

## BUDGET STRATEGY 2017-18

Cabinet	<b>17 November 2016</b>
Report Author	<b>Director of Corporate Resources and s151 officer</b>
Portfolio Holder	<b>Cllr-John Townend, Finance and Estates</b>
Status	<b>For Information</b>
Classification:	<b>Unrestricted</b>
Key Decision	<b>No</b>
Reasons for Key	<b>Budget and Policy Framework</b>
Ward:	<b>All Wards</b>

### **Executive Summary:**

To present the draft budget strategy for:

1. The General Fund revenue budget 2017-18, together with:
  - a. Proposed fees and charges policy;
  - b. Assumptions for the medium term from 2018-19 to 2020-21;
2. Capital programme for 2017-18 and the provisional estimates for the following years to 2020-21;
3. Housing Revenue Account 2017-18 and the estimates for the HRA capital programme up to 2020-21.

### **Recommendation(s):**

That Members note the report.

### **CORPORATE IMPLICATIONS**

<b>Financial and Value for Money</b>	The financial implications of the budget are laid out within the body of the report.
<b>Legal</b>	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, this is the Director of Corporate Resources, and this report is helping to carry out that function. The requirements of other relevant statute have been referenced within the body of this report, where relevant.
<b>Corporate</b>	Corporate priorities can only be delivered with robust finances. Both the draft budget and the level of reserves recommended in this report are believed to be sufficient to meet these priorities and develop Services.
<b>Equalities Act 2010 &amp; Public Sector Equality Duty</b>	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and

	<p>other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.</p> <p>Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy &amp; maternity. Only aim (i) of the Duty applies to Marriage &amp; civil partnership.</p> <table border="1" style="width: 100%;"> <tr> <td colspan="2">Please indicate which aim is relevant to the report.</td> </tr> <tr> <td>Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,</td> <td style="width: 10%;"></td> </tr> <tr> <td>Advance equality of opportunity between people who share a protected characteristic and people who do not share it</td> <td></td> </tr> <tr> <td>Foster good relations between people who share a protected characteristic and people who do not share it.</td> <td></td> </tr> </table> <p>There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.</p> <p>It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council, as a result a full equality impact assessment will be undertaken for any specific service changes where appropriate.</p>	Please indicate which aim is relevant to the report.		Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,		Advance equality of opportunity between people who share a protected characteristic and people who do not share it		Foster good relations between people who share a protected characteristic and people who do not share it.	
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<b>CORPORATE PRIORITIES (tick those relevant)✓</b>	
A clean and welcoming Environment	✓
Promoting inward investment and job creation	✓
Supporting neighbourhoods	✓

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

## **1.0 Introduction and purpose of report**

- 1.1 To outline the process and assumptions for developing the budget for 2017-18 and the provisional assumptions for the following years to 2020-21. The paper also proposes the fees and charges policy for 2017-18.
- 1.2 To present the draft General Fund Capital budget for 2017-18 and the provisional estimates for the following years to 2020-21.
- 1.3 To present the provisional assumptions for the HRA budget for 2017-18 and the estimates for the HRA capital programme up to 2020-21.

## **2.0 Background**

### **National Planning Context**

- 2.1 Following the June Referendum, there is a new national political landscape. This could affect local government and the Chancellor is to update the Government's spending plans for 2017-18 and beyond in the Autumn Statement, which will provide the general direction of financial support for local authorities.
- 2.2 The detail of what grant each Council will receive should be announced in early December in the Provisional Settlement. This will be confirmed in the Final Settlement in late-January/early-February.
- 2.3 During the summer, the Government consulted on changes to the income that local authorities receive from Business Rates. All these changes bring uncertainty, firstly to how much businesses will pay, and secondly to local authorities. They include:
- Retention – moving to local authorities retaining all their Business Rates, but taking on additional responsibilities and ceasing to receive Revenue Support Grant by 2020;
  - Revaluation – altering the distribution of how much businesses pay to better reflect their ability to pay;
  - Appeals – making the appeals process quicker. Initially, a backlog of cases will be cleared at the same time as the new cases are processed quicker, producing a bulge of decisions.
- 2.4 As part of the Spending Review in November 2015, Councils were invited to submit a Four Year Efficiency Plan by 14<sup>th</sup> October in order receive assurance of future funding. TDC has made such a submission.

