2014/15 BUDGETS AND MEDIUM TERM FINANCIAL PLAN 2014-18

To:	**Cabinet – 21 January 2014**
Main Portfolio Area:	**Finance**
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 2014/15 and the draft Medium Term Financial Plan for 2014 – 2018.**

For Decision

1.0 INTRODUCTION

1.1 The purpose of this paper is to present the draft budget for 2014/15 and the provisional estimates for the following years to 2017/18.

2.0 EXECUTIVE SUMMARY

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

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

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

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

3.0 THE NATIONAL FUNDING POSITION

Business Rates

3.1 The Government introduced a new business rates retention scheme with effect from 1 April 2013 to encourage business growth by allowing authorities to retain a proportion of the business rates collected. In return for the incentives, authorities also now share some of the risk of a fall in rate yield, subject to a safety net mechanism. A baseline funding level has been established by the Government for each authority (for this Council this is £4.501m for 2014/15). Authorities whose business rates grow above the baseline are able 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 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 £4.163m which means that the Council could potentially face a loss of up to £338k in business rates income before the safety net mechanism would kick in. This is reflected in the financial risk assessment at Annex 2 to this report.

Revenue Support Grant

3.2 All authorities receive Revenue Support Grant from Central Government in addition to its baseline funding level 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 2014/15 will be £5.131m.

3.3 For each year since 2011/12, those councils that have frozen their Council Tax have received grant funding. The funding for 2011/12 is payable for each year up to 2014/15.The funding for 2012/13 was for one year only, but from April 2014, funding for the 2013/14 freeze is now within the Revenue Support Grant. A further grant has also been announced for those who freeze their Council Tax for 2014/15 and 2015/16. This will be equivalent to a 1% increase. The grant for 2014/15 will be payable in both 2014/15 and 2015/16. There is no commitment from Government at this stage beyond 2015/16.

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

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

The Local Government Finance Settlement

3.6 The Council has faced significant cuts in funding (a cut of 35% in formula grant) over the last four years which has resulted in a cut in the net revenue budget of 18% from 2010/11 to 2013/14. Further cuts in funding are anticipated over the next few years as shown in Table 1. The figures for 2014/15 have been confirmed but the figures for 2015/16 are still provisional. Further cuts of 10% have been assumed for both 2016/17 and 2017/18.

3.7 The figures shown in Table 1 exclude the CTRS element which is to be passed to the parishes to compensate for the reduction in their tax bases following the introduction of this scheme. In 2013/14 this element of the grant was £160k. Although this has now been rolled into the Revenue Support Grant, it has been assumed that this element has not been cut for 2014/15 and on this basis, the same level of funding will be passed across to the parishes, however, this will be reviewed for 2015/16 and it is likely that the cut in future years will be in line with any cuts in the Revenue Support Grant. The figures also exclude the homelessness element as this is already within the base budget.

TABLE 1 – FORMULA GRANT				
	2014/15 **£'000s**	**2015/16** **£'000s**	**2016/17** **£'000s**	**2017/18** **£'000s**
Formula Grant (including CT Freeze Grant and CTRS)	9,344.5	7,839.3	7,055.0	6,350.0
% Reduction		16.0%	10.0%	10.0%

3.8 **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 £84.8k for 2014/15, as can be seen in Table 2 below:

TABLE 2 – HB/CTS ADMINISTRATION GRANT			
HB/CTS Grant **2013/14** **£'000s**	**DWP HB Grant** **2014/15** **£'000s**	**CLG CTS Grant** **2014/15** **£'000s**	**Total Grant** **2014/15** **£'000s**
1,445	1,094	266	1,360

3.9 **Weekly Collection Support Scheme** – The Council was successful in its bid for funding through the weekly collection support scheme. This funding was awarded to support weekly residual waste collections and providing weekly recycling collections. The Council received a revenue allocation of £214.9k and capital allocation of £500.8k in 2013/14. It will receive an additional revenue allocation of £283.6k in 2014/15.

4.0 THE 2014/15 BUDGET AND MEDIUM TERM FINANCIAL PLAN 2014 – 2018

4.1 A Medium Term Financial Plan (MTFP) was approved by Council in February 2013, covering the period 2013/14 to 2016/17. 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 2014/15 to 2017/18 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 REVENUE ACCOUNT

5.1 The Basis of the 2014/15 General Fund Revenue Budget

5.1.1 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 as low as possible to avoid a local referendum, subject to a satisfactory level of Government grant.
- 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.

