2015-16 BUDGETS AND MEDIUM TERM FINANCIAL PLAN 2015-19

To:	**Draft report to Cabinet – 20 January 2015**
Main Portfolio Area:	**Financial Services and Estates**
By:	**Cllr Rick Everitt, Cabinet Member for Financial Services & Estates**
Classification:	**Unrestricted**
Ward:	**All wards**

Summary: **To present the draft budget strategy for the General Fund, Housing Revenue Account and Capital programme for 2015-16, and the draft Medium Term Financial Plan for 2015-19.**

For Decision

1.0 INTRODUCTION

1.1 The purpose of this report is to present the Budget for 2015-16 and planning estimates for the following years to 2018-19.

2.0 EXECUTIVE SUMMARY

2.1 The Council has reduced government funding in 2015-16 following the 2013 Spending Review and the 2014 Autumn Statement. Those reductions were already assumed in the Medium Term Financial Strategy (MTFS) 2014-18. The MTFS was approved as part of 2014-15 budget setting.

2.2 This report finalises the funding position for 2015-16 based on the Autumn Statement (subject to any further changes after consultation). It also sets out budget pressures and service priorities that are reflected in setting the 2015-16 budget.

2.3 The MTFS is rolled forward to cover 2015-19 with updated assumptions where appropriate. The MTFS also reflects savings themes to manage the future financial position.

2.4 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.

2.5 The 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. The proposed Housing Revenue and Capital budgets were presented to the East Kent Housing Tenant Board for consultation and comment on 19 November 2014. Tenants noted the budget proposals and supported the New Build Programme with its mix of properties.

2.6 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, Council priorities, and schemes that will generate a revenue saving.

3.0 GOVERNMENT FUNDING AND COUNCIL TAX

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

Business Rates Retention

3.2 The Government introduced a business rates retention scheme from 1st April 2013. The scheme provides an incentive to councils to grow their local economy by allowing them to retain a proportion of the business rates collected. In return, authorities share the risk of a fall in rate yield, subject to a safety net mechanism.

3.3 A baseline 2013-14 funding level was established by the Government for each authority. The baseline is increased annually by a standard formula.

3.4 Authorities whose business rates grow above the baseline are able to retain a proportion of that growth in revenue (after paying a levy to HM Treasury), 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).

3.5 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 and major preceptors. The safety net mechanism ensures that no authority's income falls by more than 7.5% of their baseline funding level.

3.6 In 2013-14 it was assumed that the Council would be at or below the safety net; however 2013-14 outturn was at the baseline.

3.7 The 2014-15 forecast is that the Council will exceed its 2014-15 baseline by around £230k. That would lead to retention of £115k, which is expected to be used to achieve a balanced outturn.

3.8 In 2015-16 retention of £300k is forecast before any pooling benefits – see next section 3.9.

3.9 The Council was part of a successful Kent application to DCLG to operate a business rate pool in 2015-16 and thereafter. Membership of the pool will potentially lead to additional retention of £50k+ with a similar additional amount being available for joint economic development projects with KCC.

3.10 Similar levels of retention are forecast for 2016-17 to 2018-19.

3.11 Forecasts on business rate income need to be treated with caution as they are the mercy of business closures and unforeseen changes.

Revenue Support Grant

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

3.13 In 2014-15 RSG was £5.131m, but in 2015-16 it will fall to £3.630m.

3.14 The Revenue Support Grant includes within the total prior year, grants paid to compensate those authorities that froze their Council Tax.

3.15 The Revenue Support Grant also includes a separate element to support homelessness which is included in the General Fund Housing Budget.

3.16 Provisional settlement figures have already been announced for 2015-16 and these are not expected to change significantly as a result of any consultation. Further cuts of 10% across all funding sources from Central Government have been assumed for 2016-19.

The Local Government Finance Settlement

3.17 The Council has faced significant cuts in funding over a number of years, this has seen the net revenue budget reduced by around 26.9% from 2010-11 to 2015-16. Further cuts in funding are anticipated over the next few years as shown in Table 1 below.

3.18 The figures for 2015-16 are still provisional and therefore subject to consultation. Further cuts of 10% have been assumed for 2016-17, 2017-18 and 2018-19.

3.19 The figures shown in Table 1 exclude transfers to the parishes to compensate for the reduction in their tax base following the introduction of council tax reduction schemes and also exclude any new allowances for Council Tax Freeze Grants. From 2015-16 onwards a phased 10% per annum reduction in this support is assumed.

TABLE 1 – FORMULA GRANT				
	2015/16 £'000s	2016/17 £'000s	2017/18 £'000s	2018/19 £'000s
Formula Grant	8,217	7,395	6,656	5,990
% Reduction		10.00%	10.00%	10.00%

3.20 **Housing and Council Tax Scheme Administration Grant** – The Council receives grant funding to cover the administration costs associated with the CTRS and Housing Benefit schemes. This grant funding is being reduced by £163k for 2015-16, as can be seen in Table 2 below:

TABLE 2 – HB/CTS ADMINISTRATION GRANT			
HB/CTS Grant 2014/15 £'000s	DWP HB Grant 2015-16 £'000s	CLG CTS Grant 2015-16 £'000s	Total Grant 2015-16 £'000s
1,360	-108	-55	-163

Council Tax Freeze Grant

3.21 A council tax freeze grant was payable to those councils who froze their Council Tax for 2014-15. The Council took advantage of this arrangement and the grant paid was £103k.

3.22 Subject to final details a similar grant is payable in 2015-16. This is assumed at £103k, based on the calculation used for 2014/15. No assumption has been made that this funding will continue into future financial years.

Council Tax Reduction Scheme funding

3.23 The Revenue Support Grant also includes funding to compensate for the impact of the Council Tax Reduction Scheme (CTRS) on the Council Tax base. The scheme for 2015-16 was agreed by Council on 4 December 2014.

3.24 Following consultation and subject to Cabinet and Council approval it is proposed further to amend the local scheme to introduce a 50% premium for long term empty properties which have been left substantially unfurnished for 2 years or more (see separate report on this agenda). This will provide an incentive for properties to be brought quickly back into use. There is no specific assumption on the impact of this change made within this budget build.

3.25 The CTRS is under three year agreement with KCC, and 2015-16 is the last of the three years. Proposals for future financial years will be issued by KCC for consultation early in financial 2015-16. It is not expected there will need to be substantial changes to the scheme.

Council Tax Base adjustments for minor preceptors

3.26 The Council shares its RSG with parish councils to reflect that parishes do not have direct funding for council tax support and a reduced tax base which in 2014-15 was £161k. It is proposed that the level of this support should be reduced by the commensurate reduction in net funding and should therefore be reduced by 10% annually.

