BUDGET STRATEGY 2014/15

To:	**Cabinet – 14 November 2013**
Main Portfolio Area:	**Finance**
By:	**Financial Services Manager**
Classification:	**Unrestricted**
Ward:	**All wards**

Summary: **To present the draft budget strategy for the General Fund, Housing Revenue Account and Capital programme for 2014/15; to present the assumptions for the medium term and to present the proposed fees and charges.**

For Decision

1.0 INTRODUCTION

1.1 The purpose of this report is to outline the process and assumptions for developing the budget for 2014/15 and the provisional assumptions for the following years to 2017/18. The paper also proposes the level of fees and charges for 2014/15.

2.0 EXECUTIVE SUMMARY

2.1 The Council is continuing to face significant cuts in Government funding over the next few years. Substantial savings have already been taken in recent budget years and therefore it is becoming increasingly more difficult to identify further savings without impacting on frontline services. However, this report presents a number of savings and income generating options that are being further developed which should result in the delivery of a balanced budget for 2014/15, with the minimum impact on priority services.

2.2 A review of the Council's reserve holdings has been undertaken, supported by a robust financial risk assessment. The proposed reserve balances are considered to be adequate for supporting the Council's ongoing needs and plans.

2.3 The draft budget assumptions for the Housing Revenue Account are outlined within the report and the proposed Housing Revenue Account balance is considered to be sufficient to support the 30 year HRA Business Plan.

2.4 The Capital Programme has also been affected by the national economic situation, particularly in regard to the Council's ability to generate capital receipts or to support borrowing to fund the programme. The proposed programme within this report is therefore primarily driven by health and safety requirements and by those schemes that will generate a revenue saving.

3.0 THE BUDGET PROCESS

The Budget Timetable

3.1 In February each year the Council is required by statute to set out its budget and Council Tax levels for the forthcoming financial year. It also has to set out a range of other strategies and plans to inform the Council's treasury management activities. At the same time, a Medium Term Financial Plan (MTFP) is published, which provides indicative figures for a further three years. This provides a framework within which service decisions can be taken in the knowledge of their future affordability.

3.2 A number of steps have already been taken to build up the budget for 2014/15 and for the medium term in advance of approval in February, with further steps required over the forthcoming months:

- Star chamber meetings have been held with the Senior Management Team (SMT), the Finance Portfolio Holder and service managers where managers have put forward savings proposals for their service areas. These proposals have subsequently been discussed in detail by SMT and then between SMT and Cabinet to determine which are achievable. Meetings are being held with SMT and Cabinet throughout the budget process to discuss the proposals as the budget develops;
- A schedule of fees and charges has been proposed in consultation with managers, SMT and Cabinet. These are presented in summary format within this report and will go to Council on 5 December 2013 for approval;
- The Council Tax base will go to Council for approval on 5 December 2013;
- The draft Treasury Management Strategy will be presented to Governance and Audit on 11 December 2013 and will then go to Cabinet in January and Council in February for approval;
- The detailed draft budget proposals and MTFP will go to Cabinet on 21 January 2014 and then to Council on 6 February 2014;
- The Council Tax will then be set by Council on 27 February 2014.
- Meetings will be held with the Corporate Performance Working Party during the budget process to share with them the budget strategy and the financial risk assessment of reserves.

4.0 FUNDING

4.1 When drawing the budget proposals together, the Council needs to consider its various funding streams. These are detailed below:

4.2 **Business Rates:** The Government introduced a new business rates retention Scheme with effect from 1 April 2013. The purpose of the new scheme is to provide an incentive to councils to grow their local economy by allowing them to retain a proportion of the business rates collected. In return, authorities also now share the risk of a fall in rate yield, subject to a safety net mechanism. A baseline funding level is established by the Government for each authority. Authorities whose business rates grow above the baseline are able to retain a proportion of that growth in revenue (subject to the operation of a levy), while those whose rates decline or grow at a lower rate experience lower or negative growth in revenue (subject to the operation of a safety net). The first 50% of any new business rate yield goes to the Treasury with the balance being split 80% to the district and 20% to the county. The safety net mechanism ensures that no authority's income falls by more than 7.5% of their baseline funding level. The Council is not anticipating any growth in its business rates income but could face a loss in business rates income of up to £330k before the safety net would be triggered.

4.3 **Revenue Support Grant:** In addition to business rates, all authorities receive Revenue Support Grant from Central Government as support towards the cost of running council services.

4.3.1 The Revenue Support Grant also includes an element to compensate those authorities who have frozen their Council Tax. Those authorities who froze their Council Tax in 2011/12 are being paid a grant equivalent to a 2.5% increase on their 2010/11 Council Tax for each year up to 2014/15. Those authorities who froze their Council Tax in 2012/13 received a grant equivalent to a 2.5% increase in that year only. Those authorities who froze their Council Tax in 2013/14 are also receiving a grant equivalent to a 1% increase in 2014/15. A further grant has also been announced for those who freeze their Council Tax for 2014/15 and 2015/16. This will also be equivalent to a 1% increase.

4.3.2 The Revenue Support Grant also includes an element to negate the impact of the Council Tax Reduction Scheme (CTRS) on the Council Tax base. The CTRS was introduced from 1 April 2013 to replace the council tax benefit system. The scheme has now been localised, although there are still a number of strict criteria that are nationally imposed. The scheme adopted by this Council has removed the empty property and second homes discounts and has reduced the Council Tax discount for those of working age by 5.5%. This scheme will be rolled into 2014/15 and will then be subject to review for the following year.

4.3.3 The Revenue Support Grant also includes an element to support homelessness.

5.0 CONTEXT

Cuts in Funding

5.1 The Council has faced significant cuts in funding (a cut of 35% in formula grant) over the last four years which has resulted in a cut in the net revenue budget of 18% from 2010/11 to 2013/14. This is illustrated in the following table:

	2010/11 £’000s	**2011/12 £’000s**	**2012/13 £’000s**	**2013/14 £’000s**
Net Budget	**23,055.0**	**21,771.2**	**20,065.1**	**18,842.6**
% Year on Year Reduction		5.57%	7.84%	6.09%
Funded by:				
Formula Grant	13,310.0	11,644.2	9,673.1	8,530.0
% Year on Year Reduction		12.5%	16.9%	11.8%
CT Freeze Grant re 11/12	0.0	246.0	246.0	246.0
CT Freeze Grant re 12/13 *	0.0	0.0	250.0	0.0
CT Freeze Grant re 13/14	0.0	0.0	0.0	99.6
Council Tax Reduction Scheme	0.0	0.0	0.0	1,990.0
Collection Fund Surplus/(Deficit)	(49.0)	11.0	26.0	0.0
Precept (Council Tax)	9,794.0	9,870.0	9,870.0	7,977.0

Total Funding	23,055.0	21,771.2	20,065.1	18,842.6

* *The CT Freeze Grant for 2012/13 was given as a one year grant only*

5.2 Further cuts in funding are anticipated over the next few years as shown below. The figures for 2014/15 have been confirmed. Provisional figures have been announced for 2015/16. Further cuts of 10% have been assumed for both 2016/17 and 2017/18. A single figure for the Revenue Support Grant will be announced from 2014/15 onwards which will include the Council Tax freeze grant and the Council Tax Reduction Scheme (CTRS) grant.