5.2 **Budget Consultation**

5.2.1 A total of 467 responses have been received in respect of the budget consultation. The responses have highlighted the top priorities as being street cleansing; recycling and waste; beaches (including beach inspections and cleansing); parks and public spaces; and economic development and regeneration. These areas have been protected from budget cuts wherever possible in recognition of their importance to Thanet's residents.

5.3 **Development of the Budget**

5.3.1 The Council's opening net base budget of £19,372.2k as approved in February 2013 is the starting point for future budget proposals.

5.3.2 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.

5.4 **Employee Costs**

5.4.1 **Pay Award** – The budget assumes a pay award of 1% for 2014/15. This will result in budgetary growth of £170k.

5.5 **Other Growth**

5.5.1 **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 £180.8k will be required for 2014/15.

5.5.2 **Increases to Fees and Charges** – The fees and charges schedule for 2014/15 was approved by Council on 5 December 2013. This will generate additional income of £191k in 2014/15. Where fees have increased, these are in the main between 1% and 2%. The budgets for fees and charges also reflect reduced income for building control (£50k) and car parking (£70k). Both of these income budgets are under-achieving for 2013/14 so the budgets have been amended accordingly. The overall increase in income from fees and charges for 2014/15 is therefore anticipated to be £71k.

5.5.3 **Service Pressures –** The Council remains hopeful that a new ferry operator will be found shortly, however, the budget assumes that a sum of £850k is required to offset the loss of the Transeuropa business to the Council.

5.6 **Savings**

5.6.1 Based on the budget assumptions outlined above on pay increases, contractual/inflationary growth and fees and charges, savings of £1.2m are required in 2014/15 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:

5.6.2 **Medium Term Financial Plan savings** – A number of saving proposals were put forward as part of the 2012-2016 MTFP, some of which were expected to be delivered in 2014/15. These savings have been reviewed but are still expected to be achieved next year:

TABLE 3 – SAVINGS PROPOSED IN MTFP 2013-2017 FOR 2014/15	
Proposal	**Saving £'000s**
Develop in-house design skills	10.0
Review of Community Development contracts and service delivery	25.0
Income from using an in-house managing agent	80.0
Total	**115.0**

5.6.3 **Mid-year review of budgets** – A review of managers' budgets was undertaken part way through 2013/14. Managers were challenged as to why the budgets were actually required. As a result of this exercise, savings of £40k were identified across service areas.

5.6.4 **Managers' Savings** – Star Chamber sessions were held with managers as part of the budget build process. The Chief Executive, Finance Portfolio Holder, relevant Director and the Financial Services Manager challenged each manager as to where savings could be made within their service areas and how their service could be delivered differently to generate efficiencies moving forward. The following savings were identified as a result of this process:

TABLE 4 – MANAGERS' SAVINGS		
Proposal	**Detail**	**£'000s**
Staff restructure	Staffing structures have been reviewed. Savings in respect of Parks have been factored in for 2014/15. Other savings in respect of the restructure have been assumed from 2015/16	55.9
Reduction in budgets to match previous spend and where budgets no longer required	A full review has been undertaken of the outturn for 2012/13 against the current budget and savings have been identified as a result. Managers have also identified a number of budgets that are no longer required	203.5
Reduction in controllable spend	Managers have been tasked with finding savings of 20% against their controllable budgets (these include printing, stationery, equipment purchase, conferences, publications etc.)	395.7
Reduction in	Contingency budgets across the whole council have been reviewed. All	97.9

contingency budgets	contingencies will be moved into one corporate contingency pot and the overall contingency budget reduced	
Review of services provided by Parishes	The level of parish agency payments is being reduced	37.7
Contract savings	Contracts will continue to be re-negotiated wherever possible. Savings have also been identified with respect to both the internal and external audit fees and also the photocopiers	95.5
Christmas decorations	Currently the Council provides a contribution to Christmas decorations, mainly in the form of Christmas trees. However, the town councils and other local bodies provide most of the Christmas decorations and festive lighting across Thanet. It is proposed to remove the Council's contribution as this can be provided more locally	26.8
Car Parks	Review of opening hours at Leopold Street and Mill Lane multi-storey car parks	22.0
Corporate Subscriptions	Corporate subscriptions have been reviewed	14.0
Electoral Registration	Electoral registration costs have been reviewed in light of new grant funding available	63.1
Total		**1,012.1**

5.6.5 **Media Centre** – The Council's annual running costs of the Media Centre will be reduced by £46k moving forward following renegotiations on the terms of the partnership agreement with Kent County Council.