3.27 A governance review of Margate has now been undertaken. Consultation identified the desire to create Westgate on Sea parish council but to not proceed with Margate. TDC will need to provide support in terms of setting the precept as the new organisation would not have the powers to do so.

Council Tax and Collection Fund

3.28 It is assumed that the same council tax will be levied in 2015-16 as in 2014-15. This will invoke the freeze grant set out above in section 3.22

3.29 Council Tax base for 2015-16 is 2% higher than the 2014-15 level and a 2% increase is expected for future years. This reflects the continuing efficiency of shared service arrangements for council tax collection, the operation of the Council Tax Reduction scheme and the increase in households.

3.30 The Council Tax requirement for the Council's own purposes for 2015-16 (excluding Parish precepts) is £8,409k. This is determined after taking into account the Council's allocation of business rates, revenue support grant and the Council's share of the Collection Fund surplus. 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 2015-16 is 97.25%, which is an improvement on the percentage used of 97% in 2014-15.

3.31 Each year the 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 2014-15 of which £50k would be available in 2015-16.

3.32 The funding position has now been revised this is illustrated in Table 3 below:

TABLE 3	**2015-16 Revised**	**2016-17**	**2017-18**	**2018-19**
Precept	8,409	8,748	9,100	9,467
RSG	3,630	2,645	1,781	990
NDR Baseline	4,587	4,750	4,875	5,000
(Underperformance)/Retention	300	300	300	300
(Collection Fund deficit)/Surplus	50	50	50	50
Council Tax Freeze Grant 2015/16	103	0	0	0
Transfer to Parishes	-145	-130	-117	-106
Homelessness	-127	-127	-127	-127
	16,807	**16,236**	**15,862**	**15,574**

4.0 THE 2015-16 BUDGET AND MEDIUM TERM FINANCIAL PLAN 2015-19

4.1 A Medium Term Financial Plan (MTFP) was approved by Council in February 2014, covering the period 2014-15 to 2017-18. However, in the light of the continuing unprecedented economic climate in which the Council finds itself, 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 MTFP covering the period 2015-16 to 2018-19 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 what the Council foresees as its budgetary demands, as a result of inflationary and other pressures, and 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 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 changes in the assumptions on which they are based are all commented on.

4.2 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 MTFP at Annex 1.

5.0 THE GENERAL FUND RESERVE ACCOUNT.

5.1 **The Basis of the 2015-16 General Fund Revenue Budget**

5.2 The following budget strategy has underpinned the development of the General Fund Revenue Account:

- 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 keep Council Tax increases as low as possible to avoid a local referendum, subject to a satisfactory level of Government grant.
- 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 acutely 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.

By following these principles it has been possible to draft a budget 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.

5.3 **Budget Consultation**

5.4 A total of 425 responses have been received in respect of the budget consultation. The responses have highlighted the top 5 priorities as being street cleansing; recycling and waste; community safety; environmental health and parks and open spaces. These areas have been protected from budget cuts wherever possible in recognition of their importance to Thanet's residents.

5.5 **Development of the Budget**

5.6 The Council's opening net base budget of £19,184k as approved in February 2014 is the starting point for future budget proposals.

5.7 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 in order to deliver a balanced budget.

5.8 **Employee Costs**

- **Pay Award** – the budget assumes a pay award of 1% for 2015-16. This will result in budgetary growth of £180k.
- **Other Growth** – A Pay for Contribution scheme has been started and £104k has been set aside for these payments.

5.9 **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 £193k will be required for 2015-16.

5.10 **Increases in Fees and Charges** – The fees and charges schedule for 2015-16 was approved by Council on 4 December 2014. This will generate additional income of £224k in 2015-16. Where fees have increased, these are in the main between 1% and 2%.

5.11 **Savings**

5.12 Based on the budget assumptions outlined above on pay increases, contractual/inflationary growth and fees and charges, savings of £1.218m are required in 2015-16 to set a balanced budget. If Members decide to build in any additional growth for service improvements or specific projects, then further savings will be required. Savings have been identified as detailed below:

General Reserves

5.13 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

6.0 BUDGET GROWTH

6.1 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. Some budgetary growth is inevitable and therefore the budget proposals will include the areas of growth set out in the Table 4 below:

TABLE 4	
Growth	**Detail**
Cost Centre Budget Realignments and movement due to restructure	Budgets have been closely scrutinised and moved due to the restructure this has led to some growth being required of £98k.
KCC Coast Protection Debt Charges	KCC's contribution reduced in line with the reduction in the level of debt, this equates to £20k in 2015-16.
Foreshore pressures	Increase in security patrols due to deter beach chalet/facilities vandalism - £19k
Roundabout Sponsorship	This income will now be transferred to KCC £14k.
Frontline Services Vehicle Replacement	An annual contribution of £350k from Revenue to Reserves is required to fund the future vehicle and asset replacement for Frontline Services. This will enable the service to be improved in accordance with Corporate priorities. The contribution will be made from New Homes Bonus.
Cliff Retaining and Facing Panel Maintenance – Thanet Coastline	Work is required to make the cliff retaining and facing panel safe, and therefore £100k has been allocated annually to this work from New Homes Bonus. This is for annually recurring maintenance and will be used to maintain cliff structures all around Thanet on a priority basis
Shared Service (Debt Recovery)	£30k agreed additional payment to East Kent Shared Service in relation to Corporate Debt Management
Credit Card Charges	Due to the changes in the banking system, we are anticipating £10k of additional credit card charges
One-off funding for Street Cleansing service	Following the budget consultation, the area of most dissatisfaction was street cleansing, this one-off funding will enable the service to undertake a review of the service and develop efficient ways of working, a sum of £110k has been allocated.

7.0 Budget Savings

7.1 During the year 2014-15 Budget Monitoring has identified some additional savings for 2015-6, these are contained within Table 5 below, in addition to this an indicative savings level of £200k in 2015-16 has been allocated to managers:

TABLE 5	
Saving	**Detail**
Realignment of budgets	Budgets have been closely scrutinised this has led to some savings of £28k.
Review of Underspends	A review of current underspends has led to savings of £48k.
Scanner Maintenance	The current scanner maintenance provision has been reviewed and a saving found of £10k

8.0 Fees and Charges:

Fees and charges proposals were previously agreed by Council 4 December. As a result of reviewing all the Council's fees and charges and the income targets, additional income of £224k is anticipated in 2015-16. In the MTFS it is assumed increases will yield £224k in 2015-16.

9.0 HOUSING REVENUE ACCOUNT BUDGET AND HOUSING CAPITAL PROGRAMME

9.1 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. 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.

9.2 **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.