	2014/15 £'000s	**2015/16 £'000s**	**2016/17 £'000s**	**2017/18 £'000s**
Formula Grant (including Freeze Grant and CTRS)	9,343.6	7,853.6	6,974.0	6,276.0
% Reduction		15.9%	11.2%	10%

5.3 The CTRS grant funding also includes an element to be passed to the parishes to compensate for the reduction in their tax bases following the introduction of the CTRS. In 2013/14 this element of the grant was £160k. From 2014/15 the CTRS grant has been rolled into the Revenue Support Grant but the Government has said that the CTRS element of the funding has not been cut. On this basis, it is proposed to pass the same level of funding across to the parishes in 2014/15. This will be reviewed in the following years and is likely to be cut in line with any cuts in the Revenue Support Grant.

6.0 Savings Approaches to Date

6.1 The Council has delivered substantial savings over the last few years:

- 2011/12 £2.2m
- 2012/13 £1.3m
- 2013/14 £1.2m (estimated)

6.2 These savings have been delivered from a number of different approaches:

Approach	Detail
Staffing structures	Substantial savings have been taken from reviewing staffing structures over the last few years. The last restructure, effective from April 2011, achieved savings of £1m.
Shared Services	The transfer of Revenues and Benefits, ICT and Customer Services to East Kent Services has delivered savings of over £900k to date with further savings of £150k anticipated for 2013/14.
Re-negotiating contracts	Contracts have been reviewed to ensure they are delivering value for money and more favourable terms have been re-negotiated where possible. A savings target of £100k has been achieved to date.
Revising budgets when costs reduce	A comparison of actual spend against budget has identified a number of savings over the last few years and budgets have been reduced accordingly. A sum of £205.2k is anticipated in 2013/14 as a result of this exercise.

Approach	Detail
Service prioritisation	All non-priority services have been reviewed and savings taken where possible.
Service efficiencies	Savings have been taken from delivering services in a more efficient way. These include reducing printing costs; adopting a more electronic approach to member papers; reducing the number of publications purchased across the Council; rationalising office accommodation
Natural tightening of belts	Managers have been expected to identify savings wherever possible and deliver services within a reduced budget. There has also been a more strict approach to the recruitment process with all vacancies assessed before they are recruited to.
Increased activity on charged-for services	Fees and charges have been reviewed and charges increased where appropriate. Additional income has also been factored into the budget as a result of new activity for example from the wind-farm activities.

6.3 Having already taken the more obvious ‘quick wins’, it is going to be increasingly difficult to find further savings over the coming years to deliver a balanced budget.

7.0 Budget Consultation

7.1 The budget consultation is being launched in November and will seek to identify the priorities of the district’s residents. However, the last few consultations have all highlighted the same priorities which are as follows:

- Street cleansing
- Recycling and waste
- Community safety services
- Beaches (including beach inspections and water safety)

7.2 Members and Officers alike have high aspirations for the Council but the constraints on the budget mean that services and future developments need to be prioritised. By understanding the priorities of the Council’s residents, the Council can ensure that these services are sufficiently resourced to deliver an acceptable quality of service and that the corporate support functions are scaled appropriately. Through the consideration of value for money, costs can also be minimised by making the processes as efficient as possible, taking advantage of economies of scale when defining staffing structures and securing the best value from procurement activities.

7.3 **Optimal Resource Allocation for Service Delivery**

7.4 Moving forward, the Council needs to ensure that it is adequately resourced to deliver its priorities and must ensure that its processes and structures for delivering these priorities are appropriate.

7.5 **Management Restructure:** An efficiently run organisation should always keep costs to a minimum through setting organisational structures that minimise management costs. The Council is therefore reviewing its management structure to ensure services are grouped together appropriately and to ensure that there is sufficient capacity at a senior level to enable the delivery of the Council’s priorities. Whilst looking to reduce costs, the restructure also aims to ensure that the Council is at the forefront of any opportunities; that it can add the highest value to the public; that it can manage and support members to make the most effective, sustainable and appropriate strategic decisions for the Council and the District; and to ensure that it can effectively manage public perception and relations.

7.6 **Support Services:** Many of the Council's support services are needed to ensure the smooth running of the front-line services. Some are required by statute, especially those that relate to the Council's arrangements for corporate governance. However, the cost of running support services should be in proportion to that of providing front-line services and therefore the level of support services will be reviewed to ensure it is still proportionate.

7.7 **Statutory Overheads:** The Council also incurs a variety of different costs associated with being a corporate entity, such as insurance charges, audit fees and pension contributions for past employees. Although it is statutorily obligated to meet these costs, where possible these will be subject to review and kept to a minimum.

7.8 **Service Delivery Models:** The Council has considered, and continues to consider, a number of different service delivery models to ensure best value:

- **In-house:** This is appropriate where local knowledge is required or it is necessary to have specialist skills in-house. The majority of the Council's services are provided in-house. This includes the waste and street cleansing service which is outsourced at a number of our neighbouring councils. A review has been undertaken and it is still considered that it is more efficient to provide this service in this way. The Council is also reviewing those services that it currently outsources to see if it would be more beneficial to do them in-house for example sand levelling which could potentially be done by in-house staff.
- **Collaboration with other councils:** Substantial savings are possible through the establishment of shared service vehicles. The Council has been extremely proactive in this area:
    - East Kent Audit Partnership provides the internal audit function across Thanet, Dover, Canterbury and Shepway councils which has not only resulted in staff savings but has also meant that best practice can be shared across the four councils.
    - EK Services has been set up to provide Revenues and Benefits, ICT and Customer Services across East Kent (Thanet, Dover and Canterbury). This has delivered savings in excess of £900k since 2011/12.
    - East Kent Human Resources has also been set up to provide a more streamlined HR service. This has recently been moved under EK Services.
    - An Arms Length Management Organisation (ALMO) was set up to share landlord services across East Kent. East Kent Housing was formed in 2011, not just to deliver savings through greater efficiencies and improved procurement capacity, but more importantly, to deliver customer excellence and ensure long term resilience.

  Further opportunities for shared working continue to be explored including printing and legal services.

- **Outsourcing:** A number of services are currently outsourced. These include leisure services, archaeological advice and pest control. A review is being undertaken to ascertain whether it would be beneficial to consider outsourcing enforcement activity.