#### **TDC budget planning process and framework**

- 2.5 The Committee calendar sets out a timeline of meetings around which the budget process can be built - see Table 1 overleaf:

**Table 1: Budget and service planning timetable**

<b>Activity/Milestone</b>	<b>Time frame</b>
The start of the public examination of the budget for wider views and comment.	31 October to 25 November
Cabinet considers this report and gives direction.	17 November
Overview and Scrutiny Panel (OSP) considers the Cabinet report and makes recommendations to Cabinet	21 November
Autumn Statement	23 November
Consultation closes	25 November
Council considers proposals on the level of fees and charges to enable any changes to be in place from April	1 December
Governance and Audit Committee considers the Treasury strategy, with recommendations to the 17 January Cabinet.	7 December
Provisional Settlement announced	Early December
Cabinet considers the views of OSP, Governance and Audit, consultation and the Provisional Settlement, together with detailed budget proposals comprising Treasury Strategy, the Budget report (Revenue, Capital and HRA), Medium Term Financial Strategy (MTFS), Council Tax Base, Adequacy of Reserves and Robustness of Estimates.	17 January
OSP considers the Cabinet papers of 17 January and makes any recommendations to 31 January Cabinet.	26 January
Final Settlement	Late January (or early Feb)
Cabinet reviews the outcome of the Final Settlement, other risk and impact assessments and OSP views and makes recommendations to Council.	31 January
Council agrees the Treasury Strategy, the Budget report, Medium Term Financial Strategy, Council Tax Base, Adequacy of Reserves and Robustness of Estimates.	9 February
Council agrees the level of Council Tax	23 February

2.6 The MTFFS 2016-20 was agreed by Council in February 2015 and set out the actions required to address the projected funding gap for 2017-18:

**Table 2, 2017-18 Original Savings**

<b>Action</b>	<b>Detail</b>	<b>000's</b>
Savings considered as part of the previous Medium Term Financial Strategy	Including previously identified Director savings including a review of Assets, the Port, contract arrangements and service efficiency along with efficiencies from review of the Shared Service arrangement.	-900
Targeted organisational efficiencies	Budgets were to be scrutinised and it was anticipated that this would lead to targeted savings across the organisation.	-364
Fees and Charges	Basic Fees and charges increase	-204
<b>Total</b>		<b>-1,468</b>

2.7 The latest forecasts of Government funding, estimates of expected increased costs such as inflation, volume changes from increased demand and demographics, the costs of legislative changes and slippage on the delivery of savings have resulted in an updated projection for 2017-18, as set out in Table 3 below:

**Table 3, 2017-18 Revised Savings**

<b>Action</b>	<b>Detail</b>	<b>000's</b>
Income generation initiatives	Income generation opportunities in respect of car parking, the port and a lottery	-440
Comprehensive review of Fees and Charges income	A complete review of fees and charges including new fees and benchmarking of old fees in order to gauge the impact on customers and comparison against the wider market.	-490
Remaining Savings agreed as part of the previous Medium Term Financial Strategy	Revised savings including a review of assets, contract arrangements and service efficiencies including from Shared Services.	-770
<b>Total</b>		<b>-1,700</b>

2.8 A review of the Council's reserve holdings has been undertaken. The proposed reserve balances were considered to be adequate for supporting the Council's ongoing needs and plans. However, the level of risk associated with the low level of reserves can be mitigated by making additional contributions over the life of the

MTFS.

### **3.0 The Budget Process**

#### **Service priorities in 2017-18**

- 3.1 The new Corporate Plan for 2016-2019 was adopted at Full Council on 15 October 2015 for the next four years. The key priorities are:
- A clean and welcoming environment
  - Supporting neighbourhoods
  - Promoting inward investment and job creation
- 3.2 These priorities have been taken forward in developing the 2017-21 MTFS as set out in the sections below.
- 3.3 **A clean and welcoming environment** – The Council is keen to encourage pride in our district by keeping Thanet clean. As part of the continuing improvement to frontline services a seven year capital investment programme is planned to review and replace vehicles, plant and equipment. This will ensure that the service has efficient plant and equipment to deliver an improved service. It is proposed to undertake a review of the options available for these facilities and to consider repair/improvement, transfer, disposal and charging.
- 3.4 **Supporting neighbourhoods** – The Council will continue to support the Margate Housing Intervention programme and New Build Housing programme. Better regulation and enforcement in the Private Sector is also receiving priority along with consideration for continuing Selective Licencing areas.
- 3.5 **Promoting inward investment and job creation** - The Council has taken the opportunity to generate economic development by continuing to be a member of the Kent business rates pool in 2016-17 and beyond, with an element of retained growth being available for facilitating schemes that will help promote this.

