2013/14 BUDGETS AND MEDIUM TERM FINANCIAL PLAN 2013-17

To:	**Council – 7 February 2013**
Main Portfolio Area:	**Corporate**
By:	**Financial Services Manager**
Classification:	**Unrestricted**
Ward:	**All**

Summary: **To present the draft budget for the General Fund, Housing Revenue Account and Capital programme for 2013/14 and the draft Medium Term Financial Plan for 2013 – 2017.**

For Decision

1.0 INTRODUCTION

1.1 The purpose of this paper is to present the draft budget for 2013/14 and the provisional estimates for the following years to 2016/17.

2.0 THE NATIONAL FUNDING POSITION

2.1.1 The Local Government Finance Settlement

2.1.2 The details of the formula grant settlement for 2011/12 to 2012/13 for Thanet, as announced as part of the 2011-13 two-year settlement, are shown in **Table 1**. These figures reflect the significant cuts in funding as announced in the local government finance settlement in January 2011. The Local Government Finance Report, containing the provisional settlement figures for 2013/14 and 2014/15, was announced on 19 December 2012. This shows a further cut of 7.4% for 2013/14 and a cut of 16.64% for 2014/15. The large reduction in 2014/15 is as a result of the following:

- The 6.5% reduction announced in the 2010 Spending Review;
- The 1% reduction in funding for 2014/15 announced in the Autumn Statement 2011
- The 2% reduction in funding for 2014/15 announced in the Autumn Statement 2012
- A further planned £300m top sliced across local authorities for the New Homes Bonus.

TABLE 1 – FORMULA GRANT			
	2011/12 confirmed £'000	**2012/13 confirmed £'000**	**2013/14 provisional £'000**
Relative Needs Amount	5,330.3	4,774.1	4,845.0
Relative Resources Amount	-1,767.8	-1,774.9	-2,403.0
Central Allocation	6,588.5	5,947.4	6,010.0
Pre-damping Grant	10,151.0	8,946.6	8,452.0
Damping	397.4	265.2	78.0
Formula Grant	**10,548.4**	**9,211.8**	**8,530.0**
Transitional Grant	1,095.8	461.3	0.00
Formula Grant incl Transitional Grant	**11,644.2**	**9,673.1**	**8,530.0**
% Reduction exc Transitional Grant	-14.2%	-12.7%	-7.4%
% Reduction inc Transitional Grant	-5.3%	-16.9%	-11.8%

2.1.3 The formula grant is made up of two elements: business rates and revenue support grant.

Business Rates

2.1.4 Currently, councils collect business rates based on local rateable values multiplied by a national uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool managed by Central Government, which in turn pays back to authorities their share of the pool based on a standard amount per head of the local population. There is currently no incentive and no direct financial benefit to councils who succeed in growing their local economy. A new business rates retention scheme is being launched in 2013/14 which seeks to incentivise local authorities to encourage business growth by allowing them to retain a proportion of the business rates collected. In return for the incentives, authorities will share some of the risk of a fall in rate yield, subject to a safety net mechanism. A baseline funding level (known as the Baseline Need) has been established by the Government for each authority. The Baseline Need figure for this Council for 2013/14 is £4.415m. The Government has then made an assumption regarding the amount of business rates that the Council will be able to collect (this is known as the NDR Baseline) and for Thanet this is £12.649m. As the Council will receive more in business rates than its funding level, the difference of £8.234m will be paid over to the Government as a tariff to 'top up' those authorities who will receive less than their funding level. Authorities will be allowed to keep 50% of new business rate yield, with the balance being split 80% to the district and 20% to the county. However, to ensure the scheme is not weighted towards richer local authorities, some of any business rates growth will be taken as a levy. The levy will be calculated so as to ensure that a 1% increase in business rates income will provide no more than a 1% increase in funding. The levy will be used to provide a safety net mechanism to protect those authorities that see their business rates income drop by more than 7.5%. For this Council, the safety net threshold has been set at £4.084m which means that the Council could potentially face a loss of up to £330k in business rates income before the safety net mechanism would kick in. This is reflected in the financial risk assessment at Annex 3 to this report.

Revenue Support Grant

2.1.5 All authorities will receive Revenue Support Grant from Central Government in addition to its baseline funding level (the amount of the total business rates for England that will be allocated to the Council) as support towards the cost of running council services. An authority's Revenue Support Grant amount plus its baseline funding level will together comprise its start-up funding allocation. The amount of Revenue Support Grant for 2013/14 and 2014/15 has been set out in the 2013/14 Provisional Finance Settlement. For this Council, the Revenue Support Grant for 2013/14 will be £6.636m of which £2.521m relates to a number of grants that have now been rolled into the formula grant from 2013/14. These include the homelessness grant, the council tax freeze grant and the council tax support grant, each of which is covered below:

Homelessness Grant

2.1.6 The Government has confirmed that the homelessness grant is to continue at the current level in 2013/14 and 2014/15. This means that this Council is to receive £127k in each year.

Council Tax Freeze Grant

2.1.7 The Secretary of State provided support for a Council Tax freeze in 2011/12 by awarding a grant equivalent to a 2.5% increase on the 2010/11 Council Tax. This grant is being paid over each of the four years of the Comprehensive Spending Review (up to 2014/15) and amounts to £247k per annum for this Council. The Government also announced support for those authorities who froze their Council Tax for 2012/13, again equivalent to a 2.5% increase. This was given as a one year grant only. The Government has now announced a further Council Tax freeze grant for 2013/14. The funding will provide authorities with the equivalent of a 1% Council Tax increase for 2013/14 and 2014/15, if Council Tax is not increased in 2013/14. For 2013/14, local authorities seeking to increase Council Tax levels by more than 2% will be required to gain approval through a local referendum. This threshold is lower than in previous years (3.5% in 2012/13). The cost of running such a referendum for Thanet would be in the region of £100k.

2.1.8 The Council has frozen Council Tax for the last two years and now proposes to take advantage of the Council Tax Freeze Grant and freeze Council Tax for a third year. As a result, it will be eligible to receive a grant of £99.6k in both 2013/14 and 2014/15.