5.6.6 **Transfer of Housing Revenue Account Shops** – It is proposed to transfer the housing estate shops from the Housing Revenue Account to the General Fund. A number of shops that are held within the HRA no longer meet the requirement of providing a community benefit and are held more for investment purposes. Recent accounting changes have meant that where these premises are valued downwards it is detrimental to the Landlord account. It is therefore proposed to transfer some of the HRA shops that are now kept for investment purposes to the General Fund where the impact is negated due to a different accounting treatment. This will transfer income of £16k to the General Fund.

5.6.7 **East Kent Services** – Savings of over £900k have been delivered to date from the transfer of Revenues and Benefits, ICT and Customer Services to East Kent Services, with further savings of £150k anticipated for 2013/14. A number of invest to save projects are currently being developed by East Kent Services and therefore it is proposed to only take minimal savings of £1.9k in 2014/15, however, it is assumed that annual savings in the region of 2.5% of their revenue budget will be achieved in future years.

5.6.8 **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 2013/14, savings of £19.6k were identified that were slipped to 2014/15.

General Reserves

5.6.9 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 2014/15 is captured in the following table.

TABLE 5 – PROPOSALS FOR RESERVE HOLDINGS FOR 2014/15				
Name of Reserve	**Opening Balance 2014/15 £'000**	**Transfers In £'000**	**Transfers Out £000**	**Closing Balance 2014/15 £'000**
GENERAL RESERVE	**2,150**	**0**	**0**	**2,150**
EARMARKED RESERVES				
Insurance Risk Management	147	100	-100	147
Local Plan Reserve	300	0	0	300
General Fund Repairs	168	0	-50	118
Information Technology	56	100	-56	100
Environmental Action Plan	162	0	-40	122
Office Accommodation	9	0	-9	0
Cremator Works	182	130	0	312
Decriminalisation	145	0	-40	105
Priority Improvement	543	0	-100	443
Customer Services Fund	610	0	-80	530
Unringfenced Grants	327	0	-327	0
Waste Reserve	347	0	-347	0
Council Elections	117	30	0	147
Homelessness	201	0	0	201
Renewal Fund	7	0	0	7
Maritime Reserve	323	0	0	323
Pensions Reserve	661	0	-220	441
VAT Reserve	421	0	-20	401
East Kent Services	754	0	0	754
New Homes Bonus	985	2,009	-1,183	1,811
Housing Intervention	682	0	0	682

Economic Development & Regeneration	319	0	-167	152
Pay & Reward Reserve	380	0	0	380
Vehicle, Plant & Equipment Reserve	227	0	0	227
Dreamland Reserve	0	247	0	247
Coastal Infrastructure	500	0	0	500
HRA Properties Reserve	500	0	0	500
Total Earmarked	**9,073**	**2,616**	**-2,739**	**8,950**

5.6.10 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 £27k above the recommended level per the risk assessment shown at Annex 2. This will be transferred to the Priority Improvement Reserve. There are no planned withdrawals from the General Fund balance 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 2014/15 a sum of £40k is proposed to be utilised from the Decriminalisation Reserve.

New Homes Bonus - The provisional allocation of New Homes Bonus funding for 2014/15 for this Council is £2.009m. The Formula Grant has been top-sliced to fund the New Homes Bonus and therefore it is necessary to draw down from this funding stream over the course of the MTFS to negate the impact of this. It is proposed that a sum of £843.6k will be required from the New Homes Bonus in 2014/15, with further draw downs required over the following years of the MTFS. The ongoing use of this will be reviewed regularly, as alternative funding sources and the Council's capacity for additional savings are considered. It is also proposed to use the New Homes Bonus funding to offset the shortfall of taking the Council Tax freeze grant for 2014/15 rather than imposing a 1.99% Council Tax increase. This shortfall equates to £83k.