#### **Exploratory themes for delivering the Medium Term Financial Strategy**

- 3.6 Projected funding for 2017-18 onwards, whilst remaining uncertain in light of the Government's plans for the localisation of business rates, is clearly going to diminish over the medium term. In light of this, some broad themes are being pursued which will enable the Council to produce balanced budgets and a robust MTFS.

#### **Income generation**

- 3.7 A range of reviews are under way to generate new and additional income. These reviews are: creation of a housing company; fundamental review of car parking; power generation on Council owned sites; commercial charging for minor works and workshop; and a review of Planning.

## **Digitalisation**

- 3.8 The Implementation of a digital strategy will help achieve efficiencies by streamlining back-office processes and improve front line services by providing them in a modern form more relevant to today's digital age. Work is under way with various partners to review in real terms the benefits of this moving forward.

## **Making the most of the assets we own**

- 3.9 A revised Asset Management Strategy will be key to working with partners to maximise the benefits of the buildings and land we own. We will seek commercial opportunities for key assets including changing use, sharing facilities and disposal as well as investing in assets to earn a return.

## **Alternative Delivery Vehicles**

- 3.10 All services will be reviewed and considered for alternative models, including outsourcing, shared services or partnerships. Action will be targeted towards those services that are the most expensive relative to peers. By drawing in wider investment and market opportunities it is possible to reduce the cost of mainstream council services. Working with partners would give access to new skills and experience and help ensure an appropriate share of risk between parties.

## **Efficiency gains and the four year settlement**

- 3.11 By accepting the offer of Government for a four-year settlement, it is hoped that there will be greater certainty of external funding in the medium term, even if that certainty is for an ever-decreasing level of funding.

## **4.0 Government Funding And Council Tax**

- 4.1 When drawing up budget proposals, the Council needs to consider its primary government funding streams. These are detailed below.

### **Business Rates Retention**

- 4.2 The Government introduced a new Business Rates Retention Scheme from 1<sup>st</sup> April 2013. The scheme provides an incentive to councils to grow their local economy by allowing them to retain a proportion of the business rates collected. In return, authorities also now share the risk of a fall in yield, subject to a safety net mechanism.
- 4.3 The first 50% of any new business rate yield goes to the Treasury with the balance being split 80% to the district and 20% to the county and major preceptors. The safety net mechanism ensures that no authority's income falls by more than 7.5% of their baseline funding level.
- 4.4 During 2015-16 the Council joined with other Kent authorities in applying to operate a business rates retention pool and this arrangement continued for 2016-17. Business rates income is highly volatile and forecasts should be treated with caution as they are impacted by the closure of businesses, appeals, changes in valuation methodology applied and unforeseen changes.
- 4.5 The Chancellor advised that Councils are to retain all locally raised business rates by the end of the decade under local government reforms. The changes will also end the distribution of core grant from Whitehall to town halls, the first phase of this consultation has now been concluded, the outcome of which will not be known for some time.

4.6 Proposals to localise business rates by 2020-21 will place significant responsibility in local areas along with significant risk, but with this comes opportunity. This will also drive the authority forward in terms of taking control of its financial future, removing the reliance on Central Government funding.

#### **4.7 Local Government Settlement Funding**

4.8 In addition to business rates, authorities receive Revenue Support Grant (RSG) from Central Government as support towards the cost of running Council services.

4.9 In 2016-17 RSG was £2.645m, but in 2017-18 is estimated to fall to £1.446m (subject to our application for 4-year settlement funding).

4.10 The 2016-17 Medium Term Financial Strategy assumed cuts of 38.6% across all funding sources from Central Government for 2016-20, this being based on the 4 year spending review. The details of the continuation of New Homes Bonus at current levels has still to be confirmed and remains uncertain. The budget strategy currently assumes that the balance of RSG will be removed in 2020-21 and that Business Rates will remain unchanged.

#### **Council Tax Support Scheme funding**

4.11 The Revenue Support Grant also includes funding to compensate for the impact of the Council Tax Support Scheme (CTSS) on the Council Tax base. This funding is no longer distinguished as a separate component.