9.3 **HRA Service Expenditure** - As explained above, the HRA is a separate record of all of the Council's expenditure on its social/affordable 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 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

9.4 **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 at Newington Centre, aerials and garages

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

Contributions towards Expenditure – Leaseholder re-charges and rechargeable repairs

9.5 **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.

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.

9.6 **The Housing Revenue Strategy**

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 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.

9.7 **Details of the HRA estimates**

9.8 The main assumptions that have been applied to the HRA for the 2015-16 estimates are summarised below:

9.9 **Contract and Price Inflation** - For direct expenditure budgets, price increases have been included at 2%, which is the best estimate of the level of inflation at this point in time, unless there is a known inflate within a specific contract, in which case this has been used.

9.10 **Repairs and Maintenance** – During 2014-15 work commenced on the procurement process for the re-tendering of the Day to Day Repairs contract. It is intended that the contract will be re-let for a period of 5 years to 2020, after which the repairs and maintenance contracts throughout the East Kent Housing Areas should then be in line for a joint procurement programme. A new Painting and Decorating contract is due to be let to commence from April 2015 as a joint procurement programme with Dover and Shepway Council and growth has been factored in during 2016-17 and 2017-18 for a catch up on the back log of works that have developed during the new procurement period undertaken.

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

9.12 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. It is understood that EKH have provided Client Officers with a budget and plan to agree the Management Fee for the next 5 years. The current proposal for Thanet is to freeze the current management fee at £1.29m. A number of business cases have been put forward for budgetary growth and are currently being considered across the four councils. The council also pays over a further £21.7k for the Tenant Participation Grants and its advertising for Council tenants to make requests for suggestions to improve their surrounding environment.

9.13 Every 5 years the Council is required to instruct the Valuations Office to re-value the housing stock and therefore a one off budget of £12k has been included. Last year the Pensions fund for past employees was revalued, whilst the General Fund has borne the majority of the cost a small proportion has been charged to the HRA for past employees' pension funding costs totalling £40K, small budgetary growth of £9k is required for legal and land registry costs offset by identified savings of £10k.

9.14 **Supervision and Management Special** –A review of the Parks and Open spaces service and costs has recently been undertaken resulting in the first increase in costs since 2010 of £26.5k

9.15 **Rents, Rates, Taxes and Other Charges** – With the addition of the new affordable units as part of the Empty Homes Programmes, Margate Intervention and the new build programme, the budgets that the Council holds as a landlord have been reviewed and increased for running costs. These include insurance costs, Council tax due on void properties, utility standing charges on void properties and utility budgets for New build properties. This has resulted in budgetary growth of £70k off set against the new rental costs generated from the schemes.

9.16 **Provision for Bad or Doubtful Debts** – The budget was increased to £220k in anticipation of the effect of the changes to Welfare Reform. Last year a contribution of £109k was made for the provision of the bad and doubtful debts which would suggest that there is capacity to remove the growth initially added of £50k and reduce the budget back to the initial £170k.

9.17 **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 wore 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 and so work has been undertaken as to how best to calculate the depreciation charge moving forward. In the interim, for the next 2 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 £2.398m in 2015-16, however, in the uplifted settlement model the figure is £3.367m. The difference of £0.97m 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 £145k.

9.18 **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 and is not able to exceed this level of borrowing. As at the 1 April 2014 the HRA had £20.868m of loans outstanding. A loan is due to mature during 2015-16 of £827k and the budget reflects the repayment taking the borrowing down to £20.041m.

9.19 **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.

9.20 In October 2013 the government published a consultation paper on rents for social housing from 2015-16. The consultation ended on 24th December 2013 and in May 2014 the government issued its final guidance on rents for social housing. Changes to the guidance are as follows:-

- Moving from annual increases in weekly rents of Retail Price Index (RPI) +0.5% plus up to £2, to increases of Consumer Price Index (CPI) +1%.
- Terminating the rent convergence date a year earlier from 2015-16 to 2014-2015.
- Removing the flexibility available to landlords to increase weekly social rents each year by an additional £2 where the rent is below the target rent and rent cap.

- Properties that have not reached target rent can only be set to target rent when the property is let following a vacancy, until then only the limit of Consumer Price Index +1% can be applied.

- Councils are encouraged to have a policy in place to reflect that those tenants whose annual income is at £60k or above are charged full market rent.

It is anticipated the new guidance issued will provide stability to the rent setting process and Housing Business plans for the next 10 years.

9.21 Rental estimates are based on the new government guidance for rental increase which uses the September CPI figure of 1.2% + 1%. Future years' estimates for the MTFP will be based on calculations that include a CPI inflationary increase for the next 10 years of 1%+ 1%.

9.22 An estimate of property average rents have been provided below with a comparison as to how they compare against the target rent. Across the whole stock the average rent is £82.81 whereas the average target rent is £83.44. The average rent increase for 2015-16 is £1.76.

TABLE 6 – AVERAGE SOCIAL HOUSING PROPERTY RENTS

Property	Est. Ave Target Rent	Est. Ave Rent	Variance to Est. Average Target Rent
Bedsits	£58.02	£58.02	-
1 Bed Flat	£68.48	£68.47	£0.01
1 Bed House	£79.28	£79.28	-
2 Bed Flat	£77.55	£77.52	£0.03
2 Bed House	£86.71	£86.25	£0.46
3+ Bed Flat	£88.20	£88.14	£0.06
3 Bed House	£95.54	£93.95	£1.59
4+ Bed House	£105.94	£103.91	£2.03

9.23 As can be seen from Table 6 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 financial impact of reducing the year for rent restructuring for Thanet is estimated at approx. £99k.

9.24 New units created as part of the Cluster bid within the Margate Intervention Programme and HCA Empty Homes project 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 increased by September CPI + 1% in line with government rent guidance.

TABLE 7 – AVERAGE AFFORDABLE RENTS INC OF SERVICE CHARGES	
Property Type	**Average Actual Rent**
1 Bed House	£ 79.29
2 Bed House	£ 94.33
2 Bed Flat	£ 103.68
3 Bed House	£ 116.86
4 + Bed House	£ 149.98

9.25 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

9.26 **Non Dwelling Rents** - Income generated from aerials on tower blocks is expected to increase as a number of leases are due for renewal; £18k is anticipated in extra income. Garage rents will be increased by CPI 1.2% + 1% in line with property rents.

9.27 **Service Charge Increases** – A review of the service charges within the HRA has was undertaken last financial year 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 9 October 2013 to make the service charges easier to understand and available for tenants to scrutinise. Service charges are now calculated based on actual cost and follow the new government guidance that increases should not exceed September CPI + 1%.