Council Tax Support Grant

2.1.9 Council Tax Benefit is currently a demand led benefit, where the Government fully refunds the Council for the benefit it has paid out. The current system is being replaced by a localised Council Tax Reduction Scheme (CTRS) from 1 April 2013. The Government is transferring the responsibility for the design of the scheme to local authorities (subject to certain nationally set criteria), together with the transfer of the financial risks. Originally the Government had announced a reduction in funding for this of 10% as part of the Comprehensive Spending Review, although subsequent estimates show that having allowed for the inflationary impact over time, the reduction is now approximately 14% which for Thanet District Council equates to a reduction of approximately £2.2m. In order to keep the costs for this Council and the major preceptors within the reduced grant level, the Council has designed a scheme which will:

- Remove empty property discounts (except for those properties that are subject to major renovation)
- Remove second homes discounts
- Reduce the Council Tax discount by 5 to 6% for those of working age.

The CTRS will result in a reduced Council Tax base. The Council Tax Support Grant will offset the financial impact of this reduction. Based on the Provisional Finance Settlement, the Council will receive £2.148m in Council Tax Support Grant in 2013/14. Of this sum, £160k relates to negating the impact of the scheme on the parishes and will be distributed to the parishes in proportion to the financial loss of the new scheme of each precepting authority. This will leave a sum of £1.99m to support the General Fund impact.

The Council has also received New Burdens monies of £84k in 2012/13 to cover the consultation on the scheme and the costs of adjusting the software to reflect the changes. Further sums of £121.8k and £119.5k will be received in 2013/14 and 2014/15 respectively.

2.2 **Transitional Grant Scheme**

The DCLG have announced an additional £100m for one year to support those local authorities who have developed Council Tax Reduction Schemes that meet set criteria which ensures that low-income households do not face an extensive increase in their Council Tax liability in 2013/14.

To apply for the grant, billing authorities will have to demonstrate that their adopted scheme ensures that those who would be entitled to 100% support under current council tax benefit arrangements pay between zero and no more than 8.5% of their net council tax liability; and that there is no sharp reduction in support for those entering work.

Funding is to be made available to those billing authorities and their major precepting bodies whose schemes satisfy the criteria as a non-ringfenced specific grant. Applications for funding are to be made after the deadline for adopting schemes of 31 January 2013.

Under the scheme, the Council can apply for funding of £56k. A bid will be submitted in early February in accordance with the application process. The Council is also hoping to attract a share of the funding applied for by its major precepting bodies. Discussions are ongoing with these bodies to ascertain the fairest way of apportioning this funding across the Kent districts.

Proposals are being worked up as to how to spend this grant, although it is intended that it will be spent on schemes designed to assist new Council Tax customers with welfare advice, and other initiatives to improve the Council Tax base.

2.3 **Weekly Collection Support Scheme**

The Council has been successful in its bid for funding through the weekly collection support scheme. This funding is to support weekly residual waste collections and providing weekly recycling collections. The Council will receive the following:

TABLE 2 – WEEKLY COLLECTION SUPPORT SCHEME		
	2013/14 £'000	**2014/15 £'000**
Revenue Allocation	214.9	283.6
Capital Allocation	500.8	-
	715.7	**283.6**

The revenue funding is required to support the introduction of changes to the waste and recycling service.

2.4 **Other Revenue Grants**

2.4.1 The Council is also in receipt of a wide range of grants from Central Government and other agencies:

2.4.2 **Specific Grants** – Specific grants are provided to support core Local Authority activities that require funding outside of the formula grant distribution mechanism. The specific grant received for this Council is as follows:

TABLE 3 – SPECIFIC GRANTS		
	2012/13 £'000	**2013/14 £'000**
Housing & CT Benefit Administration	1,442.9	1,445.2

2.4.3 **Miscellaneous Grants** - The Council is also in receipt of a number of other grants that have been accessed by bidding against Central Government Department 'pots' that are set aside for specific incentives as well as some that have been sourced from European funding streams and other partners (e.g. KCC). These grants are typically paid with reference to pre-determined criteria for the delivery of agreed outcomes and in most cases they act essentially as ring-fenced funds. However, they still represent excellent value for the Council as they enable additional resources to be made available to fund activities, projects and investments, all of which are designed to improve quality of life within the District. Each of these different grant receipts are shown in the following tables:

TABLE 4 – MISCELLANEOUS REVENUE GRANTS		
	2013/14 £'000	**2014/15 £'000**
Big Lottery Fund – Footprints in the Sand	24.6	-
Heritage Lottery Fund – Dalby Square THI	35.0	37.0
	59.6	**37.0**

TABLE 5 – CAPITAL GRANTS		
	2013/14 £'000	**2014/15 £'000**
Disabled Facilities Grant –Communities and Local Government grant for improvements for disabled people in their homes.	1,079.0	1,079.0
HCA – Empty Properties Cluster Bid	2,000.0	-
HCA – Empty Homes Funding	160.5	214.0
Heritage Lottery Fund – Dalby Square THI	539.3	539.3
Regional Housing Board – Dalby Square THI	97.4	102.6
Environment Agency – North Thanet Coastline	560.0	250.0
Big Lottery Fund – Coastal Communities Fund	1,050.0	-
KCC – Waste Vehicles	645.0	-
	6,131.2	**2,184.9**

3.0 THE 2013/14 BUDGET AND MEDIUM TERM FINANCIAL PLAN 2013 – 2016

3.1 A Medium Term Financial Plan (MTFP) was presented to Cabinet in January 2012, covering the period 2012/13 to 2015/16. 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 2013/14 to 2016/17 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.

3.2 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**.

4.0 THE GENERAL FUND REVENUE ACCOUNT

4.1 The Basis of the 2013/14 General Fund Revenue Budget

4.1.1 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 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 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.

4.2 Budget Consultation

4.2.1 A total of 688 responses have been received in respect of the budget consultation. The responses have highlighted the top priorities as being street cleansing; waste and recycling; community safety services and beaches (including beach inspections and water safety). These areas have been protected from budget cuts in recognition of their importance to Thanet's residents. The Council is taking forward significant changes to the provision of waste and recycling services during 2013 which will affect most of the households in Thanet. This includes providing the ability to recycle food waste, glass, tetrapaks and other plastics through normal kerbside collection services. The investment in the Respect Ramsgate initiative is already showing improved street cleansing results in the early stages of the project and this will be taken forward across the district during 2013 using the lessons learned from this work.