4.12 The CTSS was introduced from 1<sup>st</sup> April 2013 to replace the Council Tax benefit system. The scheme is localised, although there are a number of criteria that are nationally determined. The scheme has been subject to review and consultation and is the subject of a separate item on this agenda.

4.13 The current scheme adopted by the Council reflects a county-wide agreement, with local discretion. Currently a contribution of £125k p.a. is received towards the funding of the administration of the scheme and this is currently under review by KCC, as is a potential incentivisation scheme for 2017-18 and beyond.

#### **Council Tax Base Adjustments for Minor Preceptors**

4.14 The Council shares the RSG with parish councils to reflect that parishes do not have direct funding for Council Tax support and a reduced tax base. This was paid at the level of £130k in 2016-17. It is proposed that the level of this support should be reduced by the commensurate reduction in Council RSG funding and should therefore be £117k.

#### **Council Tax and Collection Fund**

4.15 The current Medium Term Financial Strategy assumes a Council Tax increase of 1.99% every year for the next 4 years as agreed by Council in February 2016. The tax base will be taken to Cabinet on 17 January 2017 for agreement, with the Statutory Resolution being taken to Council for agreement on 23 February 2017.

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

4.17 Council Tax is calculated by dividing the Precept by the Council Tax Base. The Council Tax Base is the number of properties within the district adjusted to account for different valuation bands, various discounts and an assumed collection rate. The assumed collection rate for 2017-18 is 97.25%, this is the same rate used in 2016-17.



4.18 Each year Council Tax is calculated based on assumed levels of collection rates. At the end of the year any surplus achieved in the collection fund is available to be shared proportionately between the Council and major preceptors (The Police and Crime Commissioner for Kent, Kent County Council and Kent & Medway Fire & Rescue). It is expected that a small surplus will be achieved in 2016-17 of which £100,000 would be available in 2017-18.

## 5.0 Budget Pressures

5.1 Given the economic context in which the Council finds itself, the overarching approach to developing the budget is to minimise budget pressures wherever possible, to reduce the need to find savings to deliver a balanced budget. Main pressures are set out in Table 4 below:

**Table 4, 2017-18 Budget Pressures**

<b>Growth</b>	<b>Detail</b>	<b>£000's</b>
The Economy Including Inflation	Budget assumes on-going impact of Pay for Contribution, Pay inflation and contractual increases for such items as Insurance, Utilities, Business Rates and service contracts.	700
Demography	Increased contribution in Pension costs resulting from previous revaluation.	340
Policy	Ongoing reduction in settlement funding as announced in November 2015 offset against changes in Council tax and business rates	660
Total		1,700

## 6.0 Fees and Charges:

The fees and charges policy is presented at Annex 4, which sets out the process followed when reviewing increases. Given the substantial budget gap for 2017-18 it will be vital that the council considers increases in fees and charges, to avoid too much pressure being placed on the need to severely reduce costs and so potentially adversely impact on services.

## 7.0 Budget Consultation

7.1 The budget consultation will be launched in November and will identify the priorities of the district's residents. These will be considered as part of the draft budget process for January Cabinet.

7.2 The Council's housing budget is due to be discussed at the East Kent Housing Tenant and Leasehold Board with representatives of our residents and leaseholders in attendance on 23<sup>th</sup> November 2016.

## **8.0 Housing Revenue Account Budget and Housing Capital Programme**

8.1 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 to remain within the limits of the anticipated income streams over the medium term.

### **8.2 The Operation of the Housing Revenue Account**

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

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

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

Supervision and Management General – Supervision and management costs that are applied across the whole stock e.g. Arm's Length Management Organisation (ALMO) Management Fee and support costs from other services.

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

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

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

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

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

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

Non-Dwelling Rents – Income from shops at Newington Centre, aeriels and garages

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

Contributions towards Expenditure – Leaseholder re-charges and rechargeable repairs

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

8.6 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.