9.28 **Heating Charges** – Heating charges will be recovered on actual cost based on usage and contract price and then apportioned across the block dependant on bedroom size. Energy is purchased using a large public sector energy buying group which operate a Flexible Framework that requires purchasing requests to be submitted to the entire market ensuring the lowest available price is achieved. Over the last 4 years this Framework has secured delivered wholesale prices around 4% below the market average.

9.29 **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 although current projections for future years have been increased. The budget for 2015-16 of £75k is based on achieving an average interest rate of 0.75%.

The Housing Revenue Account Reserves

9.30 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:

9.31 **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 on housing stock or debt repayment 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. The estimated transfer to the Major Repairs Reserve for 2015-16 is £3.367m.

9.32 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 2014 this reserve balance was £5.9m which is higher than usual due to the difficulties over the last few years with the kitchen contract - work that was due to be undertaken during 2012-13 and 2013-14 on the kitchens was delayed and therefore funds budgeted for the back log of works have been set aside to enable a catch up programme over the next four years.

9.33 **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 2014 this reserve balance was £5.66m.

9.34 **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. Earmarked match funding for the Margate Intervention and Empty Property programme has been set aside in this reserve as agreed by Cabinet. As at 1 April 2014 this reserve balance was £5.18m and is due to be drawn down during 2014-15. Income generated from affordable rents will continue to be set aside in this reserve for re-investment in a new build programme.

TABLE 8 – HOUSING REVENUE ACCOUNT BUDGET				
	2015-16 £'000	**2016-17 £'000**	**2017-18 £'000**	**2018-19 £'000**
Expenditure				
Repairs & Maintenance	3,368	3,587	3,644	3,616
Supervision & Management – General	2,859	2,862	2,863	2,864
Supervision & Management – Special	555	565	576	587
Rents, rates, taxes and other charges	366	380	395	409
Bad or doubtful debts provision	170	170	170	170
Depreciation/impairment of fixed assets	2,543	2,543	2,543	2,543
Capital Expenditure funded from HRA	1,126	2,684	367	472
Debt Management Costs	9	9	9	9
Non-service specific expenditure	800	800	800	800
Gross Expenditure Sub Total	**11,796**	**13,600**	**11,367**	**11,470**
Income				
Dwelling Rents (gross)	-13,094	-13,611	-14,134	-14,428
Non-dwelling Rents (gross)	-200	-203	-205	-207
Charges for services and facilities	-331	-331	-331	-331
Contributions towards expenditure	-290	-290	-290	-290
Other Charges for Services and Facilities	-11	-11	-11	-11
Income Sub Total	**-13,926**	**-14,446**	**-14,971**	**-15,267**
Net Costs of Services Sub Total	**-2,130**	**-846**	**-3,604**	**-3,797**
HRA Investment Income	-76	-151	-201	-251
Debt Interest Charges	988	1,170	1,170	1,170
Government Grants and Contributions	-1,362	-610	0	0
Adjustments made between accounting basis and funding basis	**2,359**	**779**	**169**	**997**
(**Surplus)/Deficit on HRA**	**(221)**	**342**	**(2,466)**	**(1,881)**
Housing Revenue Account Balance:				
Estimated Surplus at Beginning of Year	-5,664	-5,885	-5,543	-8,009
(Surplus)/Deficit for Year	-221	342	-2,466	-1,881
Estimated Surplus at End of Year	**-5,885**	**-5,543**	**-8,009**	**-9,890**

10.0 THE HRA CAPITAL BUDGET

10.1 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 can be met from loans, capital receipts, capital grants or revenue contributions.

10.2 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.

10.3 **The HRA Asset Management Strategy**

10.4 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.

10.5 The existing housing stock is continually reviewed for its suitability to provide good quality housing. Where stock is identified that requires considerable capital investment which far exceeds its worth to the authority and or it has a greater market value consideration, will be given to disposal in order to generate capital receipts to fund new developments to increase the number of units or re-investment into the existing stock.

Available Capital Funding

10.6 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.

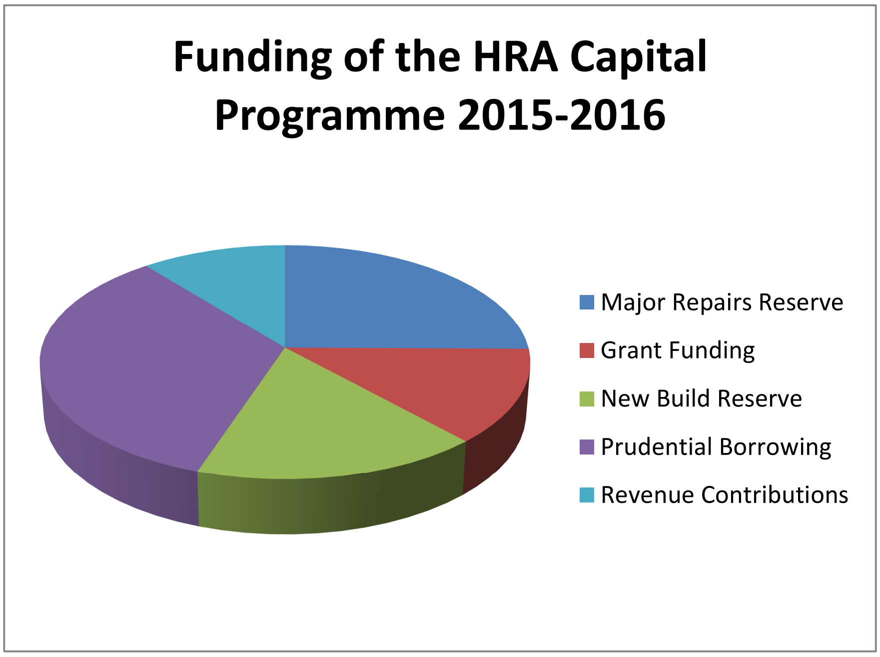
10.7 **Capital Grants** – These are offered by Government Departments to assist with certain types of expenditure. The HRA has recently been awarded £1.37m funding towards the delivery of a new build programme for 58 new affordable units within the district from the Homes and Communities Agency (HCA) Affordable Homes Programme 2015-18.

10.8 **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 4 right to buy properties and the Council is able to keep all of the sales income over and above.

10.9 **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 £3.561m will be required to support the Capital Programme in 2015-16. The Council has recently made an application to the Local Growth Fund to have the HRA borrowing cap increased by a further £1.11m in order to deliver an additional 20 affordable units. The outcome of the application has been successful and has been factored into the Capital programme for 2016-17.

10.10 **HRA Capital Reserves** – A summary of the HRA reserves have been detailed in para (10.30). The major repairs reserve is used to fund expenditure on the council housing stock and the new properties reserve is utilised to fund the creation of new affordable homes.