4.3 **Development of the Budget**

4.3.1 The Council's opening net base budget of £20,379.7k as approved in January 2012 is the starting point for future budget proposals.

4.3.2 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.

4.4 **Employee Costs**

4.4.1 **Pay Award** – The budget assumes a pay award of 1% for 2013/14. This will result in budgetary growth of £165k.

4.5 **Other Growth**

4.5.1 **Contractual and Other Unavoidable Price Increases** – Growth from price increases has been based on a projected 3% inflate, which, when applied to budgets for contractual and other unavoidable inflationary increases for 2013/14, requires base budget growth of £101.2k.

4.5.2 **Increases to Fees and Charges** – The fees and charges schedule for 2013/14 was approved by Council on 6 December. This will generate additional income of £197.7k in 2013/14. Where fees have increased, these are in the main at 3% in line with inflation. The fees for visiting leisure crafts at the Marina have been increased by 10%. This recognises the significant improvements that have been made to the facilities at the Harbour, whilst still being competitive. The fees and charges for car parking have not been changed at this stage as they are subject to a separate review following the recent car parking consultation.

4.5.3 **Budget Adjustments for Increases and Decreases in Income** – Additional income of £50.3k is anticipated in respect of rentals at the Kent Innovation Centre and an additional £40k is also anticipated from increased licensing income. Planning fee income has continued to fall and therefore the income target has been reduced by £120k.

4.5.4 **Service Pressures –** Borrowing costs of £262k have been factored into the budget to support the capital programme. In addition new service pressures have been identified in respect of individual electoral registration (£60k); canvas costs (£25k); the requirement for new Environmental Health posts following a recent Food Safety Authority audit (£120k); additional Cabinet and Shadow Member (£22k) and a new part-time support post for Overview and Scrutiny (£17k). Budgetary growth has been kept to a minimum, and therefore budgets will need to be redirected through the approved virement process during the year if priorities change.

4.6 Savings

4.6.1 Based on the budget assumptions outlined above on pay increases, contractual/inflationary growth and fees and charges, savings of £1.6m are required in 2013/14 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:

4.6.2 **Medium Term Financial Plan savings** – A number of saving proposals were put forward as part of the 2012-2016 MTFP. Following Council's approval, in principle, to the savings proposals in the MTFP for 2013/14, officers have worked up detailed proposals, which have enabled a more realistic savings target to be estimated. The table below reflects the savings that are now anticipated from these actions against the original saving projections:

TABLE 6 – SAVINGS PROPOSED IN MTFP 2012-2016 FOR 2013/14

Saving Action	Indicative Saving £'000	Proposed Saving £'000
Review of business hub	14.0	14.0
Pension cost reductions	28.0	28.0
Reduce audit costs	23.0	23.0
Building Control – working closer with neighbours	4.5	4.5
Restructure of planning	20.0	30.0
Reduce Theatre Royal grant	4.0	4.0
Transfer tourism service to Visit Kent	26.0	0.0
Review of Community Development contracts & service delivery	15.0	15.0
*Income from using in house managing agent	80.0	0.0
Integration of GIS into planning database	26.0	26.0
Reduce Minster Parish grant	10.0	0.0
Remove £5 discount for green waste collections	15.0	15.0
Introduce loyalty scheme at harbour	90.0	90.0
Under-achievement of 2012/13 MTFP base savings	0.0	-20.0
Total	**355.5**	**229.5**

* delivery now expected in 2014/15

4.6.3 **Review of previous years' outturn against budget** – Previous years' outturn has been compared to the budget over the last few years and where there have been consistent under-spends or over-achievement against income targets, this has been factored into the budget build. A sum of £205.2k has been included as a saving as a result of this exercise.

4.6.4 **Other Savings** – The following savings have also been identified during the budget build process:

- Following the introduction of self-financing for the Housing Revenue Account (HRA) from 1 April 2012, Members of this Council approved a two pool approach for its debt portfolio. This means that the portfolio is now apportioned between the debt relating to the General Fund and the debt relating to the HRA and both are now managed separately. As a result of this, there are savings in the cost of borrowing to the General Fund of £300k.
- Although a recent actuarial valuation suggested that the pension contribution rate could be reduced assuming existing staffing levels and age profiles remained the same, the budget was held at the same level due to uncertainties about the impact on the pension contributions of the corporate restructure being proposed at the time. Under-spends against the pension contributions in recent years have been set aside in an earmarked reserve specifically to offset any detrimental impact of future actuarial valuations. There is now a sum of £661k in this reserve which is considered sufficient to mitigate this risk. As a result, it is proposed to reduce the pension budgets by £450k, which will bring the budgets in line with the actual contributions currently required.
- Savings of £22.7k have been identified in respect of Central Finance and Treasury costs. These relate to interest payable, interest receivable and the minimum revenue provision (repayment of debt).
- Additional efficiency savings of £150k are expected to be delivered by East Kent Services.

4.6.5 **Phasing of Savings** – The budget is based on the assumption that where feasible all of the savings actions identified will be implemented at the earliest opportunity to give the Council the best chance of stabilising its budget requirement as soon as possible. However, some savings take a few years before a full year reduction is able to be budgeted for and therefore some slippage on savings is built into the budget. In 2012/13, savings of £273.9k were identified that were slipped to 2013/14.

General Reserves

4.6.6 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. A summary of the proposed reserve holdings for 2013/14 is captured in the following table.