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). In addition to this, Members' approval has already been given for a sum of £40k to support domestic violence advisors and £31k to support the Dalby Square project. As reported to Cabinet in November 2013, it is also proposed to transfer a sum of £500k from the New Homes Bonus to a new reserve to support the objectives of the Destination Management Plan.

5.7 **2014/15 General Fund Revenue Budget Proposals**

5.7.1 The impact of the above changes when applied to the 2013/14 base give a net budget requirement of £17,831.5k for 2014/15, which is felt will just be sufficient to enable the delivery of the Council's statutory services as well as its priority discretionary services.

5.7.2 A summary of the key changes that have been made to arrive at the draft General Fund Revenue Budget for 2014/15 is shown in **Table 6**:

TABLE 6 - GENERAL FUND REVENUE BUDGET	
	2014/15
	£'000
Opening Base Budget	**19372.2**
Inflationary Increases	279.8
Service Growth	850.0
Savings Required	(1235.3)
Net Service Revenue Budget	**19266.7**
Decriminalisation Reserve contribution to traffic related services	(40.0)
Weekly Collection Support Scheme Grant	(283.6)
New Homes Bonus	(1111.6)
Net Budget Requirement	**17831.5**
Funded by:	
Formula Grant re RSG & Business Rates (inc. CT Freeze)	9424.5
Collection Fund Surplus	180.0
Council Tax	8227.0
Tax Base	**39181**
Indicative Band D Council Tax	**209.97**
% increase on Band D	0.00%

6.0 COUNCIL TAX FOR 2014/15

6.1 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.

6.2 **Council Tax Surplus/Deficit**

6.2.1 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. The estimated surplus assumed for this budget is £180k.

6.3 **Tax Base**

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

6.3.2 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)) 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% but was reduced to 95.5% for 2013/14 to reflect the likely increase in bad debts due to the new CTRS. 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 again to 97% for this budget.

6.3.3 At the Council meeting on 5 December, Members approved the delegation of the formal resolution determining the Council Tax Base for 2014/15 to the S151 Officer in consultation with the Leader and Finance Portfolio Holder. It has subsequently been determined that the Council Tax Base for 2014/15 shall be as follows:

TABLE 7 – COUNCIL TAX BASE 2014/15

Parts of District	**Band D Equivalent Properties**
Acol	107.01
Birchington	3778.72
Broadstairs	8929.74
Cliffsend	672.37
Manston	364.87
Margate	13330.80
Minster	1086.12
Monkton	254.94
Ramsgate	10260.02
St Nicholas-at-Wade and Sarre	372.64
Ministry of Defence Properties *	24.30
Whole of Thanet District Council	**39181.53**

* *these properties fall wholly within Minster*

6.4 **Council Tax**

6.4.1 As detailed earlier in the report, the Government has announced a further Council Tax freeze grant for 2014/15 and 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.

6.4.2 If the Council increases Council Tax by 1.99% for 2014/15 (to keep below the 2% referendum limit) it will generate additional income of £163k. If it does not increase Council Tax, it will receive a Council Tax freeze grant of approximately £80k. 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 £83k.

6.4.3 The impact of the budget proposals contained within this report on the Council Tax can be seen in **Table 8**.

TABLE 8 – CALCULATION OF COUNCIL TAX FOR 2014/15	
Net Budget Requirement for 2014/15	**£'000** **17,831**
Financed from: Formula Grant Collection Fund Surplus	 9,424 180
Balance Remaining = Precept	**8,227**
Divided by Tax Base	39,181
Council Tax for Band D property 2014/15	**£ 209.97**
Compared to Council Tax for Band D in 2013/14	£ 209.97
Increase in Council Tax charges	£ 0.00 (0.00%)

7.0 THE HOUSING REVENUE ACCOUNT

7.1 Background

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

7.3 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.

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

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

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

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

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

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

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

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

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

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

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

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

7.6 **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.

7.7 **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 achieve the Government's "target" rent level by the rent convergence date*.
- To maintain current Housing Stock at Decent Homes Plus standard.

- To maximise the recovery of rental incomes by reducing the number of void properties and minimising the level of rent arrears and debt write offs.
- To maintain a minimum level of HRA reserves of £800k but with a target level of reserves of £1m.

  **though this will need reviewing in the light of the Government's stated intention to terminate this policy (paragraph 7.24 refers)*

7.8 **Details of the HRA estimates**

7.9 The main assumptions that have been applied to the HRA for the 2014/15 estimates are summarised below.

7.10 **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.