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



10.12 **The Capital Programmes for 2015-16 to 2018-19**

10.13 **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.

10.14 The Roofing programme is due to be re-tendered for 2015-16, slippage from 2014-15 is to be carried forward and undertaken during 2015-16 with a catch up programme scheduled for 2016 onwards.

10.15 Kitchen and Bathroom replacement budgets have been increased to reduce the back log of work incurred whilst the previous contract was terminated and re-tendered. It is intended that this will continue over a 4 year period to bring the replacement programme back on schedule.

10.16 Disabled adaptions budgets have been increased by £100k p.a. as an interim to cope with demand whilst a review of the need within our housing stock is undertaken.

10.17 An amount of £1.9m has been included within the HRA capital programme for the third year of the Margate Intervention Programme, to be funded from the remaining balances set aside in the HRA New Properties Reserve and a 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.

10.18 It is anticipated that on-going works for the Empty Homes Programme will be completed during 2015-16 for the creation of 14 units and £1.6m has been allocated to facilitate this.

10.19 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. Further works are continuing to identify surplus land and properties for on-going new build developments.

10.20 As mentioned in para (11.9) the Council has recently been successful in an application to Government to extend the borrowing headroom by a further £1.11m to facilitate the building of a further 20 new units of affordable accommodation. A detailed breakdown of the capital programme is provided in Annex 4.

11.0 The Draft Capital Budgets 2015-16 to 2018-19

11.1 The draft Housing Revenue Capital Programme for 2015-16 that is proposed for Members' approval is £10.4m, 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 Table 9 below:

TABLE 9 – HRA CAPITAL PROGRAMME					
	2014-15 slippage £'000	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Total HRA Capital Programme Expenditure	**495**	**10,449**	**10,072**	**3,392**	**3,697**
HRA Capital Resources Used:					
HRA Major Repairs Reserve	370	2,630	3,035	3,025	3,225
HRA Revenue Contributions	125	1,126	2,684	367	472
New Build Reserve		1,770	68		
Grant Funding		1,362	610		
Prudential Borrowing		3,561	3,675	0	0
Total Funding	**495**	**10,449**	**10,072**	**3,392**	**3,697**

12.0 OPTIONS

12.1 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 in the proposals could be varied; however, there would be too many possible permutations to present in this report.

13.0 CAPITAL PROGRAMME

13.1 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, for example 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.

13.2 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

13.3 **The Asset Management Strategy**

13.4 By far the largest element of the Council's capital worth (as represented by the fixed asset values on the Balance Sheet) is in its property holdings, with a total of £160 million showing as the net book value of all property assets as at 31 March 2014 (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.

13.5 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.

13.6 **Capital Receipts**

13.7 Over the past four years there have been limited capital receipts being generated from the sale of surplus assets, some of this has been due to the economic downturn and assets removed from the disposal list following consultation. 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 2015-16 financial year, as it may be necessary to adjust the programme in year depending on the outcome of proposals put forward for asset disposals/transfer by the Corporate Property Asset Management Group.

13.8 No assumption has been made with regard to the utilisation of any anticipated receipt with regard to the Royal Sands Development. In the event that a capital receipt is forthcoming it will be allocated as is usual for all capital receipts within the capital bid process and scoring regime.

14.0 THE CAPITAL BUDGET STRATEGY

14.1 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

14.2 Due to the limited availability of capital receipts and the need to contain the level of borrowing undertaken to minimise the revenue impact, it has been necessary to review the Capital Programme. This is to ensure sufficient funding is available for existing schemes that have commenced and that any new projects are of the highest corporate priority and/or reduce the pressure on the revenue account. Bids have been assessed, scored and reviewed by the Budget Review 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 Finance and Asset Management prior to the final budget report.

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

14.4 Over the past five years the Council has seen a significant reduction in the capital receipts from the sale of assets. It is difficult to estimate the funding level achievable as a number of changes often arise to the disposal programme once the consultation process has been completed. In the event that they cannot be realised in 2015-16 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 capital programme adjusted accordingly

14.5 There is limited scope for future investment in new assets or making improvements to existing buildings. The Asset Management Strategy is being 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. The current portfolio is not maintainable with the current funding available for repairs and maintenance and resources available and given the Councils 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

14.6 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

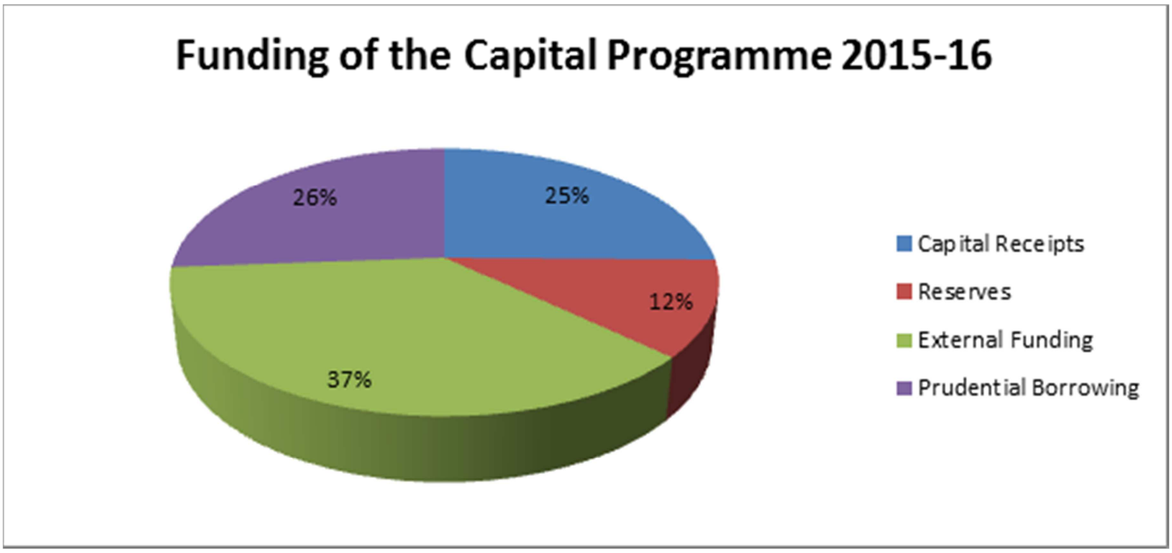
14.7 A review of the asset register has identified a substantial amount of vehicles, plant and equipment that is nearing the end of its useful life. In order to protect the ability to deliver front line services to the public, a new vehicle, plant and equipment reserve was set up last year for a replacement 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. The Replacement Reserve currently holds a balance of £227k as at 31 March 2014

14.8 Current estimates of the remaining life of useful assets within the asset register suggests that the Waste and Cleansing department requires investment of approx. £1.7m between 2014-2019 to continue to provide frontline services. The Grounds Maintenance team have capital bids of £250k to replace some vehicles; however it is estimated a further £350k of investment is required to continue to provide frontline services. A full review of the requirements of both areas is currently being undertaken.