8.0 DEVELOPMENT OF THE GENERAL FUND BUDGET

8.1 **General Fund Budget Strategy**

The following budget strategy underpins the development of the General Fund budget:

- 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 the income from fees and charges, Council Tax and Government and other grants is sufficient to meet all expenditure.
- To keep Council Tax increases to a minimum to protect residents in the difficult current economic climate.
- To maintain the General Fund balances 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 minimising 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 put within its approved fees and charges.

8.2 By following these principles a budget will be drafted that is sufficient to meet the Council's day to day needs, as well as enable its priorities as set out within the Corporate Plan to be progressed.

8.3 **Development of the Budget**

8.4 Given the economic context in which the Council finds itself, 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.

8.5 **Budgetary Growth:** Some budgetary growth is inevitable and therefore the budget proposals will include the following areas of growth:

Growth	Detail
Pay award	The budget will assume a 1% pay award in 2014/15. This equates to growth of £170k
Contractual and Other Unavoidable Price Increases	Managers are expected to contain inflationary increases wherever possible within their existing budgets. However, some growth will be required to reflect where managers are unable to contain this. A sum of £180k will be required for 2014/15. This includes an allowance for an increase in insurance premiums which is currently being negotiated with the Council's insurance broker
Service Pressures	The Council remains hopeful that a new ferry operator will be found shortly, however, the budget assumes that a sum of £850k is required to offset the loss of the Transeuropa business to the Council. There are further potential operating savings at the Port from no longer operating a ferry service which need to be identified to partly offset this service pressure.

8.6 **Fees and Charges:** The draft fees and charges proposals are presented at Annex 1 to this report. As a result of reviewing all the Council's fees and charges and the income targets, additional income of £191k is anticipated in 2014/15. Where increases have been proposed, these are in the main between 1 to 2%. The parking policy has been reviewed following the public consultation. Although most of the parking charges will not be increased, a number of minor changes are proposed which are detailed in Annex 1.

8.7 **Savings:** Based on the budget assumptions around pay increases, contractual/inflationary growth and fees and charges and the cuts to Government funding, savings of £1.8m are required in 2014/15 to set a balanced budget. A number of savings proposals are being considered and worked up in more detail. The areas being looked at are summarised in the following table:

Proposal	**Detail**
Staff Restructure	Staffing structures are being reviewed which will result in savings, particularly from the management tier
Reduction in budgets to match previous spend	A full review has been undertaken of the outturn for 2012/13 against the current budget and savings have been identified as a result
Reduction in budgets no longer required	Managers have identified a number of budgets that are no longer required
Reduction in controllable spend	Managers have been tasked with finding savings of 20% against their controllable budgets (these include printing, stationery, equipment purchase, conferences, publications etc.)
Reduction in contingency budgets	Contingency budgets across the whole council have been reviewed. All contingencies will be moved into one corporate contingency pot and the overall contingency budget reduced
Review of services provided by Parishes	Consideration is being given to what additional services should transfer across to the parishes. The level of parish agency payments is also being reviewed
Contract savings	Contracts will continue to be re-negotiated wherever possible. This will include looking at options to reduce homelessness costs
More efficient ways of working	Reductions in printing costs and hired and contracted budgets have been identified which will lead to more efficient ways of working
Joint working	Opportunities for further joint working will be reviewed including advertising and joint working around legal services
Reviewing audit fees	The number of audit days provided by EK Audit Partnership is being reviewed. A saving against the budget for external audit fees (provided by Grant Thornton) has also been identified
Corporate subscriptions	A review will be undertaken of the corporate subscriptions to ascertain whether they provide value for money
Multi-Storey Car Parks	The opening hours of the multi-storey car parks will be reviewed
Electoral registration	Electoral registration costs will be reviewed in light of new grant funding available to cover some of these costs
New opportunities for charging for services	This includes charging companies for professional services provided by Council staff

9.0 MEDIUM TERM FINANCIAL PLAN 2014/15 TO 2017/18

9.1 A Medium Term Financial Plan (MTFP) was presented to Council in February 2013, covering the period 2013/14 to 2016/17. However, in light of the continuing difficult economic climate in which the Council finds itself, this document needs to be reviewed and updated. A revised MTFP covering the period 2014/15 to 2017/18 will be presented to Cabinet in January. It will capture what is expected in terms of funding opportunities and the general economic environment for the next four years against what the Council foresees as its budgetary demands, as a result of inflationary and other pressures. It will present 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. It will also include the assumptions used in the budget calculations, the risks that could impact on future financial standing and the degree to which the budget models are sensitive to changes in the assumptions on which they are based.

9.2 Assuming similar levels of budgetary growth (excluding Transeuropa) and after accounting for the anticipated reduction in formula grant set out earlier in this report, the current projected savings targets are £1.08m for 2015/16, £0.85m for 2016/17 and £1.44m for 2017/18. This is based on the worse case scenario that no new ferry provider will be identified over the medium term.

9.3 A number of saving proposals are being explored to meet the targets and these will be worked up in more detail over the coming months. These include:

- Reviewing the staffing structures and working hours of the Thanet Frontline team whilst ensuring that levels of service to the public continue to improve;
- Looking at opportunities to increase income in recycling and waste including expanding the green waste collection service and charging developers for new bins;
- Working with Your Leisure to ensure that the subsidy provided to Theatre Royal and the Winter Gardens are justifiable;
- Reviewing options to maximise savings and income potential from office accommodation;
- Reviewing the case for new parking schemes on the promenades;
- Consideration of introducing pool cars for those officers with high mileage, including using electric cars;
- Reviewing beach hut provision;
- Looking at opportunities for more shared working with Canterbury City Council around dredging;
- Reviewing centralising processes including the raising of invoices and orders;
- Encouraging a channel shift of customers to on-line to reduce the cost of administration staff.

10.0 COUNCIL TAX FOR 2014/15

10.1 The Council's net budget requirement is met from Revenue Support Grant and the Baseline Funding Level (the local share of business rates). The balance (known as the Precept) has to be raised from Council Tax.

10.2 **Council Tax Surplus:** Each year the Council Tax is calculated based on assumed levels of collection rates. At the end of the year an adjustment is made to reflect the actual collection rates. This can lead to a surplus or deficit which has to be accounted for within the calculation of the net budget requirement. The assumed collection rate for 2013/14 reflected a reduction from 97% to 95.5% to take account of any increases in bad debts from the new Council Tax Reduction Scheme. However, performance to date in 2013/14 shows this collection rate to be too low and therefore a surplus is expected for the year. This is a one-off amount which is estimated to be £180k.

10.3 **Tax Base:** The Council Tax is calculated by dividing the Precept by the Council Tax Base. The Council Tax Base is the number of properties within the District adjusted to account for different valuation bands, various discounts and an assumed collection rate. The assumed collection rate for 2014/15 has been put back up to 97% to reflect performance in 2013/14. This will increase the Tax Base and generate additional income of £120k.