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

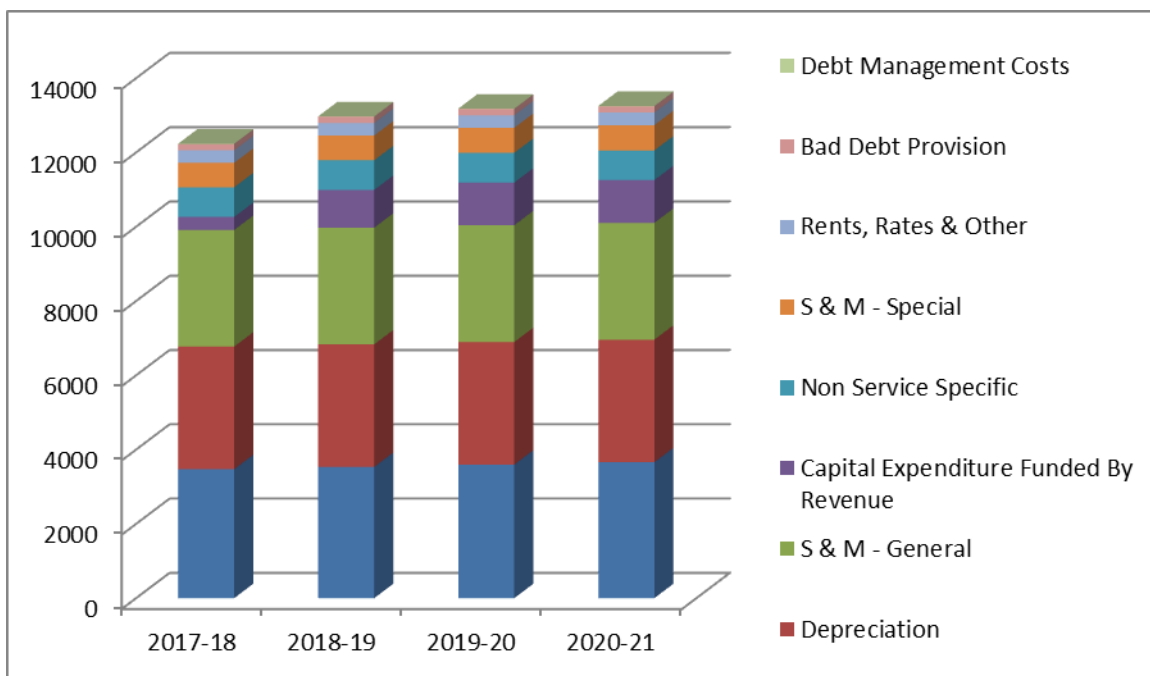
8.8 In April 2015 the government announced a proposal to require that Councils sell high value stock to fund the extension of Right to Buy to housing association tenants. As detailed in the Housing and Planning Act 2016, the Secretary of State has the power to make a Council sell a proportion of their vacant stock to pay a 'high value asset levy' which will reflect the high value homes they are expected to sell. To finance the payment, a Local Authority must consider selling its interest in any higher value housing that has become vacant. In November 2015 Councils had to provide detailed stock data. However, the determination defining higher value and the method for calculating the amount of payment due to the Secretary of State has yet to be determined.

8.9 Until further information is made available as to how the scheme will be administered it has not been possible to reflect this within the current budget estimates. Once the guidance has been issued this will need to be reflected in the budget and the 30 Year HRA Business Plan.

### 8.10 **Details of the HRA estimates**

#### **Expenditure Budgets**

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



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

8.13 **Repairs and Maintenance**

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

Funds	demand led budget. The £20k will be used to fund the growth required for asbestos removal.
Asbestos Removal	Asbestos removal is now being undertaken while the property is void. Growth of £45k will be required from 2017-18 onwards, however other revenue budgets have been reduced where possible.

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

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

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. The 2017-18 management fee base budget is currently under review by East Kent Housing and will be finalised by November 2016. However in the interim it is assumed that the core management fee will remain the same.

The number of court application referrals has increased. This has impacted on the budget and growth of £15k has been applied from 2017-18.

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

8.17 **Rents, Rates, Taxes and Other Charges** – The Empty Homes Programme and Ramsgate Intervention Programme are complete and a number of sites in the Margate Intervention programme are close to completion. The budgets that the Council holds as a landlord have been reviewed and reduced for running costs. These include Council Tax and utility standing charges on void properties and has generated a saving of £11k.

8.18 **Provision for Bad or Doubtful Debts** – The provision for bad or doubtful debts for 2017-18 will remain the same at £170k. Last year the actual provision utilised was £224k, whilst it is anticipated that there could be an impact on debt collection due to the Welfare changes based on current debt levels it is anticipated that the current provision is sufficient. An increase in court intervention, evictions and rechargeable works order are having a significant impact on former tenant arrears and recovery.