Available Capital Funding

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

14.10 A summary of the 2015-2019 capital resources utilised to fund the Capital programme is detailed in Annex 2, but shown graphically below.



14.11 **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 (DFG's), Environment Agency, Lottery funding and European grants. The Disabled Facilities Grants allocation for 2014-15 is £1.108m and it has been assumed that this will continue for 2015-16. Following the Comprehensive Spending Review and development of the Care Act 2014, 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

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

14.13 **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 £1.105m will be required to support the General Fund Capital Programme in 2015-16.

14.14 **Capital Projects Reserve** – A mid-year review of the capital programme will be undertaken in light of the limited capital receipts achieved to date. It is anticipated any balances remaining within the reserve will be fully utilised to balance the existing 2014-15 programme.

15.0 THE CAPITAL PROGRAMMES FOR 2015-16 TO 2018-19

15.1 A number of capital programmes agreed for 2014-15 have been re-phased into 2015-16 whilst schemes are being reviewed, they are the Margate Pedestrian Connections £24k and the Crematorium Office upgrade £30k.

15.2 **Existing Programmes already agreed** – Programmes already agreed from previous years within the four year programme are the Disabled Facilities Grant £1.407m, Dalby Square Townscape Heritage Scheme £559k, Margate Cemetery Extension £230k, Public Conveniences annual enhancement programme £50k, Swimming Pool/Sports Hall Essential capital repairs £50k, Grounds maintenance replacement mowers and vehicles £250k.

15.3 **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 vehicles within the Grounds Maintenance Team that are nearing the end of their useful life and £250k has been factored in for 2015-16 for their replacement. A full review of the replacement programme for Waste and Cleansing vehicles, plant and equipment is being progressed and a continuing replacement programme has been factored into the programme at £500k each year. As part of the review the requirements for the Waste Transfer Station that is already budgeted for in 2013-14 at £216k is being evaluated resulting in a requirement for a greater level of investment. A further £500k has been identified as being required. Upgrading of the boat washing facilities at the Harbour £25k is required to include a new waste collection system for better disposal of solid waste.

15.4 A number of the Council's properties require investment and a base annual enhancement programme has been built in of £200k per year. This is to be funded from capital receipts in the first year, but it is expected that a greater rationalisation of assets in future years will generate revenue savings that can be re-invested in the remaining assets in future years. The programme of works against this budget will be determined by the newly formed Corporate Property Asset Management Group.

15.5 The Council's CCTV cameras are nearing the end of their useful life and due for replacement. Cabinet agreed on 13 November 2014 that the control room be retained in the medium term at its current location but with financial provision made to co-locate in the Cecil Street offices and a tender exercise undertaken for the replacement of the control system, cameras, and mobile CCTV equipment.

15.6 **New Capital Projects –**

Introduction of Columbaria at the Crematorium - This will enable multiple above-ground 'interments' of ashes along with associated memorialization and provide an income stream which will renew periodically. Such schemes are more widespread nowadays due to pressures on land-space and maintenance costs with more traditional methods. The introduction of such a scheme at Thanet is necessary as the Garden of Rest areas now have a capacity for possibly only five years, but would still require costly maintenance once full.

Upgrade of the Public Chapel of Remembrance – Refurbishment of the public chapel of remembrance with the provision of an 'Electronic Book of Remembrance'. This should include the replacement of the bespoke cabinet to accommodate three physical Books of Remembrance and provision of an electronic facility to enable greater public access to individual memorials. This may also necessitate rearrangement to lighting and other fittings, as well as the extension of internet access to the Chapel. This will enhance the facility to provide the modern aspect of the electronic system which many crematoria now use, as well as providing continued accessibility to the traditional Books of Remembrance which have been at Thanet since 1966 and which are still regularly visited by many people.

Sea Wall Re-facing Works West of Westgate Bay - Grant funded study work has been completed and a scheme has been designed in detail consisting of the renewal of the coping with new precast units. The seaward berm slab will also be renewed as part of the scheme. Some sea wall toe improvement work will also be included. The scheme features on the Environment Agency's Medium Term plan for funding in 2017-18 subject to Project Appraisal Report Approval and should it be agreed it is anticipated it would be fully funded by the Environment Agency.

Ramsgate Port and Harbour – Low Carbon Plan - The Low Carbon Plan project is currently at feasibility stage and is being progressed as part of the LOPINOD (Interreg funded) project. The project seeks to reduce the carbon footprint and running costs of the Port and Harbour through the use of a number of renewable energy technologies and the introduction of modern apparatus to reduce energy consumption. Work streams currently being investigated include:

Hydroelectric power generation (using water held in Inner Harbour Marina)

- Solar Panels (Photo Voltaic and Solar Thermal)
- Marine Source Heat Recovery – Premises heating
- Introduction of LED lighting technology
- Wind turbine technology

The feasibility element of the project will be completed in January 2015, with detailed design to follow subject to conclusions and funding availability. It is anticipated that any borrowing required for the scheme would be self-funding from the savings generated. Further information will be reported to Cabinet once available

Ramsgate Main Beach Timber Groyne - The Ramsgate Main Beach area attracts the deposition of sand due to the artificial influence of the East Pier of Ramsgate Royal Harbour which retards the natural long shore drift process. The provision of groynes would stabilise the beach which could reduce beach recycling costs and dredging costs. A more stable beach particularly towards the north of the area could also enhance amenity value. A project of this nature cannot progress without detailed study work to assess environmental impact including that on coastal process, current beach usage and visual amenity. An application to fund a study of this nature has been made to the Environment Agency through the flood and coastal erosion risk management grant process.

15.7 **The Draft Capital Budgets 2015-16 to 2018-19**

15.8 The draft General Fund Capital Expenditure Budget for 2015-16 that is proposed for Members' approval is £4.174m, which will be funded in the main from capital grant, usable capital receipts and prudential borrowing. This is shown in summary Table 10 below.