TABLE 7 – PROPOSALS FOR RESERVE HOLDINGS FOR 2013/14				
Name of Reserve	**Opening Balance 2013/14 £'000**	**Transfers In £'000**	**Transfers Out £000**	**Closing Balance 2013/14 £'000**
GENERAL RESERVE	**2,177**	**0**	**0**	**2,177**
EARMARKED RESERVES				
Insurance Risk Management	90	0	0	90
Local Development Framework	399	25	0	424
General Fund Repairs	145	0	0	145
Information Technology	342	0	0	342
Environmental Action Plan	189	0	-40	149
Cremator Works	0	128	0	128
Decriminalisation	48	60	-40	68
Priority Improvement	799	0	-100	699
Customer Services Fund	426	0	0	426
Area Based Grants	90	0	-90	0
Council Elections	85	30	0	115
Homelessness	77	0	0	77
Renewal Fund	43	0	0	43
Performance Reward Grant	105	0	-105	0
Maritime Reserve	360	0	-50	310
Pensions Reserve	661	0	0	661
VAT Reserve	402	0	0	402
East Kent Services	292	0	0	292
New Homes Bonus	593	1,447	-185	1,855
Housing Intervention	250	0	-250	0
Economic Development & Regeneration	339	0	-100	239
HRA Properties Reserve	500	0	0	500
Total Earmarked	**6,235**	**1,690**	**-960**	**6,965**

4.6.7 Using Reserves for Planned Expenditure

i. **Earmarked Reserves** - As detailed within Annex 2, 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.

ii. **General Reserves** – The reserve stands at the recommended level per the risk assessment shown at Annex 2. There are no planned withdrawals from this reserve to support the base budget.

iii. **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 ongoing base expenditure will ultimately give rise to a 'structural gap' which will need to either be met from future base savings, or additional base growth. For 2013/14 a sum of £40k is proposed to be utilised from the Decriminalisation Reserve. The draft budget proposals also reflect a sum of £89.7k from the Area Based Working Neighbourhood Fund Grant towards specific staffing posts. The details behind the use of these, is given in the details provided in Annex 3.

iv. **New Homes Bonus** - The provisional allocation of New Homes Bonus funding for 2013/14 for this Council is £1.447m. As outlined in the paragraph above, it is not recommended that such funding should be used to support the base budget. However, the Formula Grant has been top-sliced to fund the New Homes Bonus and therefore it may be necessary to draw down from this funding stream over the course of the MTFS to negate the impact of this, although there will be no requirement to do so in 2013/14. The ongoing use of this will be renewed regularly, as alternative funding sources and the Council's capacity for additional savings are considered.

   Members have also previously agreed that an annual sum of £185k from this funding is used to cover the events budget (£165k) and floral grants (£20k).

   A number of options are being considered for the use of the unallocated New Homes Bonus monies. Further details of these options will be brought back to Members as part of a future Cabinet report.

4.7 2013/14 General Fund Revenue Budget Proposals

4.7.1 The impact of the above changes when applied to the 2012/13 base give a net budget requirement of £18,842.6k for 2013/14, which is felt will just be sufficient to enable the delivery of the Council's statutory services as well as its priority discretionary services.

4.7.2 A summary of the key changes that have been made to arrive at the draft General Fund Revenue Budget for 2013/14 is shown in **Table 8**:

TABLE 8 - GENERAL FUND REVENUE BUDGET	
	2013/14
	£'000
Opening Base Budget	**20379.7**
Inflationary Increases	68.5
Budget Adjustments re Decreases in Income	120.0
Budget Adjustments re Increases in Income	(90.3)
Service Growth	506.0
Savings Required	(1611.7)
Net Service Revenue Budget	**19372.2**
Working Neighbourhood Fund contribution to work & skills priorities	(89.7)
Decriminalisation Reserve contribution to traffic related services	(40.0)
Weekly Collection Support Scheme Grant	(214.9)
New Homes Bonus	(185.0)
Net Budget Requirement	**18842.6**
Funded by:	
Formula Grant re RSG & Business Rates	8530.0
Formula Grant re CT Freeze 2011/12	246.0
Formula Grant re CT Freeze 2013/14	99.6
Formula Grant re CT Discount Scheme	1990.0
Council Tax	7977.0
Tax Base	**37990**
Indicative Band D Council Tax	**209.97**
% increase on Band D	0.00%

5.0 COUNCIL TAX FOR 2013/14

5.1 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 or business rates). The rest (known as the Precept) has to be raised by local taxes in the form of Council Tax.

5.2 Council Tax Surplus/Deficit

5.2.1 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. No surplus or deficit has been assumed for this budget.

5.3 Tax Base

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

5.3.2 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) approved by Council on 6 December 2012) 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 has been set at 97% but this has been reduced to 95.5% for 2013/14 to reflect the likely increase in bad debts due to the new CTRS.

5.3.3 At the Council meeting on 6 December, Members approved the delegation of the formal resolution determining the Council Tax Base for 2013/14 to the S151 Officer in consultation with the Leader and Finance Portfolio Holder. It has subsequently been determined that the Council Tax Base for 2013/14 shall be as follows:

TABLE 9 – COUNCIL TAX BASE 2013/14	
Parts of District	**Band D Equivalent Properties**
Acol	104.28
Birchington	3655.81
Broadstairs	8655.46
Cliffsend	695.41
Manston	297.36
Margate	12877.87
Minster	1080.84
Monkton	248.15
Ramsgate	9988.46
St Nicholas-at-Wade and Sarre	362.67
Ministry of Defence Properties *	24.30
Whole of Thanet District Council	**37990.61**

* *these properties fall wholly within Minster*

5.4 **Council Tax**

5.4.1 As detailed earlier in the report, the Government has announced a further Council Tax Freeze grant for 2013/14 and as a result, will reduce the Council Tax increase above which authorities will have to go to a local referendum to 2%. The Council is proposing to take this grant and therefore freeze Council Tax for a third year in a row.

5.4.2 The impact of the budget proposals contained within this report on the Council Tax can be seen in **Table 10**.

TABLE 10 – CALCULATION OF COUNCIL TAX FOR 2013/14	
	£'000
Net Budget Requirement for 2013/14	**18,842**
Financed from:	
Formula Grant	10,865
Balance Remaining = Precept	**7,977**
Divided by Tax Base	37,990
Council Tax for Band D property 2013/14	**£ 209.97**
Compared to Council Tax for Band D in 2012/13	£ 209.97
Increase in Council Tax charges	£ 0.00 (0.00%)

6.0 <u>THE HOUSING REVENUE ACCOUNT</u>

6.1 Background

6.1.1 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.

6.1.2 As part of the Localism Act, from 1 April 2012 the Council's Housing Revenue Account became self–financing. This means that the Council will no longer pay over any notional surplus of income over expenditure to the Treasury but instead, in return for a one off debt settlement, will be able to retain the rental income within the Housing Revenue Account. 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.