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

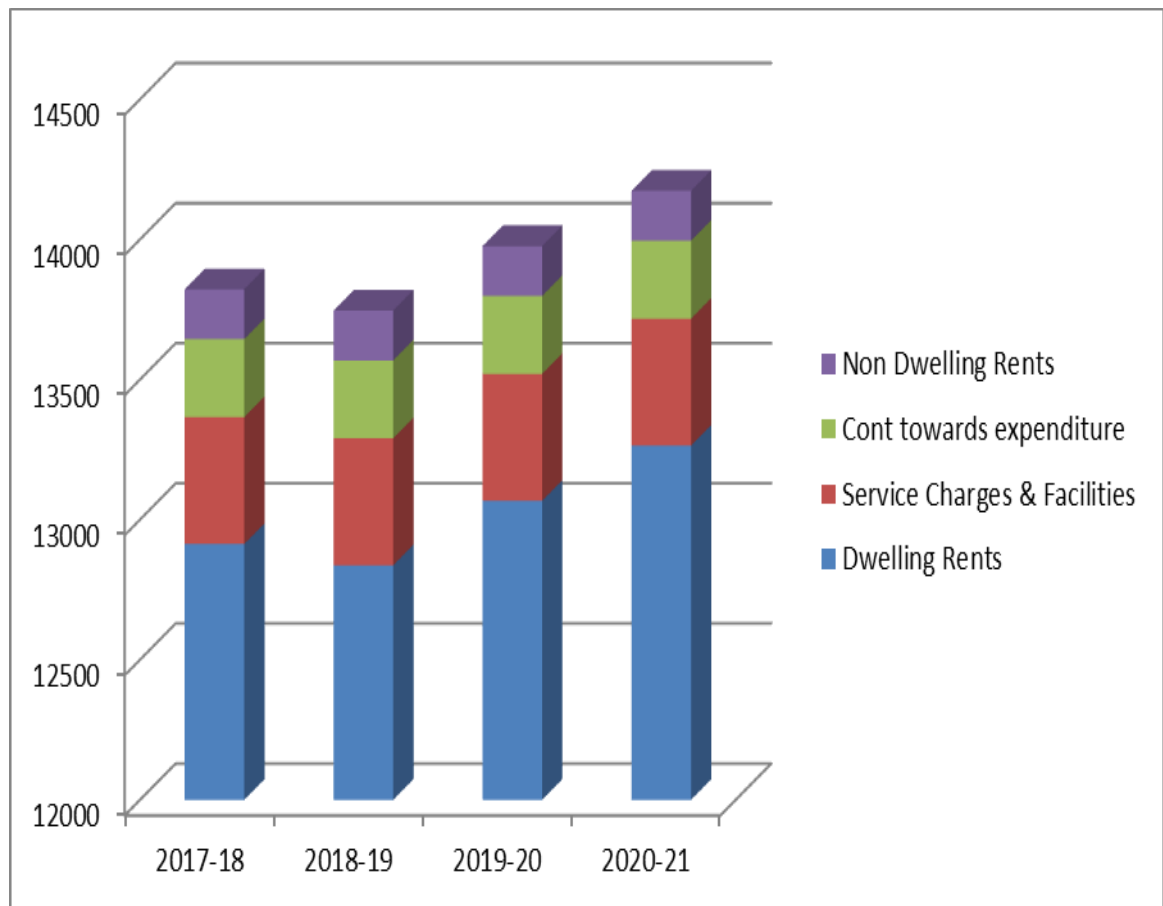
As part of the self-financing settlement, substantial changes were made to the accounting treatment of capital assets. A five year transitional period was put in place to help local authorities manage the impact of these changes. The transitional period ends on 31 March 2017 and in preparation the Government began consulting on the

effect of its proposed treatments during May 2016. The findings from the consultation are yet to be published and may impact on the calculation of the depreciation or impairment charges to the HRA from April 2017.