TABLE – 10 DRAFT GENERAL FUND CAPITAL PROGRAMME					
	2014-15 £'000	**2015-16 £'000**	**2016-17 £'000**	**2017-18 £'000**	**2018-19 £'000**
Statutory and Mandatory Schemes		1,408	1,408	1,408	1,408
Schemes continuing from prior years	54	1,039		300	
Annual Enhancement Schemes		800	800	800	800
Wholly/Part Externally Funded Schemes		40	607	244	
Replacements and Enhancements		812	813	570	
Area Improvement					
Capitalised Salaries		75	75	75	75
Total Capital Programme Expenditure	54	4,174	3,703	3,397	2,283
Capital Resources Used:					
Capital Receipts and Reserves	54	1,501	918	535	475
Capital Grants and Contributions		1,568	1,555	1,652	1,108
Contributions from Revenue			200	200	200
Prudential Borrowing		1,105	1,030	1,010	500
Total Funding	**54**	**4,174**	**3,703**	**3,397**	**2,283**

16.0 RESERVES

16.1 **General Reserve**

16.2 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 5** to this report. No change in reserves currently proposed.

16.3 **Earmarked Reserves**

16.4 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. Table 11 overleaf shows the planned transfer out of a number of earmarked reserves, which will be used to fund anticipated expenditure during the year.

TABLE 11 – PROPOSALS FOR RESERVE HOLDINGS FOR 2015-16				
Name of Reserve	**Opening Balance 2015-16 £'000**	**Transfers In £'000**	**Transfers Out £0**	**Closing Balance 2015-16 £'000**
GENERAL RESERVE	**2,177**			**2,177**
EARMARKED RESERVES				
Coastal Infrastructure Reserve	500		-	500
Council Election Fund	116		-	116
Cremator and Cemeteries	247		-	247
Customer Services Reserve	586		-	586
Decriminalisation Fund	177		40	137
Dreamland Reserve	117		-	117
East Kent Services Reserve	790		0	790
Economic Development & Regen	198		-	198
Environmental Action Plan	162		-	162
General Fund Repairs	379		-	379
Homelessness Fund	260		-	260
Housing Intervention Reserve	246		-0	246
HRA Properties	5,188		5,188	-
Information Technology Investment	350		175	175
Local Plan	315		-	315
Maritime Reserve	433		-	433
New Homes Bonus Reserve	401	2,559	2,550	410
Office Accommodation	30		-	30
Pay & Reward Reserve	341		-	341
Pensions Fund	661		0	661
Priority Improvement Reserve	520		182	338
Renewal Fund	10		-	10
Risk Management	222		-	222
Unringfenced Grants	617		-	617
VAT Reserve	437		20	417
Vehicle, Plant and Equipment Reserve	227		-	227
Waste Reserve	77		-	**77**
Total Earmarked	**13,605**	**2,559**	**8,153**	**8,012**

16.5 **Using Reserves for Planned Expenditure**

16.6 **Earmarked Reserves** – As detailed within Annex 5, 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 above shows the planned transfer out of a number of earmarked reserves, which will be used to fund anticipated expenditure during the year in the General Fund Revenue Account.

16.7 **Use of Earmarked Reserves** – Cabinet 3 April 2014 agreed the policy for the drawdown of earmarked reserves, this policy identified that some discretion would be required due to the varied nature of each of the reserves. It is therefore proposed to vary this policy in relation to the following, by designating that movements on these reserves be approved by the Director of Corporate Resources and Section 151 Officer in consultation with the

Cabinet Member for Financial Services and Estates and the relevant Portfolio Holder up to a limit of £100k per movement:

- Capital Projects
- Coastal Infrastructure
- Cremator and Cemeteries
- Customer Services
- Dreamland
- Homelessness
- New Homes Bonus
- Priority Improvement Reserve

16.8 **General Reserves** – The reserve stands at £166k above the recommended level per the risk assessment shown at Annex 5. This is available to be transferred to the Priority Improvement Reserve. There are no planned withdrawals from the General Fund balance to support the base budget.

16.9 **Using Reserves to Support the Net Budget Requirement** – Aside from using earmarked reserves to meet planned but irregular expenditure, reserve balances can also be used to provide additional funds to simply contribute towards the bottom line funding requirement. Given that reserves are one-off funds their use in this way should be by exception, as to use them to meet on-going base expenditure will ultimately give rise to 'structural gap' which will need to either be met from future base savings, or additional base growth as in previous years. For 2015-16 a sum of £40k is proposed to be utilised from the Decriminalisation Reserve.

16.10 **New Homes Bonus** – The allocation of New Homes Bonus funding for 2015-16 for this Council is £2.56M. Members have previously agreed that sum of £185k from this funding is used to cover the events budget (£165k) and floral grants (£20k). Members have also agreed that budget shortfalls due to the cuts in Formula Grant will also be met from the New Homes Bonus. The proposed draw down in 2015-16 to negate the impact of the Formula Grant cut is £1.843m. In addition to this, Members' approval has already been given for a sum of £40k has been set aside to support domestic violence advisors in 2015-16 and £32k to support the Dalby Square project ongoing and it is proposed that £350k will be required to cover the replacement of Frontline Services vehicles and £100k will be required for Cliff Retaining and Facing Panel Maintenance – Thanet Coastline.

16.11 **2015-16 General Fund Revenue Budget Proposals**

16.12 The impact of the above changes when applied to the 2014-15 base give a net budget requirement of £19,375k for 2015-16, which is felt, will just be sufficient to enable the delivery of the Council's statutory services as well as its priority discretionary services.

16.13 A summary of the key changes that have been made to arrive at the draft General Fund Revenue Budget for 2015-16 is shown in Table 12:

TABLE 12 - GENERAL FUND REVENUE BUDGET	
	2015-16 **£'000**
Opening Base Budget	**19,184**
Inflationary Increases	373
Service Growth	1,260
Savings Required	-1,442
Net Service Revenue Budget	**19,375**
Decriminalisation Reserve contribution to traffic related services	-40
Priority Improvement	-50
New Homes Bonus	-2,478
Net Budget Requirement	**16,807**
Funded by:	
Formula Grant re RSG & Business Rates (inc. CT Freeze)	8,348
Collection Fund Surplus	50
Council Tax	8,409
Tax Base	**16,807**
Indicative Band D Council Tax	**209.97**
% increase on Band D	0.00%

17.0 COUNCIL TAX FOR 2015-16

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

17.2 **Council Tax Surplus/Deficit**

17.3 Each year the Council Tax is calculated based on assumed levels of collection rates. This means that at the end of the year an adjustment has to be made to reflect the actual collection rates. This can lead to a surplus or deficit on the fund, which has to be accounted for within the calculation of the net budget requirement. The estimated surplus assumed for this budget is £50k.

17.4 **Tax Base**

17.5 The Council Tax is calculated by the division of the Precept by the Council Tax Base.

17.6 The Council Tax Base is the number of properties within the District adjusted to account for different valuation bands, various discounts (including those relating to the introduction of the Council Tax Reduction Scheme (CTRS)) and an assumed collection rate. The assumed collection rate recognises that there will be an element of bad debts that will not be collected. In previous years this had been set at 97%. However, monitoring of the impact of the new scheme has been undertaken during the year and this has reflected that this assumed collection rate is too low; therefore it has been increased to 97.25% for this budget.