10.4 **Council Tax:** The Council has frozen Council Tax at the 2010/11 level for the last three years. As a result the Council has received Council Tax freeze grant. The Government has now announced that local authorities will receive funding equivalent to a 1% increase in Council Tax if they freeze the household charge in 2014/15 and 2015/16. The Government has also announced that any increase above 2% in either year would require a referendum (this would be at a cost to the Council of approximately £100k). Cabinet are now considering whether to recommend that Council takes the freeze grant, which would equate to approximately £80k in 2014/15, or increase Council Tax by 1.99% (to keep below the referendum limit), which would generate additional income of £158k. An increase in Council Tax of 1.99% would equate to an increase of £4.17 per annum on a Band D property (equivalent to just over 1p per day).

11.0 THE HOUSING REVENUE ACCOUNT

11.1 Background

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

11.3 The Operation of the Housing Revenue Account

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

11.5 **HRA Service Expenditure** - As explained above, the HRA is a separate record of all of the Council's expenditure on its social housing provision (i.e. Council Houses). This includes the following expenditure:-

Repairs & Maintenance – Spend in relation to the day to day repair and maintenance and those works that cannot be deemed as capital repairs such as painting and decorating and contractor repair costs.

Supervision and Management General – Supervision and management costs that are applied across the whole stock e.g. ALMO Management Fee and support costs from other services.

Supervision and Management Special – Supervision and management costs that are applied to only specific homes e.g. communal lighting and grounds maintenance.

Depreciation and Impairment – A charge to reflect the use of HRA assets in the delivery of services.

Rents, Rates Taxes and Other Charges – All other costs that the HRA incurs as a landlord e.g. Insurance costs and council tax costs for empty HRA properties.

Increased Provision for Bad Debts – To reflect that not all rents and charges will be recoverable.

11.6 **HRA Service Income** – Income received from the running of the Council housing stock is allocated under the following headings:-

Gross Rental Income – Income from rents on council houses, shared ownership properties and leaseholder ground rents.

Non-Dwelling Rents – Income from shops, aerials and garages.

Charges for Services and Facilities – Tenant service charges and heating service charges.

Contributions towards Expenditure – Leaseholder re-charges and rechargeable repairs.

11.7 **HRA Non-Service Expenditure and Income** - These include an apportionment of the investment income that is achieved on balances and any grants and contributions receivable.

11.8 As part of the changes to self-financing, the Council opted to split the one loan pool and move to a two loan pool approach, where loans are charged directly to the Housing Revenue Account or General Fund and where each fund is charged their costs of borrowing directly determined by their loan portfolio. Therefore, debt interest costs for the charges associated with the repayment of loan interest are also charged here.

11.9 **The Housing Revenue Strategy**

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

- To maintain a Housing Revenue Account that is self-financing and reflects both the requirements of residents and the strategic visions and priorities of the Council.
- To achieve the Government's "target" rent level by the rent convergence date*.
- To maintain current Housing Stock at Decent Homes Plus standard.
- To maximise the recovery of rental incomes by 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.

* *though this will need reviewing in the light of the Government's stated intention to terminate this policy (paragraph 11.27 refers)*

11.11 **Details of the HRA estimates**

11.12 The main assumptions that have been applied to the HRA for the 2014/15 estimates are summarised below. The detailed estimates will be presented in the January report to Cabinet.

11.13 **Pay and Prices -** For direct expenditure budgets, price increases have been included at 3%, which is the best estimate of the level of inflation at this point in time, unless there is a known inflate within a specific contract, in which case this has been used.

11.14 **Repairs and Maintenance** –Thanet and Canterbury jointly procured a contract for repairs and maintenance from April 2010. A full review of the budgets has been undertaken and an RPI inflation increase of 3.2% has been applied as an estimate of the November RPI as per the contract agreement. For repairs and maintenance contracts outside of this agreement, the inflationary increase has been applied as per the contractual agreements. Future years' estimates shown in the MTFP have been based on calculations that include an indicative RPI increase of 2%. A joint procurement exercise is due to be undertaken with Dover District Council for the re-tendering of the painting and decorating Contract. In preparation for this and to catch up with the backlog for this year, growth of £50k has been built in. Increased estate inspections by East Kent Housing have identified revenue repairs promptly and in order to ensure the safety of our tenants, the Housing Officer Funds budgets have been increased by £16k to enable them to instruct for an effective repair quickly. East Kent Housing have identified savings of £40k against the gas servicing contract and this has also been factored in.

11.15 **Supervision and Management General** – The Council agreed at its meeting in February 2010 that an Arms Length Management Organisation (ALMO) was the preferred option for sharing Landlord Services in East Kent. The East Kent Housing ALMO was formed and from 1 April 2011 it commenced the management of the Council's social housing.

11.16 The ALMO 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. Currently the General Fund budget is under financial pressure and one of the priorities for the Council is to deliver a new build programme. For this reason during 2012 East Kent Housing were given notice by the Partner authorities that it was to be set a savings target effective from 2014/15 at 5% for the next 3 years. Negotiations have commenced with the four partnering councils as to how this is to be achieved. Currently no savings have been factored into the budget to reflect this.

11.17 The Council has been successful in its recent bids for HCA funding and in order to prepare for the next round of funding in March 2015 growth of £11k has been built in for the costs of undertaking initial feasibility works relating to new developments.

11.18 Savings against the external audit fees of £12.5k have been identified, with a further £43k saving across printing, legal, debt collection fees and subscriptions.

11.19 **Provision for Bad or Doubtful Debts** – Due to the economic downturn and changes to Welfare Reform the estimate for the provision of bad and doubtful debts has remained at £220k.

11.20 **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. Within the Housing Subsidy system the Council received a Major Repairs Allowance to fund capital works which was set so as to reflect the need to replace building components as they wear out. It was therefore considered to be an appropriate measure of depreciation for the HRA assets. With the cessation of the Housing Subsidy System there is no longer a Major Repair Allowance paid and currently work is being undertaken as to how best to calculate the depreciation charge. In the interim, for the next 5 years the Council will be able to use the Major Repairs Allowance as detailed within the 30-year financial model for the HRA self-financing settlement. The estimated depreciation charge is calculated at £2.204m in 2014/15, however, in the uplifted settlement model the figure is £3.372m. The difference of £1.167m will still transfer to the Major Repairs Reserve in order to fund future capital works on the existing stock or debt repayment. The depreciation charge for other HRA assets is estimated to be at £60k.

11.21 **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. The HRA as part of the self-financing settlement had its debt capped at £27.792m and is not able to exceed this level of borrowing. As at the 1 April 2013 the HRA had £22.525m of loans outstanding. A loan is due to mature in December 2013 and the budget for this has been already been agreed and set aside for repayment as part of the budget process for last year. This will take the level of borrowing down to £20.869m. There is a loan due to mature during 2015/16 of £827k and the budget reflects the repayment of this loan.