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

7.12 **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.

7.13 The ALMO management fee is calculated on an activity based costing basis, in that the Council's charge is based on the amount of staff provided to deliver the service and their supporting budgets. Currently the General Fund budget is under financial pressure and one of the priorities for the Council is to deliver a new build programme. During 2012, therefore, East Kent Housing were given notice by the partner authorities that it was to be set a savings target effective from 2014/15 at 5% for the next three years. Negotiations have commenced with the four partnering councils as to how this is to be achieved. Currently no savings have been factored into the budget to reflect this whilst negotiations on how this will be achieved continue.

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

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

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

7.17 **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 5 years the Council will be able to use the Major Repairs Allowance as detailed within the 30-year financial model for the HRA self-financing settlement. The estimated depreciation charge is calculated at £2.204m in 2014/15, however, in the uplifted settlement model the figure is £3.372m. The difference of £1.167m will still transfer to the Major Repairs Reserve in order to fund future capital works on the existing stock or debt repayment. The depreciation charge for other HRA assets is estimated to be at £60k.

7.18 **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 2013 the HRA had £22.525m of loans outstanding. A loan is due to mature in December 2013 and the budget for this has been already been agreed and set aside for repayment as part of the budget process for last year. This will take the level of borrowing down to £20.869m. There is a loan due to mature during 2015/16 of £827k and the budget also reflects the repayment of this loan.

7.19 **Rent Increases** – Rental estimates are based on the Government guideline rental increase which uses the September's RPI figure of 3.2% + 0.5%, combined with a factor for rent convergence for the 2014/15 estimate. As part of the Comprehensive Spending Review, rent policy has determined that from 2015/16 rents will change from RPI + 0.5% to CPI + 1%. Future years' estimates for the MTFP will be based on calculations that include an indicative CPI increase of 1.5% + 1% for 2015/16 and for the next 10 years a CPI increase of 1%+ 1%.

7.20 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.

7.21 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.

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

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

TABLE 9 – AVERAGE PROPERTY RENTS

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

7.24 A consultation has been released by Government on rent policy with all responses to be received by 24 December 2013. One of the proposals is that rent convergence is terminated a year earlier at the end of 2014/15. As can be seen from the table above, there is a shortfall in the average rent compared to the average target rent most noticeably for 3 and 4 bedrooms houses which suggests that there are a number of properties within these categories that fall quite short of the target rents. The HRA financial business plan assumes convergence during 2015/16 and in the event it is terminated a year earlier there will be a budgetary impact on the HRA financial business plan of approximately £100k per annum. This has not yet been factored in to the budgets at it is only at the consultation stage.

7.25 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.

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

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

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

7.29 **Investment Income** – This consists of interest accruing on mortgages granted in respect of Right to Buy sales and interest on HRA balances. The base rate remains low which in turn means that investment interest will be low. The budget for 2014/15 of £65k is based on achieving an average interest rate of 0.50%.

7.30 **The Housing Revenue Account Reserves**

7.31 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:

7.32 **Housing Revenue Account Major Repairs Reserve** – The annual Major Repairs Allowance (MRA) that was paid to the Council as part of the HRA

Subsidy had to be placed in a Major Repairs Reserve, to be used to meet HRA capital expenditure only. It is proposed to continue with the 5 year transitional arrangement and to continue to place the forecast MRA as per the determination schedules in the reserve. This funding, together with previous allocations of supported borrowing and revenue contributions, with good management, has enabled the Council to maintain the housing stock in a good condition. The Council currently maintains its social housing to Decent Homes Plus standard. As at 1 April 2013 this reserve balance was £3.6m which is higher than usual due to the difficulties last year with the kitchen contract - work that was due to be undertaken during 2012/13 on the kitchens was delayed and therefore funds set aside for works in 2012/13 have continued to be set aside to enable a catch up programme once the kitchen contract has been re-tendered during the current financial year.

7.33 **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 2013 this reserve balance was £10.2m, although £4m of these balances have now been earmarked for the Margate Intervention programme and £1.6m for the Ramsgate Empty Property programme.

7.34 **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. As at 1 April 2013 this reserve balance was £500k.