6.2 The Operation of the Housing Revenue Account

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

6.2.2 **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). In the main this consists of direct expenditure on the provision, repair and maintenance of Council Houses, which includes the majority of the costs of the Housing Service as well as the charges from bought-in services, such as the contract for housing repairs and maintenance. In the past the HRA was also charged with a share of overheads for the Council's corporate services, such as Human Resources and Communications, which contribute indirectly to the provision of the Housing and Community Service. With the transfer of staff to the East Kent Housing ALMO (arm's length management organisation) these previously recharged budgets are now incorporated as an actual charge to the HRA and form part of the ALMO management agreement. Other expenditure associated with the Cost of Services includes a charge for depreciation, to reflect the use of HRA assets in the delivery of services; a provision for bad or doubtful debts, to reflect the fact that not all rents and charges will be recoverable; and debt management costs for external debt charges.

6.2.3 **HRA Service Income** – The Council is required to charge its tenants a rent in respect of dwellings, garages, shops and land; plus service charges for communal services such as heating and cleaning of communal areas. The Council also receives a number of additional income streams, such as from aerials on tower blocks, charging for the hire of halls and insurance premiums recharged to leaseholders and rechargeable works for damage to property.

6.2.4 **HRA Non-Service Expenditure and Income** - As with the General Fund, there are charges that have to be made which arise as a product of the financial transactions of the Account which are shown separately to the Net Cost of Services. These include an apportionment of the investment income that is achieved on balances and any grants and contributions receivable.

6.2.5 **Adjustments made between Accounting Basis and Funding Basis –** The Council is required to put through its accounts charges to the Income and Expenditure account being accounting entries that do not result in a true increase or decrease in balances. Any such items are adjusted for within this area. An example of this is pension fund entries or asset entries.

6.3 **The Housing Revenue Strategy**

6.3.1 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 of 2016.
- 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.

6.4 **Details of the HRA estimates**

6.4.1 The majority of the expenditure headings within the HRA have been increased on the same basis as have been used for the General Fund Revenue Account. The details of the main changes that have been applied in order to arrive at the 2013/14 estimates are summarised below.

6.4.2 **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.

6.4.3 **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% has been applied as estimate of the November RPI as per the contract agreement. For repairs and maintenance contracts outside of this agreement, such as the lift contract, the inflationary increase has been applied as per the contractual agreement. Future years' estimates shown in the MTFS have been based on calculations that include an indicative RPI increase of 2%.

6.4.4 **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.

6.4.5 The project aims are:-

- Delivering excellent customer service – aiming for 3 stars;
- Realising greater efficiencies and savings for reinvestment;
- Encouraging stronger and more prosperous communities;
- Improving procurement capacity;
- Providing additional investment for council housing estates;
- Ensuring longer term resilience for the councils' individual Housing Revenue Accounts (HRAs);
- Establishing a stronger housing role for the councils;
- Developing a stronger role for tenants in shaping housing services;
- Improving career opportunities for staff.

6.4.6 Previous costs in relation to the majority of landlord services staff forms the basis for the ALMO management fee. Negotiations have commenced with regard to the East Kent Housing Management Fee. The Council has been notified that they have undertaken an activity based costing module for the Management Fee as per the business case and this is still being reviewed with s151 Officers. A saving of 10% has been factored in, to be achieved over the next 3 years' for the East Kent Management Fee. An initial saving of £64.4k has been identified against the accommodation service level agreement for 2013/14, with the remainder to be found over the proceeding 2 years. Negotiations are still continuing and are unlikely to be finalised before the 2013/14 budget is approved. As a result at Cabinet it was agreed to delegate responsibility for approving the Management Fee to the Director of Community Services in consultation with the Portfolio Holder for Housing and Planning.

6.4.7 **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 been increased from £170k to £220k.

6.4.8 **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 previous charge detailed within the base determination was £2.406m in 2012/13, however, in the uplifted settlement model the figure is £3.337m. The difference will still transfer to the Major Repairs Reserve. The depreciation charge for other HRA assets is estimated to be at £60k.

6.4.9 **Debt Charges** – Since the self-financing settlement the authority 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 at the 1 April 2012 the HRA had £23.041m of loans outstanding. One loan matured on 31 December 2012 for £515k, further loans mature during 2013/14 £1.656m and 2015/16 £827k. The budget reflects the repayment of these loans and as such a reduction for interest payments has also been reflected.

6.4.10 **Rent Increases** – Rental estimates are based on the Government guideline rental increase which uses the September's RPI figure of 2.6% + 0.5%, combined with a factor for rent convergence for the 2013/14 estimate. Future years' estimates shown in the MTFS have been based on calculations that include an indicative RPI increase of 2%.

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.

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.

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 has therefore been established according to RPI inflation at September 2012 which was 2.6% + 0.5%, combined with a factor for convergence to not exceed £2, assuming a convergence timeframe of 2015/16. However, due to the effects of rent restructuring it should be noted that the percentage rent increase will not be identical for all tenants due to where the property rents sit within the rent convergence tables. The budget proposals also include an increase of 2.6 % for garage rents.

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.

TABLE 11 – AVERAGE RENTS

Property Type	**2012/13**	**Estimate 2013/14**
Bedsit	£ 52.18	£ 54.12
1 Bed House	£ 73.42	£ 75.40
1 Bed Flat	£ 62.14	£ 64.25
2 Bed House	£ 77.30	£ 80.35
2 Bed Flat	£ 70.08	£ 72.56
3 Bed House	£ 83.46	£ 87.17
3+ Bed Flat	£ 78.17	£ 81.30
4+ Bed House	£ 91.88	£ 95.86

6.4.11 **Service Charge Increases** – Currently a review of the Service Charges within the HRA is being undertaken to take into consideration Welfare Reform changes. It is proposed to apply no inflationary increase to “un-pooled” service charges to try to alleviate the impact that may be sustained by tenants. Heating service charges have been based on recovering actual costs.

6.4.12 **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 interest on HRA balances for 2013/14 is £79k based on an interest rate of 0.75%.

6.5 The Housing Revenue Account Reserves

6.5.1 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:

6.5.2 **Housing Revenue Account Major Repairs Reserve** – As mentioned above in paragraph 6.4.8, 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 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 2012 this reserve balance was £1.5m.