11.22 **Rent Increases** – Rental estimates are based on the Government guideline rental increase which uses the September's RPI figure of 3.2% + 0.5%, combined with a factor for rent convergence for the 2014/15 estimate. As part of the Comprehensive Spending Review, rent policy has determined that from 2015/16 rents will change from RPI + 0.5% to CPI + 1%. Future years' estimates for the MTFP will be based on calculations that include an indicative CPI increase of 1.5% + 1% for 2015/16 and for future years a CPI increase of 1%+ 1%.

11.23 Since April 2002 social rents have been set on the basis of target rents for individual properties that take account of relative property values at January 1999, vacant possession values assuming continued residential use, local earnings levels and the number of bedrooms of individual properties. The formula is standard for local authorities and similar for social landlords. Individual dwelling rents must move to within +/-5% of the target rent by the set convergence date.

11.24 The process by which the actual rent for each property moves from its current level to its target level within the convergence date is called rent restructuring. The rent restructuring review meant that authorities had to go back to 2002 and apply a higher average stock valuation, a higher average rent and an increased number of bedroom weightings. In practice, the Council uses the Government's rent guidelines to determine its rent increases.

11.25 In 2002/03, the first year of rent restructuring, a uniform rent increase of 2.5% was applied to all properties, which was acceptable under Government guidance. Subsequently rents have been increased each year in line with inflationary rates determined by the Government. The rent increase for these estimates has therefore been established according to RPI inflation at September 2013 which was 3.2 % + 0.5%, combined with a factor for convergence to not exceed £2 assuming a convergence timeframe of 2015/16. Garage rental increases have been set at 3.2% in line with RPI.

11.26 An estimate of property average rents have been provided below with a comparison as to how they compare against the target rent.

Property	Est. Ave Target Rent £	Est. Ave Rent £	Variance to Est. Average Target Rent £
Bedsits	56.77	56.77	0
1 Bed Flat	67.00	66.99	0.01
1 Bed House	77.58	77.58	0
2 Bed Flat	75.17	75.14	0.03
2 Bed House	83.77	83.54	0.23
3 Bed Flat	87.01	86.78	0.23
3 Bed House	94.28	93.33	0.95
4 Bed Flat	89.80	89.80	0
4 Bed House	103.41	102.34	1.07
5 Bed House	110.56	109.97	0.59

11.27 It is understood that a consultation will be released by Government on rent policy during October and one of the likely proposals is that rent convergence is terminated a year earlier at the end of 2014/15. As can be seen from the table above, there is a shortfall in the average rent compared to the average target rent most noticeably for 3 and 4 bedrooms houses which suggests that there are a number of properties within these categories that fall quite short of the target rents. The HRA financial business plan assumes convergence during 2015/16 and in the event it is terminated a year earlier there will be a budgetary impact on the HRA financial business plan if this is not able to be addressed.

11.28 New units created as part of the Margate Intervention Programme and Ramsgate Empty Homes project will come under the affordable rent programme and rents will be set based on 80% of the market rental income.

11.29 **Non Dwelling Rents** - A number of shops that are held within the HRA no longer meet the requirement of providing a community benefit and are held more for investment purposes. Recent accounting changes have meant that where these premises are valued downwards it is detrimental to the Landlord account. It is therefore proposed to transfer some of the HRA shops that are now kept for investment purposes to the General Fund where the impact is negated due to a different accounting treatment. This will result in an estimated loss of income to the HRA of £16k, although the longer term treatment is of a benefit to the HRA business plan as it is difficult to forecast the impact of any revaluation of these type of properties and the resulting impact on the HRA balances.

11.30 **Service Charge Increases** – 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 that they are not easy to understand. A proposal was taken to the Tenant Board on 9th October 2013 to make the service charges easier to understand and available for Tenants to scrutinise. This involved disbanding the old apportionment that was undertaken based on historic rateable values and re-apportioning costs, with the exception of heating costs, based on a unit cost. Service charges can now be itemised on tenants' rent accounts to enable them to see how much they are paying for each service. Service charge increases will change from being increased on a standard RPI increase to being recovered at actual cost. For those tenants who have yet to reach target rent and are not paying full recovery of service charges, it is proposed to make a staged increase over the next 3 years as opposed to charging a full recovery in the first year. The review of service charges confirmed that all of the Council's service charges will be covered under the new benefit changes (heating service charges are excluded).

11.31 The Tenant Board have also raised concerns over the different unit costs for the heating service charges per block, which are already recovered based on actual costs, and the different electricity contracts per block. This is currently subject to a review being undertaken by East Kent Housing and Thanet District Council to explore different options for the heating of the tower blocks.

11.32 **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 2014/15 of £65k is based on achieving an average interest rate of 0.50%.

11.33 **The Housing Revenue Account Reserves**

11.34 The Council operates three HRA reserves: a HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties reserve, each of which is discussed in turn:

11.35 **Housing Revenue Account Major Repairs Reserve** – The annual Major Repairs Allowance (MRA) that was paid to the Council as part of the HRA Subsidy had to be placed in a Major Repairs Reserve, to be used to meet HRA capital expenditure only. It is proposed to continue with the 5 year transitional arrangement and to continue to place the forecast MRA as per the determination schedules in the reserve. 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 2013 this reserve balance was £3.6m which is higher than usual due to the difficulties last year with the kitchen contract - work that was due to be undertaken during 2012/13 on the kitchens was delayed and therefore funds set aside for works in 2012/13 have continued to be set aside to enable a catch up programme once the kitchen contract has been re-tendered during the current financial year.

11.36 **Housing Revenue Account Balance Reserve** – This reserve holds the balance of the HRA Account and is used to draw down to balance the revenue budget and smooth out any peaks and troughs within the 30 year business plan. It is maintained by annual contributions from the HRA. As at 1 April 2013 this reserve balance was £10.2m, although £4m of these balances have now been earmarked for the Margate Intervention programme and £1.6m for the Ramsgate Empty Property programme.

11.37 **HRA New Properties Reserve** – This reserve holds funds set aside to fund either new build properties or the acquisition of suitable properties for use within the HRA. As at 1 April 2013 this reserve balance was £500k.

12.0 THE CAPITAL BUDGET

12.1 A de minimus 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 and is therefore not recorded on the asset register or funded from capital resources. Capital expenditure also includes grants that are 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.

12.2 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.

12.3 **The Asset Management Strategy**

12.3.1 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 £154 million showing as the net book value of all property assets as at 31 March 2013 (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 Strategy (AMS) which outlines its approach to its material asset holdings, 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.

12.3.2 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 the Council's investment in its assets is working to optimum effect. This is especially important in the current financial climate, where assets that are no longer viable or surplus to requirements need to be disposed of in order to reduce the Council's liabilities and to generate capital receipts to fund new developments or be transferred for Community benefit.