17.7 At the Council meeting on 5 December 2014, Members approved the delegation of the formal resolution determining the Council Tax Base to the S151 Officer in consultation with the Leader and Finance Portfolio Holder. It has subsequently been determined that the Council Tax Base for 2015-16 shall be as follows:

TABLE 13 – COUNCIL TAX BASE 2015-16	
Parts of District	**Band D Equivalent Properties**
Acol	105.64
Birchington	3,816.03
Broadstairs	9,082.74
Cliffsend	688.77
Manston	367.12
Margate	11,482.50
Westgate On Sea	2,246.52
Minster	1,103.44
Monkton	257.06
Ramsgate	10,496.88
St Nicholas-at-Wade and Sarre	377.48
Ministry of Defence Properties *	24.30
Whole of Thanet District Council	**40,048.49**

.* These properties fall wholly within Minster

17.8 **Council Tax**

17.9 As detailed earlier in the report, the Government has announced a further Council Tax freeze grant for 2015-16 and as a result any authority which proposes a Council Tax increase above the Council Tax threshold (assumed to be 2% but yet to be confirmed) will have to go to a local referendum.

17.10 If the Council was to increase Council Tax by 1.99% for 2015-16 (to keep below the 2% referendum limit) it would generate additional income of £167k. If it does not increase Council Tax, it will receive a Council Tax freeze grant of approximately £103k. The Council is proposing to take the freeze grant to protect its residents and will use the New Homes Bonus to fund the shortfall of £1,843k.

17.11 The impact of the budget proposals contained within this report on the Council Tax can be seen in Table 14.

TABLE 14 – CALCULATION OF COUNCIL TAX FOR 2015-16	
Net Budget Requirement for 2015-16	**£'000** **16,807**
Financed from: Formula Grant re RSG & Business Rates (inc. CT Freeze) Collection Fund Surplus	 8,348 50
Balance Remaining = Precept	**8,409**
Divided by Tax Base	40,048
Council Tax for Band D property 2015-16	**£209.97**
Compared to Council Tax for Band D in 2014-15	£209.97
Increase in Council Tax charges	£0.00 0.00%

18.0 A STATEMENT OF ASSURANCE FROM THE SECTION 151 Officer

18.1 Under the Local Government Act 2003 the Statutory Finance Officer, who for Thanet District Council is the Director of Corporate Resources and Section 151 Officer, is required to give Members an opinion on the robustness of the budget estimates and the adequacy of reserves. This has to be done after consideration of the context within which the Council is required to operate, both in the short and medium term.

18.2 The main areas of uncertainty which could put the budget under pressure for 2014-15 are future cuts in government funding, the delivery of savings, the achievement of income targets and uncertainties around the full impact of the business rates retention scheme. Whilst there are other areas of uncertainty around budget estimates for planned expenditure, the risk of overspending can largely be controlled by officers. It is a fact that the draft budget relies upon the delivery of substantial savings, however, the estimates for these have been developed by the Service Managers who are responsible for their delivery, with the assistance of the Financial Services staff, and as a consequence the figures contained within this report are believed to be achievable. The risk around the achievement of planned income receipts is heightened due to the current economic climate and this has been reflected in the revised risk assessment of reserves. Increases in fees and charges have been proposed with due regard to like charges elsewhere in the county and differential rates are used to take account of socio-geographical factors. The consideration that has gone into the production of the budget estimates, combined with the fact that the Council has an up to date financial system in place and operates sound budget monitoring and other financial control system, means that the chief Financial Officer believes the Council is well placed to deliver against the budget proposals presented within this report.

18.3 As regards the level of reserves, the proposals are supported by a robust financial risk assessment and their purpose is clearly laid out and well understood.

18.4 In conclusion, it is the Director of Corporate Resources and Section 151 Officer's opinion that the budget is robust and achievable and that the proposals for reserves are adequate.

19.0 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.

20.0 CORPORATE IMPLICATIONS

20.1 **Financial and VAT**

20.2 The financial implications for the General Fund budget are laid out within the body of the report.

20.3 Based upon the financial risk assessment contained within Annex 5, it would at this stage be appropriate to maintain General Fund balances at 12% of the net service revenue base.

20.4 **Legal**

20.5 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 Section 151 Officer, Paul Cook, and this report is helping to carry out that function.

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

20.7 **Corporate**

20.8 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.

20.9 **Equity and Equalities**

20.10 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.

20.11 A four 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. The consultation document was also mailed directly to a random sample of 5,000 residents. Promotion was undertaken throughout the four week period, including social media, website, press and posters. A total of xx responses were received by the closing date. The HRA budget, including the proposed rent increases, will be presented to the Tenant Area Board to which all tenants are invited.

20.12 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.

21.0 Recommendation(s)

21.1 That Members approve the draft Medium Term Financial Plan at Annex 1;

21.2 That Members approve the draft General Fund Revenue budget estimates for 2015-16 to 2018-19 and the resulting budget requirement for 2015-16;

21.3 That Members approve that the level of general reserves be held at £2,177k, and specific earmarked reserves be used as identified in Annex 5;

21.4 That Members approve the HRA budget estimates for 2015-16 to 2018-19 and the HRA services charges as shown at Annex 3;

21.5 That Members delegate the approval of the EK Housing Management Fee to the Director of Community Services in consultation with the Portfolio Holder for Housing and Planning;

21.6 That Members agree to a 10% reduction in the grant to minor preceptors as per section 3.26;

21.7 That Members approve the General Fund and Housing Revenue Account Capital Budgets for 2014-16 as detailed at Annexes 2 and 4;

21.8 That Members delegate decisions on the use of reserves up to and including £100k per movement to the Director of Corporate Resources and Section 151 Officer in liaison with the Portfolio Holder for Finance and the relevant service Portfolio Holder where appropriate.

Contact Officer:	Paul Cook, Director of Corporate Resources and S151 Officer
Reporting to:	Madeline Homer, Acting Chief Executive

Annex List

Annex 1	Medium Term Financial Plan
Annex 2	GF Draft Capital Programme
Annex 3	HRA Tenant Service Charges
Annex 4	HRA Draft Capital Programme
Annex 5	Financial Risk Assessment and Level of General Fund Reserves

Background Papers

Title	Where to Access Document
EKH Tenant Forum Agenda	19th November 2014

Corporate Consultation Undertaken

Finance	N/A
Legal	Steven Boyle, Legal Services Manager