6.5.3 **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 peeks and troughs within the 30 year business plan. It is maintained by annual contributions from the HRA. As at 1 April 2012 this reserve balance was £9.7m, although £4m of these balances have now been earmarked for the Margate Intervention programme and £1.3m for the Ramsgate Empty Property programme.

6.5.4 **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 2012 this reserve balance was £500k.

TABLE 12 – HOUSING REVENUE ACCOUNT BUDGET				
	2013/14 £'000	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**
Expenditure				
Repairs & Maintenance	3,191	3,344	3,298	3,453
Supervision & Management – General	2,808	2,775	2,741	2,742
Supervision & Management – Special	509	517	525	534
Rents, rates, taxes and other charges	253	262	271	281
Bad or doubtful debts provision	220	220	220	220
Depreciation/impairment of fixed assets	3,438	3,433	3,428	3,423
Capital Expenditure funded from HRA	3,023	198	227	253
Debt Management Costs	8	8	8	8
Non-service specific expenditure	1,200	150	150	150
Gross Expenditure Sub Total	**14,650**	**10,907**	**10,868**	**11,064**
Income				
Dwelling Rents (gross)	-12,426	-12,600	-12,927	-13,257
Non-dwelling Rents (gross)	-220	-222	-225	-228
Charges for services and facilities	-315	-320	-324	-329
Contributions towards expenditure	-294	-295	-296	-297
Other Charges for Services and Facilities	-11	-11	-11	-11
Income Sub Total	**-13,266**	**-13,448**	**-13,783**	**-14,122**
Net Costs of Services Sub Total	**1,384**	**-2,541**	**-2,915**	**-3058**
HRA Investment Income	-81	-81	-159	-239
Debt Interest Charges	960	831	810	808
Government Grants and Contributions	-1,050	0	0	0
Adjustments made between accounting basis and funding basis	**1,438**	**-218**	**610**	**-217**
(**Surplus)/Deficit on HRA**	**2,651**	**-2,009**	**-1,654**	**-2,706**
Housing Revenue Account Balance:				
Estimated Surplus at Beginning of Year	-10,845	-8,194	-10,203	-11,857
(Surplus)/Deficit for Year	2,651	-2,009	-1,654	-2,706
Estimated Surplus at End of Year	**-8,194**	**-10,203**	**-11,857**	**-14,563**

7.0 THE CAPITAL BUDGET

7.1 Capital expenditure includes spend on the acquisition of a fixed asset with a value of £10k or greater which is expected to be in use for more than one year. It also covers 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. The expenditure can be met from loans, capital receipts, capital grants or revenue contributions. With the exception of land, all fixed assets have to be depreciated (i.e. written down) over the expected lifetime.

7.2 As a result of the complex and large scale nature of capital projects, until the project is worked up and quotes obtained, 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.

7.3 The Asset Management Strategy

7.3.1 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 £150 million showing as the net book value of all property assets as at 31 March 2012 (after depreciation has been applied). It is unsurprising therefore that the largest investment in capital expenditure in the medium term will be on property. 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.

7.3.2 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 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 need to be disposed of in order to generate the capital receipts to fund new developments.

7.4 Impact of the Current Economic Climate

7.4.1 Since the development of the Asset Management Strategy, the deterioration in the national economic position has had a serious impact on the Council's capital budget. The budget 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. The Capital Programme has therefore been scaled back accordingly. The proposed programme of capital expenditure is therefore based on current projections of available capital funds; however members should note that this will be monitored closely during the 2013/14 financial year, as it may be necessary to adjust the programme in year depending on the prevailing economic conditions. During the course of 2012/13 such action had to be taken as budget monitoring had highlighted that as at September 2012 only £782k of capital receipts were likely to be achieved against the budgeted £1.6m. A large number of capital projects have been re-phased into 2013/14 accordingly with Cabinet agreement. Any such change in the capital programme during 2013/14 will of course be brought to Cabinet's approval in line with the Council's financial policy.

7.5 **The Capital Budget Strategy**

7.5.1 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 managing 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 highest corporate priority and/or reduce the pressure on the revenue account. A review has recently been undertaken with regard to anticipated receipts from the disposal of assets. Until this review was complete, it was not possible to proceed with scoring of any new capital projects as the Council needed to understand the capital receipts available to fund any new projects. A number of new capital bids have been received and have been 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 have been shared with the Portfolio Holder for Asset Management and the Portfolio Holder for Finance prior to inclusion within this report.

A budget consultation exercise was undertaken with the public and waste and recycling was identified as one of the highest priorities to our residents. The Council plans to invest £4.085m into the Waste Collection service to improve recycling collection and upgrade our existing fleet vehicles.

Available Capital Funding

7.5.2 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.

7.5.3 **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 two capital grants: £1.338m from the HCA Empty homes Cluster Bid for the Margate Intervention Programme, being £348k for 2011/12 and £1.05m in 2012/13; and £535k of Homes and Communities Funding towards the Ramsgate Empty Homes Programme.

7.5.4 **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.

7.5.5 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 years for achievability under the current economic climate and where necessary the Capital Programme adjusted accordingly.

7.5.6 **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. In order to keep these additional receipts it was necessary to enter into an agreement with the Secretary of State for Communities and Local Government. The agreements were made under the powers proficed by section 11 (6) of the Local Government Act 2003 (as inserted by section 174 of the Localism Act 2011). On the 26 July 2012 Cabinet gave approval to enter into the agreement. This allows the Council to retain additional Right to Buy receipts over and above that budgeted by Treasury. In the past only 25% of capital receipts from the sale of HRA assets (council houses) were available for capital investment. The remaining 75% had to be paid to Central Government. These "pooled capital receipts" were then allocated back to councils by the Government according to need. Under the new regime Treasury will still receive 75% of income on sales for approximately the first 4 right to buy properties and those sales over and above that budgeted will form part of the new agreement.

7.5.7 **Unsupported Borrowing** – The Local Government Act 2003 gave Local Authorities the ability to borrow for capital expenditure over and 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 £5.8m will be required to support the General Fund capital programme.