12.4 **Impact of the Current Economic Climate**

12.4.1 The national economic position has had a serious impact on the Council's capital budget as it depends upon significant levels of capital receipts being generated from the sale of surplus assets. The marked downturn in market conditions has meant that many of the proposed asset disposals have taken longer than anticipated. Members and officers have continued to act decisively to bring the Capital Programme back into balance by deferring, switching funding or deleting schemes with the programme based on a prioritisation of need. The Capital Programme has therefore been scaled back accordingly. The proposed programme of capital expenditure is based on current projections of available capital funds; however members should note that this will be monitored closely during the 2014/15 financial year, as it may be necessary to adjust the programme in year depending on the prevailing economic conditions.

12.5 **The Capital Budget Strategy**

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

- To maintain an affordable four-year rolling capital programme.
- To ensure capital resources are aligned with the Council's strategic vision and corporate priorities.

- To undertake Prudential Borrowing only where there are sufficient monies to meet in full the implications of capital expenditure, both borrowing and running costs.
- To maximise available resources by actively seeking external funding and disposal of surplus assets.
- To engage local residents in the allocation of capital resources where appropriate.

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 to ensure sufficient funding is available for existing schemes that have commenced and that any new projects are of the highest corporate priority and/or reduce the pressure on the revenue account. The General Fund capital programme includes limited forward plan bids as officers have continued to recognise that with a considerable proportion of the programme deferred, new schemes would jeopardise the existing programme. The bids will continue to be assessed and scored by the Capital and Asset Management Group to ensure they focus on the core priorities of the Council. The results of the scoring process will be shared with the Portfolio Holder for Asset Management and the Portfolio Holder for Finance prior to the final budget report.

The level of resources available raises a number of issues and risks for future years, which need to be addressed:-

- Over the past 5 years the Council has seen a significant reduction in the capital receipts from the sale of assets. In the event that they cannot be realised in 2014/15 onwards this will result in a further need to borrow thus increasing the revenue pressure on the General Fund. Regular monitoring will need to be reported back to members and the programme revised accordingly.

- Current resources will only be used to deliver high priority health and safety works/match funded schemes which have already commenced. There is limited scope for future investment in new assets or making improvements to existing buildings. The Asset Management Strategy is due to be revised for 2014 and is key in delivering resources to the Capital Strategy and reducing the size of the Council's asset and property portfolio. It is imperative that limited resources do not damage the Council's ability to maintain its significant income streams as assets deteriorate from lack of investment.

- There are limited capital resources to fund any overspends/new requirements which could occur during the financial year. Any additional schemes during the financial year will require an existing scheme to be deferred or funds re-allocated unless there is headroom in the General Fund to borrow.

A review of the asset register has identified a substantial amount of vehicles, plant and equipment that is nearing the end of its useful life. In order to protect the ability to deliver front line services to the public, a new vehicle, plant and equipment reserve will be set up to put funds aside for a replacement programme. It is also proposed to set aside in this reserve any in-year service underspends from those services requiring the replacement vehicles, plant or equipment.

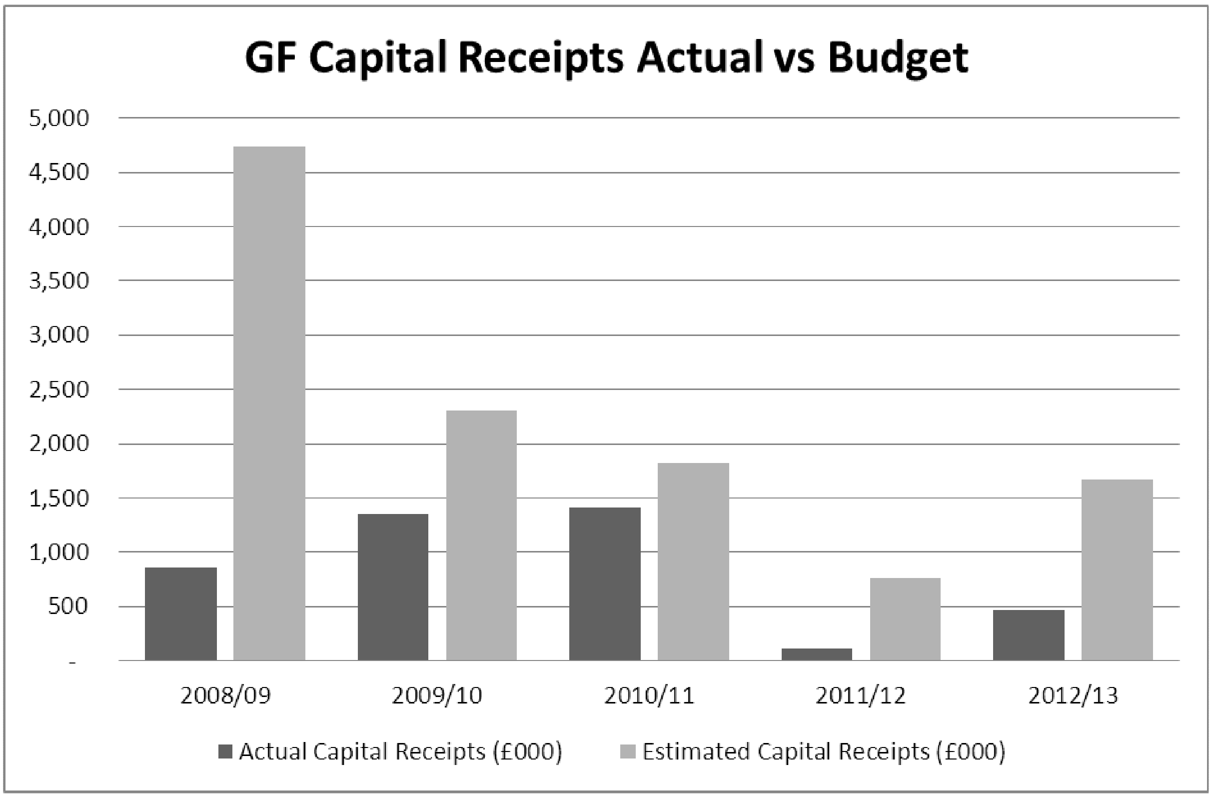
12.6 **Available Capital Funding**

12.6.1 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 HRA can only finance expenditure on HRA assets; there can be no cross subsidisation between accounts. In both cases, the revenue resources are limited.

12.6.2 **Capital Grants** – these are offered by Government Departments to assist with certain types of expenditure. Capital grants include: Communities and Local Government funding for Disabled Facility Grants, Environment Agency, Lottery funding and European grants. The HRA is currently in receipt of a capital grant from the Homes and Communities Agency (HCA) for the Ramsgate Empty Homes Programme.

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

12.6.4 The Council's capital resources, which in the past have been predominately capital receipts, have declined over recent years. The graph below illustrates General Fund capital receipts achieved against budget over the past 5 years.