TABLE 10 – HOUSING REVENUE ACCOUNT BUDGET				
	2014/15 £'000	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
Expenditure				
Repairs & Maintenance	3,377	3,427	3,483	3,541
Supervision & Management – General	2,827	2,901	2,830	2,832
Supervision & Management – Special	502	506	513	516
Rents, rates, taxes and other charges	311	317	324	330
Bad or doubtful debts provision	220	220	220	220
Depreciation/impairment of fixed assets	2,285	2,285	2,285	2,285
Capital Expenditure funded from HRA	2,655	3,514	0	0
Debt Management Costs	6	6	6	6
Non-service specific expenditure	400	400	400	400
Gross Expenditure Sub Total	**12,583**	**13,576**	**10,061**	**10,130**
Income				
Dwelling Rents (gross)	-12,785	-13,210	-13,430	-13,653
Non-dwelling Rents (gross)	-179	-179	-179	-179
Charges for services and facilities	-313	-353	-393	-393
Contributions towards expenditure	-296	-296	-296	-296
Other Charges for Services and Facilities	-11	-11	-11	-11
Income Sub Total	**-13,584**	**-14,049**	**-14,309**	**-14,532**
Net Costs of Services Sub Total	**-1,001**	**-473**	**-4,248**	**-4,402**
HRA Investment Income	-67	-67	-99	-295
Debt Interest Charges	831	810	983	1,151
Government Grants and Contributions	0	0	0	0
Adjustments made between accounting basis and funding basis	**768**	**1,653**	**825**	**825**
(Surplus)/Deficit on HRA	**531**	**1,923**	**-2,539**	**-2,721**
Housing Revenue Account Balance:				
Estimated Surplus at Beginning of Year	-6,514	-5,983	-4,060	-6,599
(Surplus)/Deficit for Year	531	1,923	-2,539	-2,721
Estimated Surplus at End of Year	**-5,983**	**-4,060**	**-6,599**	**-9,320**

8.0 THE CAPITAL BUDGET

8.1 A de minimus level of £10k has been set for capital expenditure on a fixed asset which is expected to be in use for more than one year. Capital expenditure below this value is not treated as capital and is therefore not recorded on the asset register or funded from capital resources. Capital expenditure also includes grants that are provided for the enhancement of buildings to increase the extent to which they can be used by a disabled or elderly person. Capital expenditure can be met from loans, capital receipts, capital grants or revenue contributions.

8.2 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.

8.3 The Asset Management Strategy

8.3.1 By far the largest element of the Council's capital worth (as represented by the fixed asset values on the Balance Sheet) is in its property holdings, with a total of £154 million showing as the net book value of all property assets as at 31 March 2013 (after depreciation has been applied). In line with Government and best practice guidelines the Council is required to have prepared and published an Asset Management Strategy (AMS) which outlines its approach to its material asset holdings, to ensure that it acts responsibly in terms of undertaking a stewardship role over valuable public assets whilst deriving the maximum use from them in terms of service delivery so that value for money is able to be evidenced.

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

8.4 Impact of the Current Economic Climate

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

8.5 **The Capital Budget Strategy**

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

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

8.5.2 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 to ensure sufficient funding is available for existing schemes that have commenced and that any new projects are of the highest corporate priority and/or reduce the pressure on the revenue account. The General Fund capital programme includes limited forward plan bids as officers have continued to recognise that with a considerable proportion of the programme deferred, new schemes would jeopardise the existing programme.

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

8.5.4 Over the past 5 years the Council has seen a significant reduction in the capital receipts from the sale of assets. In the event that they cannot be realised in 2014/15 onwards this will result in a further need to borrow thus increasing the revenue pressure on the General Fund. There is uncertainty at this stage with regards to the future of the Staffordshire Street Car Park site and whether this will now be disposed of in 2014/15. The Capital Programme presented below assumes this receipt, but if the disposal doesn't take place, then the Capital Programme will need to be amended accordingly. The Capital Programme and progress against the planned disposals will be monitored regularly and reported back to members, with proposed revisions to the programme if necessary.

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

8.5.6 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.

8.5.7 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 will be set up to put funds aside for a replacement programme. It is also proposed to set aside in this reserve any in-year service underspends from those services requiring the replacement vehicles, plant or equipment.