7.5.8 **Capital Projects Reserve** – A balance of £495k remains in this reserve as at 1 April 2012 of which £108k is already earmarked for existing schemes. It is anticipated that the remaining balance will be fully utilised to help fund the 2012/13 capital programme due to the shortfall in capital receipts. Should a surplus arise on the capital programme at the end of 2012/13, this will continue to be set aside in this reserve to provide additional flexibility.

7.5.9 **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 Major Repairs Allowance for 2013/14 is £3.337m.

7.6 The Capital Programmes for 2013/14 to 2016/17

7.6.1 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 authority's core priorities, have a health and safety implication and/or a revenue impact to the Council.

7.6.2 **Re-phased Projects** – Due to the shortfall of capital receipts achieved during 2012/13 a number of capital programmes have been re-phased from 2012/13 into 2013/14. These include a number of East Kent Services led Information Technology projects totalling £86k, works to the Waste Transfer Station totalling £217k and Margate Cemetery extension £140k. Some projects were identified during the year as having slipped and have also been re-phased into the 2013/14 programme. These include some of the regeneration expenditure to be funded by the Council and a sum of £92k in respect of the annual enhancement capital works to public conveniences.

7.6.3 **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.

7.6.4 The Council has secured £4.1m of Homes and Communities Agency funding towards the 'Bringing Clusters of Empty Homes into Use' programme. This will bring 160 empty homes back into use across Margate Central and Cliftonville West wards. The programme must be delivered by March 2014 and £1.05m is the anticipated spend in 2013/14.

7.6.5 The Heritage Lottery Fund have approved £1.9m towards a townscape heritage initiative scheme in Dalby Square, Dalby Road and Arthur Road.

7.6.6 The Council has had an initial allocation made from the Environment Agency to undertake works to the sea walls along the North Thanet coastline.

7.6.7 **New Capital Projects –** A review has recently been undertaken with regard to anticipated receipts from the disposal of assets. Until this review was completed, it was not possible to proceed with scoring of any new projects as the Council needed to understand the capital receipts available to fund new projects. A number of new capital bids have been received and scored by the Capital Asset Management Group. These include:

Dalby Square Town Heritage Initiative Grant Scheme – A £2m project to provide grants for the Historic restoration of properties in the designated area. The project utilises match funding from the New Homes Bonus, re-directed Regional Housing Board money and capital receipts of £212k.

North Thanet Coastline – Sea Wall Reconstruction Scheme – An externally funded project for major works to sea walls in 3 separate locations on the North Thanet Coastline, to offer erosion protection to chalk cliffs and protect amenity value such as the Viking Coastal Trail. The works will cost £560k in 2013/14 and £250k in 2014/15.

Replacement Waste Collection Fleet of Vehicles – The existing fleet is reaching the end of its useful life and the authority has committed to deliver the Kent wide model of a broader range of recyclables. The cost of this scheme will be approximately £4m, which will mainly be incurred in 2013/14.

Ramsgate Harbour Marina – Water Supply Upgrade – The water supply system on the floating pontoons for marina users requires upgrading. A budget of £50k is required in 2013/14 and £50k in 2014/15. Whilst funding in 2013/14 will be undertaken from the disposal of assets, disposal of assets for 2014/15 do not generate sufficient receipts to fund the spend in that year. It is proposed that the £50k required in 2014/15 is funded from the Maritime Reserve.

Grounds Maintenance Replacement Mowers and Vehicles – A number of ride on mowers and vehicles are reaching the end of their useful life. As a result of this, funding of £144k is requested for 2013/14 and £250k for 2015/16. It is estimated the funding from capital receipts should be achievable for 2013/14; however the current asset disposal programme does not deliver enough receipts to fund the 2015/16 expenditure. It is therefore recommended that any service savings within the Parks DLO are re-directed into a parks vehicle replacement reserve to set funds aside for 2015/16.

Ramsgate Harbour Eastern Outer Marina – Replacement Floating Pontoons –The current floating pontoons are coming to the end of their useful life and are costing both staff time and money to make temporary repairs. Sums of £125k in

2013/14 and £125k in 2014/15 are required. Whilst funding in 2013/14 will be undertaken from the disposal of assets, disposal of assets for 2014/15 do not generate sufficient receipts to fund the spend in that year. It is proposed that the £125k required in 2014/15 is funded from the Maritime Reserve.

Further works have been identified to complete the Major works undertaken at the Crematorium:-

Crematorium Car Park – Extension of the existing public car park from 14 spaces to 47. Creating sufficient parking will improve the traffic flows around the crematorium, reduce complaint levels and reduce the damage caused to the grounds from vehicles parking or mounting the grass verges. This work will cost £100k. Work will be funded from the Cremator Reserve.

Crematorium- Residual Works - Completion of any residual works highlighted from the end of Cremator Replacement project i.e. Office accommodation may require reviewing in order to comply with Health & Safety Regulations. This will cost £40k. Work will be funded from the Cremator Reserve.

7.6.8 **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 provides a continuing maintenance scheme to the Council's housing stock.

7.6.9 An amount of £4.073m has been included within the HRA capital programme for the second year of the Margate Intervention Programme, to be funded from £2.94m of HRA reserves, £1.05m of Homes and Community Agency Empty Cluster Bid funds and a revenue contribution of £83k. 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.

7.6.10 Funds continue to be drawn down for the second 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. The whole programme has been funded using £1.386m of HRA reserves and £535k of Homes and Community Agency funding.

7.7 **The Draft Capital Budgets 2013/14 to 2016/17**

7.7.1 The draft General Fund Capital Expenditure Budget for 2013/14 that is proposed for Members' approval is £14.467m, which will be funded in the main from capital grant, usable capital receipts and prudential borrowing. This is shown in summary format below.