12.6.5 It is difficult to estimate the funding level achievable during the current economic climate. Also a number of changes often arise to the disposal programme once the asset disposal consultation process has been completed. For the purpose of this budget an estimate of achievable receipts has been undertaken. This figure will need to be monitored closely during the coming year for achievability under the current economic climate and where necessary the Capital Programme adjusted accordingly.

12.6.6 **Housing Capital Receipts** - On 2 April 2012 Ministers raised the cap on Right to Buy discounts to £75,000 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 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 4 right to buy properties and the Council is able to keep all of the sales income over and above.

12.6.7 **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. A housing debt cap of £27.792m has been set for the Council, being the maximum amount the HRA can borrow which must not be exceeded. This differs from the way the maximum debt levels are set within the General Fund, which are governed by the Prudential Code and the setting of a number of indicators. It is anticipated that borrowing of £9.5m will be required to support the General Fund Capital Programme in 2014/15.

12.6.8 **Capital Projects Reserve** – A balance of £1.278m remains in this reserve as at 1 April 2013 of which £1.219m is already earmarked for existing schemes. It is anticipated that the remaining balance will be fully utilised to help fund the 2013/14 capital programme due to the shortfall in capital receipts. Should a surplus arise on the capital programme at the end of 2013/14, this will continue to be set aside in this reserve to provide additional flexibility.

12.6.9 **HRA Capital Reserves** – The HRA subsidy included a payment of an annual Major Repairs Allowance, which could only be used for HRA capital expenditure. Whilst the housing subsidy system has ceased to exist from 1 April 2012, a transitional period of 5 years has been set whereby the Council can continue to place the Major Repairs Allowance, as detailed in the settlement determination, in the Major Repairs Reserve; although any unused amount may be carried forward for use in later years. The estimated transfer to the Major Repairs Reserve for 2014/15 is £3.372m.

13.0 The Capital Programmes for 2014/15 to 2017/18

13.1 The current property market decline has led to reduced capital receipts. If this continues, the Council's resources for capital spend will be significantly reduced. The new schemes within the capital programme have been very much driven by those capital schemes that meet the Council's core priorities, have a health and safety implication and/or a revenue impact to the Council.

13.2 **Re-phased Projects** – Due to the shortfall of capital receipts achieved during 2013/14 a number of capital projects have been re-phased from 2013/14 into 2014/15. These include a £41k contribution towards Disabled Facilities Grant, £110k for the Margate Cemetery extension, £100k for the crematorium car park extension, £100k for the public convenience enhancement programme, £50k for capital repairs to sports halls and swimming pools, £216k for the waste transfer station, £25k for fencing at Dane Valley, a £42k for the contribution to the community facility at Pierremont Park, £20k for allotments and £100k for the terminal tractor at the Port.

However, unless there is a significant upturn in the circumstances affecting asset disposals, it is likely that a fundamental review of the capital programme will be undertaken in 2014/15, to ensure future capital programmes are deliverable.

13.3 **Grant Funded Projects** – The Council undertakes a number of schemes that are fully, or part funded from grant, the most significant of which are the Disabled Facility Grants (DFGs). Councils can claim 100% of Communities and Local Government funding for each DFG without a need to match fund up to the total value of Government grant awarded each year. Unfortunately the Council is anticipating a substantial reduction in the capital receipts budget which has reduced the available funds the Council has to allocate. However, the Council is still committed to providing a contribution towards the government funding. It is intending to provide initial match funding of £300k per annum towards the programme, being the maximum that it can afford in light of the overall capital programme and the anticipated level of capital receipts. It is anticipated that the announcement for this year's allocation from Government will not be available until the end of February; it has therefore been assumed that it will be at the same level as last year's allocation of £1.079m for the purpose of this estimate. Once the final figures are published this will be reported to Cabinet in the first budget monitoring report. However, following the Comprehensive Spending Review and development of the Care Bill, the way DFGs will be delivered is likely to change, with Kent County Council and Clinical Commissioning Groups deciding final allocations to local authorities. There is also a question as to whether local authorities will continue to have the mandatory duty to pay DFGs going forward.

13.4 The Heritage Lottery Fund have approved £1.9m towards a townscape heritage initiative scheme in Dalby Square, Dalby Road and Arthur Road. This scheme started in 2013/14 and the remaining budget for the scheme has been factored into 2014/15 and 2015/16.

13.5 It is anticipated that the Council will have an initial allocation made from the Environment Agency to undertake works to the sea walls along the North Thanet coastline in 2014/15 with the project completing in 2015/16.

13.6 **Continuing Service-Led Capital Schemes** – The running of a district council requires an on-going investment in assets that are used to deliver the business. These include the second year of investment in the water supply upgrade at the Ramsgate Marina of £50k and further investment in the upgrading of the floating pontoons in the outer marina at Ramsgate Harbour of £125k. Vehicles within the Grounds Maintenance Team are nearing the end of their useful life and £250k has been factored in for 2015/16 for their replacement.

13.7 **New Capital Projects** – As mentioned previously there are limited forward plan bids as officers have continued to recognise that with a considerable proportion of the programme deferred, new schemes would jeopardise the existing programme. The only new bid received to date is:-

13.8 The Alongside Quay – An alongside quay would be constructed to enable the Port to diversify its operation, it would allow for berthing opportunities for larger vessels such as cruise ships and cargo vessels against the south breakwater. It is anticipated that extra revenue can be generated for the Ramsgate Port and Harbour through the increased facilities that can be offered. As a result it will be proposed that this scheme is funded from prudential borrowing combined with any grant funds that are able to be attracted.

13.9 **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 and to provide a continuing maintenance scheme to the Council's housing stock.

13.10 An amount of £318k has been included within the HRA capital programme for the third year of the Margate Intervention Programme, to be funded from £120k HRA capital receipts and £198k revenue contribution from affordable rents being re-invested in the area. The Margate Housing Intervention Programme sets out to transform the housing market in two of Britain's most deprived wards: Cliftonville West and Margate Central.

13.11 Funds continue to be drawn down for the third year of the Ramsgate Empty Homes project, the objective of which is to bring back empty properties within the area and convert them to 30 units of affordable housing and a further 20 units through a lease and repair scheme.

13.12 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. It is intended to be the driving factor towards a development programme for the HRA.

14.0 The Draft Capital Budgets 2014/15 to 2017/18

14.1 The draft General Fund Capital Expenditure Budget for 2014/15 that is proposed for Members' approval is £12.076m, which will be funded in the main from capital grant, usable capital receipts and prudential borrowing. This is shown in summary format below.

