes	Budget 2016-17 inc B/F	Estimated Spend 2016-17	Estimated Budget 2017-18	
Empty Property Programme	N/A	N/A	N/A	29 units of affordable housing complete and let in 2015-16 and 2016-17
Ramsgate Housing Intervention	612	612	N/A	17 units of affordable housing now complete and let in 2016-17
Margate Housing Intervention	5,884	2,200	3,684	5 units of affordable housing complete and let in 2016-17. 13 units to complete in 2017-18. 12 units to start on site in 2017-18
New Build Programme	10,077	870	9,207	Start on site due 2017-18
Coastguard Cottages Major Works	349	349	N/A	Works to complete in 2016-17
Buy Back Scheme	100	0	100	A property has been identified. Awaiting costs.
Fort Road Hotel	950	0	950	

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Appointing External Auditors

Council	**9 February 2017**
Report Author	**Director of Corporate Resources and s151 officer**
Portfolio Holder	**Cllr John Townend, Portfolio Holder - Finance and Estates**
Status	**For Decision**
Classification:	**Unrestricted**
Key Decision	**No**
Ward:	**All Wards**

Executive Summary:

To propose acceptance of the offer to join the designated collective scheme for auditor appointments via Public Sector Audit Appointments Ltd (PSAA) to manage the appointment of external auditors and achieve best value.

Recommendation(s):

1. That the Council agrees to accept the PSAA offer.
2. That delegated authority be given to the Section 151 officer to communicate the willingness of the Council to join the scheme and to enter into the contractual arrangements after a satisfactory examination/negotiation of terms & conditions is concluded.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The current contract for Audit services is with Grant Thornton and this will expire after the end of the 2017/18 Audit of the Annual statement of accounts. Scale charges are currently set by PSAA and the fee for 2015/16 was £66,296 which reflected a 25% reduction from 2014/15 charges in line with national targets. Fees are set annually and as there are no planned changes to the scope of work, the fees agreed for 2016/17 and published for 2017/18 remain at £66,296. These fees are contained within the annual budget of £107,500 for charges of this nature. Other fees included in the budget are for example the fee for carrying out the audit of the Housing Benefit claim which is negotiated separately with our auditors on an annual basis.
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, this is the Director of Corporate Resources, and this report is helping to carry out that function.

	The Local Audit and Accountability Act 2014 introduced the necessity for Local Authorities to establish an auditor panel and manage their own procurement.
Corporate	Corporate priorities can only be delivered with robust finances. Both the draft budget and the level of reserves recommended in this report are believed to be sufficient to meet these priorities and develop Services.
Equalities Act 2010 & Public Sector Equality Duty	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it. Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership. Please indicate which aim is relevant to the report. Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, ☐ Advance equality of opportunity between people who share a protected characteristic and people who do not share it ☐ Foster good relations between people who share a protected characteristic and people who do not share it. ☐ There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these. It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council, as a result a full equality impact assessment will be undertaken for any specific service changes where appropriate.

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	✓
Promoting inward investment and job creation	✓
Supporting neighbourhoods	✓

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	✓

1.0 Introduction and purpose of report

1.1 The current contracts with external audit firms expire with the completion of the 2017-18 audits for local government bodies. The expiry of contracts will also mark the end of the

current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

1.2 Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

2.0 Background

2.1 Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which administers the current audit contracts – see Annex 1. In this area, it is the successor to the Audit Commission, which closed on 31 March 2015.

2.2 PSAA has been designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views. The Local Government Association (LGA) is strongly supportive of this ambition, and it is believed that in excess of 200 authorities have already signalled their positive interest.

2.4 This offer from PSAA was examined by the Governance and Audit Committee on 7 December 2016 and Members agreed to accept the PSSA offer and to refer agreement to Council.

3.0 Timetable

3.1 The PSAA planned sequence of events is: -

• Contract notice published	20 February 2017
• Closing date for receipt of notices to opt in	9 March 2017
• Award audit contracts	By end of June 2017
• Consult on and make auditor appointments	By end of December 2017
• Consult on and publish scale fees	By end of March 2018

3.2 Contractual arrangements in the new scheme will be examined and agreed before the end of December 2017 in line with other PSAA activities.

3.3 Discussions have taken place with PSAA in respect of the possible creation of a single East Kent district and it has been provisionally agreed that the four district councils will have the same auditor appointed in the new arrangements. This will be confirmed as part of the examination of the national framework prior to auditor appointments in December 2017.

4.0 Risk Management

4.1 The national framework will be subject to scrutiny at all levels to ensure it is acceptable to the council and all other authorities who choose to enter the scheme. This will ensure that the appropriate level of competence for auditors is assured.

4.2 In the event that there are onerous terms and conditions in the National Framework they will be reported back to the Governance and Audit Committee before any decision by the s151 officer is taken in respect of joining the scheme.