TABLE 13 – GENERAL FUND CAPITAL PROGRAMME

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Statutory and Mandatory Schemes	1,379	1,379	1,379	1,379	1,379
Schemes continuing from prior years	5,952		230		
Annual Enhancement Schemes	100	100	100	100	100
Wholly/Part Externally Funded Schemes	1,610	250	0	0	0
Replacements and Enhancements	4,524	195	250	0	0
Area Improvement	827	827	559	0	0
Capitalised Salaries	75	75	75	75	75
Total Capital Programme Expenditure	**14,467**	**2,826**	**2,593**	**1,554**	**1,554**
***Capital Resources Used*:**					
Capital Receipts and Reserves	1,943	743	688	475	475
Capital Grants and Contributions	6,678	2,083	1,499	1,079	1,079
Prudential Borrowing	5,846	0	406	0	0
Total Funding	**14,467**	**2,826**	**2,593**	**1,554**	**1,554**

7.7.2 The draft Housing Revenue Capital Programme for 2013/14 that is proposed for Members' approval is £5.9m, which will be funded from the Major Repairs Reserve and revenue contributions to capital. A summary of this programme and the proposed funding sources are shown in the following table:

TABLE 14 – HRA CAPITAL PROGRAMME				
	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Total HRA Capital Programme Expenditure	**5,973**	**2,468**	**2,422**	**1,578**
HRA Capital Resources Used:				
HRA Major Repairs Reserve	1,900	2,150	2,075	1,205
HRA Revenue Contributions	3,023	198	227	253
Capital Grant	1,050			
Capital RTB Receipts		120	120	120
Total Funding	**5,973**	**2,468**	**2,422**	**1,578**

8.0 COMPLIANCE WITH THE PRUDENTIAL CODE AND TREASURY MANAGEMENT

8.1 The Prudential Code

8.1.1 The Prudential Code for Capital Finance in Local Authorities is a statutory requirement specified in the Local Government Act 2003. It is a framework for capital investment decision making and links the medium term capital and revenue plans to the Authority's Treasury Management Strategy. Its use provides assurances of the robustness of capital plans and confirms that they are affordable, sustainable and prudent, through a number of key indicators.

8.1.2 The Code requires that Members approve the prudential indicators and that performance against them is regularly monitored throughout the year and reported back. The indicators are mandatory and cover affordability, prudence, capital expenditure, external debt and treasury management. The proposed prudential indicators are shown at **Annex** 3 to this report.

8.2 Treasury Management and Investments

8.2.1 Treasury management is the name given to a range of borrowing and investment activities and the management of associated risk. Its activities are strictly regulated by statutory requirements and a professional code of practice (The CIPFA Code of Practice on Treasury Management).

8.3 **The Annual Treasury and Investment Strategy** - the CIPFA Code of Practice on Treasury Management and the Guidance on Local Government Investments, issued by the Secretary of State under the power in Section 15(1) (a) of the Local Government Act 2003 require the Authority to approve an annual Treasury Management Strategy and an annual Investment Strategy. To comply with these requirements, a combined Treasury Management and Investment Strategy are presented at **Annex 3**. This outlines the Council's approach to its treasury activities and will be used alongside the Prudential Indicators to define the limits for borrowing and investment activities for the financial year 2013/14.

9.0 A STATEMENT OF ASSURANCE FROM THE SECTION 151 OFFICER

9.1 Under the Local Government Act 2003 the Statutory Finance Officer, who for Thanet District Council is the Chief Executive, 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.

9.2 The main areas of uncertainty which could put the budget under pressure for 2013/14 are the delivery of savings, the achievement of income targets and uncertainties around the full impact of the council tax reduction scheme and 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 systems, means that the Chief Financial Officer believes the Council is well placed to deliver against the budget proposals presented within this report.

9.3 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.

9.4 In conclusion, it is the Chief Executive's opinion that the budget is robust and achievable and that the proposals for reserves are adequate.

10.0 OPTIONS

10.1 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.

11.0 CORPORATE IMPLICATIONS

11.1 Financial

11.1.1 The financial implications for the general fund, HRA and capital budget are laid out within the body of the report.

11.1.2 Based upon the financial risk assessment contained within Annex 3, it would be prudent to maintain general fund balances at 12% of the net service revenue base budget.

11.2 Legal

11.2.1 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.

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

12.3 Corporate

11.3.1 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.

11.4 Equity and equalities

11.4.1 The equity and equality impact of the savings carried forward from the 2012-2016 MTFP were considered as part of the budget process for 2012/13 and no issues were identified. There are also no equality issues identified in respect of the further savings highlighted in these budget proposals relating to budgets unspent in prior years and debt costs as these budget cuts will not impact on service delivery. The cuts in the pension budgets, as detailed at paragraph 4.6.4 of this report, merely are to bring the budgets in line with the contributions due under the scheme and therefore do not impact on any individuals.

11.4.2 A six week public consultation was held giving local residents and businesses an opportunity to comment on the budget proposals. The consultation was available to complete online and hard copy surveys were available to collect from local libraries and council offices. Local community groups and businesses were notified and a random sample of 3,000 residents was targeted by direct mail. The consultation was promoted throughout the six week period and a copy of the survey was also printed in the local free newspaper. 688 responses were received by the close of the consultation. No equality or access issues were raised by the public as part of this consultation. The HRA budget, including the proposed rent increases, will be presented to the Tenant Area Board to which all tenants are invited. Full results to the consultation are now available to view online.

11.4.3 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.

12.0 RECOMMENDATIONS

12.1 That Members approve the draft Medium Term Financial Plan at Annex 1.

12.2 That Members approve the draft General Fund Revenue budget estimates for 2013/14 to 2016/17 and the resulting budget requirement for 2013/14.

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

12.4 That Members approve the HRA budget estimates for 2013/14 to 2016/17 and the HRA service charges as shown at Annex 4.

12.5 That Members approve the General Fund and Housing Revenue Account Capital Budgets for 2013/14 as detailed at Annexes 5 and 6.

12.6 That Members approve the draft Treasury Management Strategy (see Annex 3), as approved by Governance and Audit at its meeting on 11 December 2012.

Contact Officer:	Sarah Martin
Reporting to:	Sue McGonigal

Annex List

Annex 1	Medium Term Financial Plan
Annex 2	Risk Assessment of Reserves
Annex 3	Treasury Management Strategy
Annex 4	HRA Service Charges
Annex 5	General Fund Draft Capital Programme
Annex 6	HRA Draft Capital Programme

Background Papers

Title	Where to Access Document
Budget Spreadsheet	N/A

Corporate Consultation Undertaken

Finance	N/A
Legal	Gary Cordes, Legal Services Manager
Communications	Hannah Thorpe, Acting Corporate Information Manager