8.5.8 **Available Capital Funding**

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

8.5.10 **Capital Grants** – these are offered by Government Departments to assist with certain types of expenditure. Capital grants include: Communities and Local Government funding for Disabled Facility Grants, Environment Agency, Lottery funding and European grants. The HRA is currently in receipt of a capital grant from the Homes and Communities Agency (HCA) for the Ramsgate Empty Homes Programme. The capital grant funding that is currently anticipated for 2014/15 and over the medium term is shown in the following table:

TABLE 11 – CAPITAL GRANTS					
	2014/15 £'000	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
DCLG – Disabled Facilities Grant	1,108	1,108	1,108	1,108	1,108
Heritage Lottery Fund – Dalby Square THI	620	420			
Regional Housing Board – Dalby Sqaure THI	134				
Environment Agency – North Thanet Coastline		250			
Total	**1,862**	**1,778**	**1,108**	**1,108**	**1,108**

8.5.11 **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.

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

8.5.13 **Housing Capital Receipts** - On 2 April 2012 Ministers raised the cap on Right to Buy discounts to £75k and confirmed that receipts from the additional sales this would generate would be used to fund replacement stock on a one for one basis. At the same time Ministers confirmed that their favoured option of delivering these new homes would be through local authorities retaining receipts to spend in their areas. 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.

8.5.14 **Unsupported Borrowing** – The Local Government Act 2003 gave local authorities the ability to borrow for capital expenditure above the level supported by Government Grant, provided that such action complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Prudential Borrowing ("The Prudential Code"); the objectives of which are to ensure that capital investment plans are affordable, prudent and sustainable. Essentially, it provides a number of controls to ensure that the Council does not incur additional debt without fully understanding the financial implications both now, and in the future. A housing debt cap of £27.792m has been set for the Council, being the maximum amount the HRA can borrow which must not be exceeded. This differs from the way the maximum debt levels are set within the General Fund, which are governed by the Prudential Code and the setting of a number of indicators. It is anticipated that borrowing of £9.5m will be required to support the General Fund Capital Programme in 2014/15.

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

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

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

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

8.6.2 **Re-phased Projects** – Due to the shortfall of capital receipts achieved during 2013/14, a number of capital projects have been re-phased from 2013/14 into 2014/15. These include a £41k contribution towards Disabled Facilities Grant, £110k for the Margate Cemetery extension, £100k for the crematorium car park extension, £100k for the public convenience enhancement programme, £50k for capital repairs to sports halls and swimming pools, £216k for the waste transfer station, £25k for fencing at Dane Valley, a £42k for the contribution to the community facility at Pierremont Park, £20k for allotments and £100k for the terminal tractor at the Port. However, unless there is a significant upturn in the circumstances affecting asset disposals, it is likely that a fundamental review of the capital programme will be undertaken in 2014/15, to ensure future capital programmes are deliverable**.**

8.6.3 **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. The allocation for 2014/15 has now been announced at £1.108m. Following the Comprehensive Spending Review and development of the Care Bill, the way DFGs will be delivered is likely to change, with Kent County Council and Clinical Commissioning Groups deciding final allocations to local authorities. There is also a question as to whether local authorities will continue to have the mandatory duty to pay DFGs going forward.

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

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

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

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

8.6.8 **The Alongside Quay** – An alongside quay would be constructed to enable the Port to diversify its operation, it would allow for berthing opportunities for larger vessels such as cruise ships and cargo vessels against the south breakwater. It is anticipated that extra revenue can be generated for the Ramsgate Port and

Harbour through the increased facilities that can be offered. As a result it will be proposed that this scheme is funded from prudential borrowing combined with any grant funds that are able to be attracted.

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

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

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

8.6.12 With the flexibilities now available as part of the self-financing changes, the Council is currently developing an HRA Asset Management Strategy to review land and buildings within the HRA including garage sites to ensure they are being put to best use and obtaining value for money for the tenants. It is intended to be the driving factor towards a development programme for the HRA.

8.7 **The Draft Capital Budgets 2014/15 to 2017/18**

8.7.1 The draft General Fund Capital Expenditure Budget for 2014/15 that is proposed for Members' approval is £12.105m, which will be funded in the main from capital grant, usable capital receipts and prudential borrowing. This is shown in summary format below.