Contact Officer:	Tim Willis, Director of Corporate Resources and S151 Officer
Reporting to:	Madeline Homer, Chief Executive

Annex List

Annex 1	PSAA Ltd information

Background Papers

Title	**Details of where to access copy**
Invitation to opt into the national scheme for auditor Appointments.	Website: www.psaa.co.uk Email to CE October 27, 2016

Corporate Consultation

Finance	*Tim Willis, Director of Corporate Resources and S151 Officer*
Legal	*Tim Howes, Director of Corporate Governance*

Public Sector Audit Appointments Limited

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014, without any share capital and is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the LGA.

The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.

The company is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.

Before 1 April 2015, these responsibilities were discharged by the Audit Commission.

PSAA has been tasked with ensuring that the company delivers the following objectives:

- appointing auditors to all relevant authorities;
- setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;
- making arrangements for the certification of claims or returns in respect of housing benefit subsidy from audited bodies;
- helping to ensure a smooth transition to the new audit regime to be established under the Local Audit and Accountability Act 2014;
- ensuring that public money continues to be properly accounted for and protected during the transition to the new local appointment regime to be established under the Local Audit and Accountability Act 2014;
- overseeing the delivery of consistent high quality and effective audit services to relevant authorities;
- ensuring effective management of contracts with audit firms for the delivery of audit services to relevant authorities;
- be financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies; and
- Leading its people as a good employer, ensuring that it continues to be fit-for-purpose; motivating and supporting its staff; and communicating with them in an open, honest and timely way.

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CHANGE OF COUNCIL MEETING DATE

Council – 9 February 2017

Report Author	**Committee Services Manager**
Portfolio Holder	**Cllr Derek Crow-Brown**
Status	**For Decision**
Classification:	**Unrestricted**

Executive Summary:

This report gives Council the opportunity to move the Council meeting of the 23rd March 2017 to the 22nd March. In order that all five Councils have the opportunity to consider the East Kent Merger report on the same day, TDC would have had to organise an extraordinary meeting of Council on 22nd March. The Council's existing calendar has a Council meeting scheduled for the 23rd March. This would mean there would be two Full Council meetings on consecutive nights; in order to avoid this unnecessary demand on both Member and Officer time it is recommended that Council agree to move the date of Full Council from 23rd March to the 22nd March.

Recommendation(s):

a) That Council suspends Council Procedure Rule 2.2 for consideration of this item.
b) Council moves the date of Full Council from Thursday 23rd March 2016 to Wednesday 22nd March 2017.

CORPORATE IMPLICATIONS	
Financial and Value for Money	There are no relevant financial implications arising from this report.
Legal	There are no direct legal implications arising from this report.
Corporate	An effective calendar of meetings will have a positive impact on the Council's business planning and programming of work.
Equalities Act 2010 & Public Sector Equality Duty	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it. Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

	Please indicate which aim is relevant to the report.	
	Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,	
	Advance equality of opportunity between people who share a protected characteristic and people who do not share it	
	Foster good relations between people who share a protected characteristic and people who do not share it.	
	There are no equity and equalities implications arising from this report.	

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	
Promoting inward investment and job creation	
Supporting neighbourhoods	

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	
Supporting the Workforce	
Promoting open communications	✓

1.0 Introduction and Background

1.1 This report gives Council the opportunity to move the Council meeting of the 23rd March 2017 to the 22nd March, rather than having an extraordinary Council meeting and a scheduled Council meeting on consecutive days.

2.0 The Current Situation

2.1 All five East Kent Councils need to consider the same report on the East Kent Merger on the same day, that being Wednesday 22nd March 2017. Currently Thanet District Council has a scheduled meeting of Full Council on Thursday 23rd March. In order to consider the East Kent Merger paper on Wednesday 22nd March an Extraordinary Council would need to be called. This would result in there being Council meetings on consecutive days. This would not be an effective use of Councillor and Officer time.

2.2 In order to avoid this waste of Councillor and Officer time it is recommended that Council agree to amend the Council's calendar of meetings by moving the Full Council meeting of the 23rd March to the 22nd March. This will allow Council to consider the East Kent Merger paper on the 22nd March as per the other four East Kent Councils and for other regular items of business to be considered at the same meeting. If an extraordinary meeting of Full Council was called on the 22nd March, then that meeting would not be able to discuss any other business other than the item it was called to discuss in this case the East Kent Merger.

2.3 As some Councillors might be aware, the days on which Full Council meetings can be held on are proscribed by the Council's constitution. Council Procedure Rule 2.2 states:

"2.2 Agenda for Ordinary Meetings

Ordinary meetings of the Council shall commence at 7.00 pm unless otherwise agreed with the Chairman and will take place on a Thursday in accordance with a programme decided at the Council's annual meeting."