GENERAL FUND CAPITAL PROGRAMME					
	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Statutory and Mandatory Schemes	1,379	1,379	1,379	1,379	1,379
Schemes continuing from prior years	3,322	1,289			
Annual Enhancement Schemes	100	100	100	100	100
Wholly/Part Externally Funded Schemes					
Replacements and Enhancements					
Area Improvement	7,200	2,000			
Capitalised Salaries	75	75	75	75	75
Total Capital Programme Expenditure	**12,076**	**4,843**	**1,554**	**1,554**	**1,554**

Capital Resources Used:					
Capital Receipts and Reserves	743	688	475	475	475
Capital Grants and Contributions	1,833	1,749	1,079	1,079	1,079
Prudential Borrowing	9,500	2,406	0		
Total Funding	**12,076**	**4,843**	**1,554**	**1,554**	**1,554**

14.1.1 The draft Housing Revenue Capital Programme for 2014/15 that is proposed for Members' approval is £6.5m, which will be funded from the HRA reserves, revenue contributions to capital and capital receipts. A summary of this programme and the proposed funding sources are shown in the following table:

HRA CAPITAL PROGRAMME				
	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Total HRA Capital Programme Expenditure	**6,505**	**6,884**	**6,740**	**6,798**
HRA Capital Resources Used:				
HRA Major Repairs Reserve	2,750	3,100	2,930	2,950
HRA Revenue Contributions	2,655	3,514		
New Build Reserve	500			
Capital RTB Receipts	200	150	150	150
Housing Capital Receipts	400	120	120	120
Prudential Borrowing			3540	3578
Total Funding	**6,505**	**6,884**	**6,740**	**6,798**

15.0 RESERVES

15.1 General Reserves

15.1.1 The Local Government Finance Act 1992 requires precepting authorities, such as Thanet District Council, to have regard to the level of reserves needed for future expenditure when calculating the budget requirement. Each year the Council reviews its level of reserves and a draft proposal of the recommended levels of reserves is shown at **Annex 2** to this report. Based on the budget changes for 2014/15 outlined elsewhere in this report, it is estimated that the General Fund balance will be around

£80k above the recommended level and this sum would therefore be available to transfer to the Priority Improvement Reserve.

15.2 Earmarked Reserves

15.2.1 It is good practice to use reserves to 'save' funds over a period of time to spread the impact on the Council Tax of large fluctuating expenditures. The table below shows the planned transfer out of a number of earmarked reserves, which will be used to fund anticipated expenditure during the year. The table also reflects the setting up of a new Vehicles, Plant and Equipment Reserve as detailed in the capital section of this report and a new reserve for Dreamland to bolster the contingency for this project (using Second Homes monies and transferring monies from the Economic Development & Regeneration Reserve).

EARMARKED RESERVES			
Reserve	**Estimated Balance 31.03.14 £'000s**	**Proposed Drawdown in 14/15 £'000s**	**Proposed Balance 31.03.15 £'000s**
Insurance Risk Management	147	0	147
Local Plan	392	0	392
General Fund Repairs	168	-50	118
Information Technology Investment	286	-100	186
Environmental Action Plan	162	0	162
Office Accommodation	9	-9	0
Cremator and Cemeteries	182	0	182
Decriminalisation Fund	145	-40	105
Priority Improvement Reserve	520	-100	420
Customer Services Reserve	610	0	610
Unringfenced Grants	327	-327	0
Waste Reserve	347	0	347
Council Election Fund	117	30	147
Homelessness Fund	201	0	201
Renewal Fund	7	0	7
Maritime Reserve	323	0	323
VAT Reserve	421	-20	401
Pensions Fund	661	0	661
East Kent Services Reserve	754	0	754
New Homes Bonus Reserve	1235	597	1832
Housing Intervention Reserve	682	0	682
Economic Development & Regen	319	-167	152
Pay & Reward Reserve	380	0	380
Vehicle, Plant and Equipment Reserve	227	0	227
Dreamland Reserve	0	247	247
Coastal Infrastructure Reserve	500	0	500
HRA Properties	500	0	500
Total	**9,622**	**61**	**9,683**

15.2.2 **New Homes Bonus** – The provisional allocation of New Homes Bonus funding for 2014/15 for this Council is £1.697m. Members have previously agreed that an annual sum of £185k from this funding is used to cover the events budget (£165k) and floral grants (£20k). Members have also agreed that the budget shortfall due to the cuts in Formula Grant will also be met from the New Homes Bonus. The proposed draw down in 2014/15 to negate the impact of the Formula Grant cut is £843.6k.In addition to this, Members' approval has already been given for a sum of £40k has been set aside to support domestic violence advisors and £31k to support the Dalby Square project (previously agreed as part of the 2013/14 budget proposals). A sum of £500k had previously been set aside from the New Homes Bonus to fund the Local Authority Mortgage Scheme, however, Lloyds Bank has put this scheme on hold and it is therefore proposed to use this money to support the objectives of the Destination Management Plan by enhancing council assets that help to support and encourage tourism. A new reserve will be set up for this purpose.

15.3 The Government is currently consulting on proposals to top-slice the New Homes Bonus allocation with this money going to the Local Growth Fund operated by the Local Enterprise Partnerships. This will result in a reduced allocation of New Homes Bonus funding from 2015/16. Depending on the methodology adopted for the top-slice, the reduction would either be 35% (if the same top slice is taken evenly from all local authorities) or 18% (if the top slice is taken in a higher percentage from the counties).

16.0 OPTIONS

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.

17.0 CORPORATE IMPLICATIONS

17.1 Financial and VAT

17.1.1 The financial implications for the General Fund, HRA and capital budget are laid out within the body of the report.

17.1.2 Based upon the financial risk assessment contained within Annex 2, it would be prudent to maintain General Fund balances at 12% of the net service revenue base.

17.2 Legal

17.2.1 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 chief Executive (S151 Officer), Sue McGonigal, and this report is helping to carry out that function.

17.2.2 The requirements of other relevant statute have been referenced within the body of this report, where relevant.

17.3 Corporate

17.3.1 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.

17.4 **Equity and Equalities**

17.4.1 A full equity and equality impact will be undertaken on the budget proposals in advance of the report going to Cabinet in January 2014.

18.0 Recommendation(s)

18.1 That Members approve the approach being used to develop the budget estimates for the General Fund, Housing Revenue Account and Capital Programme for 2014-2018;

18.2 That Members recommend to Council the draft fees and charges for 2014/15;

18.3 That Members note the financial risk assessment for the General Fund Revenue Account that will be used to inform the setting of reserves for 2014-2018, and the associated impact on the levels and types of reserves held.

19.0 Decision Making Process

19.1 Cabinet is responsible for proposing the budget to Full Council. The draft budget proposals will therefore go to Council for approval in February.

Future Meeting	**Date:**
Cabinet	21 January 2014
Council	6 February 2014

Contact Officer:	Sarah Martin, Financial Services Manager, 01843 577617
Reporting to:	Sue McGonigal, Chief Executive and S151 Officer

Annex List

Annex 1	Draft Fees and Charges
Annex 2	Financial Risk Assessment of Reserves

Background Papers

Title	**Details of where to access copy**
None	N/A

Corporate Consultation Undertaken

Finance	N/A
Legal	