TABLE 12 – 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	1,408
Schemes continuing from prior years	3,322	1,289			
Annual Enhancement Schemes	100	100	100	100	100
Wholly/Part Externally Funded Schemes					
Replacements and Enhancements					
Area Improvement	7,200	2,000			
Capitalised Salaries	75	75	75	75	75
Total Capital Programme Expenditure	**12,105**	**4,872**	**1,583**	**1,583**	**1,583**
Capital Resources Used:					

Capital Receipts and Reserves	743	688	475	475	475
Capital Grants and Contributions	1,862	1,778	1,108	1,108	1,108
Prudential Borrowing	9,500	2,406			
Total Funding	**12,105**	**4,872**	**1,583**	**1,583**	**1,583**

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

TABLE 13 – HRA CAPITAL PROGRAMME				
	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Total HRA Capital Programme Expenditure	**6,505**	**6,884**	**6,740**	**6,798**
HRA Capital Resources Used:				
HRA Major Repairs Reserve	2,750	3,100	2,930	2,950
HRA Revenue Contributions	2,655	3,514		
New Build Reserve	500			
Capital RTB Receipts	200	150	150	150
Housing Capital Receipts	400	120	120	120
Prudential Borrowing			3,540	3,578
Total Funding	**6,505**	**6,884**	**6,740**	**6,798**

8.8 **Compliance with the Prudential Code and Treasury Management**

8.9 **The Prudential Code**

8.9.1 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.

8.9.2 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.

8.10 **Treasury Management and Investments**

8.10.1 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).

8.10.2 **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 2014/15.

9.0 PROCUREMENT

9.1 **Contracts Let - £75k and above**

9.1.2 A number of significant contracts have been let this year, particularly in relation to the Waste project with new refuse vehicles being acquired and contracts for the purchase of new recycling bins and bags. **Annex 7** shows those contracts let.

9.2 **Contract Waivers Approved**

9.2.2 Contract Standing Orders do allow, where there is clear justification, the waivering of some of the Council's local rules for procurement which are not captured by EU Procurement Directives. All applications are scrutinised to ensure that a waiver is applicable and that both probity and value for money will be achieved if approval should be given. The list of waivers approved during the year is shown at **Annex 8**.

9.2.3 The Contract Standing Orders and Purchasing Guide were reviewed during 2013.

9.3 **Procurement Programme January 2014 to December 2014**

9.3.1 A programme of contracting requirements for contract spend of £75k and above for 2014 will be complied based on the Procurement Initiation Documents received as part of budget monitoring.

10.0 A STATEMENT OF ASSURANCE FROM THE SECTION 151 OFFICER

10.1 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.

10.2 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 systems, means that the Chief Financial Officer believes the Council is well placed to deliver against the budget proposals presented within this report.

10.3 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.

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

11.0 <u>OPTIONS</u>

11.1 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.

11.2 CORPORATE IMPLICATIONS

11.2.1 Financial

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

11.2.1.2 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.

11.2.2 Legal

11.2.2.1 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.

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

11.2.3 **Corporate**

11.2.3.1 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.

11.2.4 **Equity and Equalities**

11.2.4.1 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.

11.2.4.2 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 467 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.

11.2.4.3 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 recommend the draft Medium Term Financial Plan at Annex 1 to Council;

12.2 That Members recommend to Council the draft General Fund Revenue budget estimates for 2014/15 to 2017/18 and the resulting budget requirement for 2014/15;

12.3 That Members recommend to Council that the level of general reserves be held at £2,150k, and specific earmarked reserves be used as identified in Annex 2;

12.4 That Members recommend to Council the HRA budget estimates for 2014/15 to 2017/18 and the HRA service charges as shown at Annex 4;

12.5 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;

12.6 That Members recommend to Council the General Fund and Housing Revenue Account Capital Budgets for 2014/15 as detailed at Annexes 5 and 6;

12.7 That Members recommend to Council the draft Treasury Management Strategy (see Annex 3), as approved by Governance and Audit at its meeting on 11 December 2013;

12.8 That Members note the procurement update at paragraph 9.

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
Annex 7	Contracts Let
Annex 8	Waivers Approved

Background Papers

Title	Where to Access Document
Budget Spreadsheet	N/A

Corporate Consultation Undertaken

Finance	N/A
Legal	Harvey Patterson, Corporate & Regulatory Services Manager
Communications	Hannah Thorpe, PR & Publicity Manager