2.4 Therefore in order for Council to make the change suggested Council will need to suspend Council procedure rule 2.2 prior to doing so.

Contact Officer:	Nick Hughes, Committee Services Manager
Reporting to:	Tim Howes, Director of Corporate Governance and Monitoring Officer

Annex List

Annex 1	None

Background Papers

Title	Details of where to access copy
None	

Corporate Consultation

Finance	Nicola Walker, Finance Manager - HRA, Capital & External Funding
Legal	Ciara Feeney, Head of Legal Services & Deputy Monitoring Officer

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THANET DISTRICT COUNCIL DECLARATION OF INTEREST FORM

Do I have a Disclosable Pecuniary Interest and if so what action should I take?

Your Disclosable Pecuniary Interests (DPI) are those interests that are, or should be, listed on your Register of Interest Form.

If you are at a meeting and the subject relating to one of your DPIs is to be discussed, in so far as you are aware of the DPI, you **must** declare the existence **and** explain the nature of the DPI during the declarations of interest agenda item, at the commencement of the item under discussion, or when the interest has become apparent

Once you have declared that you have a DPI (unless you have been granted a dispensation by the Standards Committee or the Monitoring Officer, for which you will have applied to the Monitoring Officer prior to the meeting) you **must:-**

1. Not speak or vote on the matter;
2. Withdraw from the meeting room during the consideration of the matter;
3. Not seek to improperly influence the decision on the matter.

Do I have a significant interest and if so what action should I take?

A significant interest is an interest (other than a DPI or an interest in an Authority Function) which:

1. Affects the financial position of yourself and/or an associated person; or
   Relates to the determination of your application for any approval, consent, licence, permission or registration made by, or on your behalf of, you and/or an associated person;
2. And which, in either case, a member of the public with knowledge of the relevant facts would reasonably regard as being so significant that it is likely to prejudice your judgment of the public interest.

An associated person is defined as:

- A family member or any other person with whom you have a close association, including your spouse, civil partner, or somebody with whom you are living as a husband or wife, or as if you are civil partners; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors; or
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;
- Any body of which you are in a position of general control or management and to which you are appointed or nominated by the Authority; or
- any body in respect of which you are in a position of general control or management and which:
  - exercises functions of a public nature; or
  - is directed to charitable purposes; or
  - has as its principal purpose or one of its principal purposes the influence of public opinion or policy (including any political party or trade union)

An Authority Function is defined as: -

- Housing - where you are a tenant of the Council provided that those functions do not relate particularly to your tenancy or lease; or
- Any allowance, payment or indemnity given to members of the Council;
- Any ceremonial honour given to members of the Council
- Setting the Council Tax or a precept under the Local Government Finance Act 1992

If you are at a meeting and you think that you have a significant interest then you **must** declare the existence **and** nature of the significant interest at the commencement of the

matter, or when the interest has become apparent, or the declarations of interest agenda item.

Once you have declared that you have a significant interest (unless you have been granted a dispensation by the Standards Committee or the Monitoring Officer, for which you will have applied to the Monitoring Officer prior to the meeting) you **must:-**

1. Not speak or vote (unless the public have speaking rights, or you are present to make representations, answer questions or to give evidence relating to the business being discussed in which case you can speak only)
2. Withdraw from the meeting during consideration of the matter or immediately after speaking.
3. Not seek to improperly influence the decision.

Gifts, Benefits and Hospitality

Councillors must declare at meetings any gift, benefit or hospitality with an estimated value (or cumulative value if a series of gifts etc.) of £25 or more. You **must,** at the commencement of the meeting or when the interest becomes apparent, disclose the existence and nature of the gift, benefit or hospitality, the identity of the donor and how the business under consideration relates to that person or body. However you can stay in the meeting unless it constitutes a significant interest, in which case it should be declared as outlined above.

What if I am unsure?

If you are in any doubt, Members are strongly advised to seek advice from the Monitoring Officer or the Committee Services Manager well in advance of the meeting.

DECLARATION OF DISCLOSABLE PECUNIARY INTERESTS, SIGNIFICANT INTERESTS AND GIFTS, BENEFITS AND HOSPITALITY

MEETING……...

DATE…… **AGENDA ITEM** ……

DISCRETIONARY PECUNIARY INTEREST ☐

SIGNIFICANT INTEREST ☐

GIFTS, BENEFITS AND HOSPITALITY ☐

THE NATURE OF THE INTEREST, GIFT, BENEFITS OR HOSPITALITY:

……

……

……

NAME (PRINT): ……

SIGNATURE: ……

Please detach and hand this form to the Democratic Services Officer when you are asked to declare any interests.

thanet
district council