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

### Income Estimates

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



- 8.22 **Rent Increases** –Since April 2002, most rents for social housing have been set based on a formula set by Government. The intention was to align council rents with those of housing associations by adopting a formulaic approach to calculating rents, known as rent restructuring. Landlords were expected to move the actual rent of a property to the formula rent over staged increases through applying the guidance set by Government of Retail Price Index plus 0.5% plus up to an additional £2 where the rent is below the formula rent for the property.
- 8.23 As part of the Summer Budget 2015 the Government announced that both Social and Affordable Rents would be reduced by 1% a year for four years resulting in a 12% reduction in average rents by 2020-21. The rent baseline for the reductions is the rent payable on 8<sup>th</sup> July 2015.
- 8.24 The financial impact of the 1% baseline reduction in rents continues to reduce the available income within the Housing Revenue Account. As a result the Council's New Build Programme has been reviewed and scaled back to ensure affordability and a report was taken to Cabinet on 3<sup>rd</sup> March 2016 to agree this.
- 8.25 In the 2013 guidance the Government confirmed that Social landlords could charge tenants with an income of over £60,000 a market rent. The 'Pay to Stay' policy was discretionary. As detailed in the Housing and Planning Act 2016, the 'Pay to Stay' scheme is now compulsory. Tenants with a household income of £30,000 or more must pay rent equal to the market rent. Increases will be applied on a tapering system until the rent is equal to the market rent. Local Authorities will be expected to pay the additional rental income to the Exchequer. Details of how the Local Authority will be expected to monitor and enforce this policy have still yet to be confirmed.
- 8.26 Rental estimates are based on the new government guidance for rental decrease of 1% for 2017-18 to 2019-20 and a 1% inflationary increase from 2020-21 onwards until further guidance is received.
- 8.27 Social rents will be decreased by 1% in line with the Summer Budget 2015 announcement and government rent guidance. Across the whole stock the average rent is £81.13, this is an average decrease of £0.83p per property.

<b>HRA TABLE 1 – AVERAGE Social Housing PROPERTY RENTS</b>	
<b>Property</b>	<b>Est. Ave Rent</b>
Bedsits	£56.87
1 Bed Flat	£67.11
1 Bed House	£77.72
2 Bed Flat	£75.28
2 Bed House	£83.70
3+ Bed Flat	£87.11
3 Bed House	£93.72
4 Bed Flat	£89.95
4 Bed House	£102.57
5 Bed House	£110.76

- 8.28 New units created as part of the Margate Intervention Programme and Empty Homes Programme come under the Affordable Rent Programme. Affordable rents are calculated at up to 80% of the market rental income and are inclusive of service

charges. They will be decreased by 1% in line with the Summer Budget 2015 announcement and government rent guidance.

<b>HRA TABLE 2 – AVERAGE AFFORDABLE RENTS INC OF SERVICE CHARGES</b>	
<b>Property Type</b>	<b>Average Actual Rent</b>
1 Bed House	£77.72
1 Bed Flat	£73.62
2 Bed House/ Bungalow	£92.46
2 Bed Flat	£100.69
3 Bed House	£111.22
3 Bed Flat	£129.09
4 Bed House	£140.67
4 + Bed Flat	£146.34

- 8.29 Affordable rent guidance requires that on each occasion that an affordable tenancy is issued, whether let to a new tenant or if an existing tenancy is re-issued, the rent must be re-set based on a new valuation. The only exception is where the property is re-let to the same tenant following a probationary period coming to an end
- 8.30 **Non Dwelling Rents** - Income generated from aereals on tower blocks is expected to increase as a number of leases are due for renewal; £8k is anticipated in extra income. Garage rents will be increased in line with market rents.
- 8.31 **Service Charge Increases** –Service charges are calculated based on actual cost.
- 8.32 **Heating Charges** – Heating charges will be recovered on actual cost based on usage and contract price and then apportioned across the block dependant on bedroom size.
- 8.33 **Investment Income** – This consists of interest accruing on mortgages granted in respect of Right to Buy sales and interest on HRA balances. The base rate remains low which in turn means that investment interest will be low. The budget for 2017-18 of £55k is based on achieving an average interest rate of 0.25%.

#### **The Housing Revenue Account Reserves**

- 8.34 The Council operates three HRA reserves: a HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties reserve, each of which is discussed in turn:
- 8.35 **Housing Revenue Account Major Repairs Reserve** –. An amount equivalent of the actual depreciation charge for dwellings is transferred to the Major Repairs Reserve to fund capital works to the existing stock. The estimated transfer to the Major Repairs Reserve for 2017-18 is £3.08m.
- 8.36 This funding, together with previous allocations of supported borrowing and revenue contributions, with good management, has enabled the Council to maintain the housing stock in a good condition. The Council currently maintains its social housing to Decent Homes Plus standard. As at 1 April 2016 this reserve balance was £7.1m.
- 8.37 **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



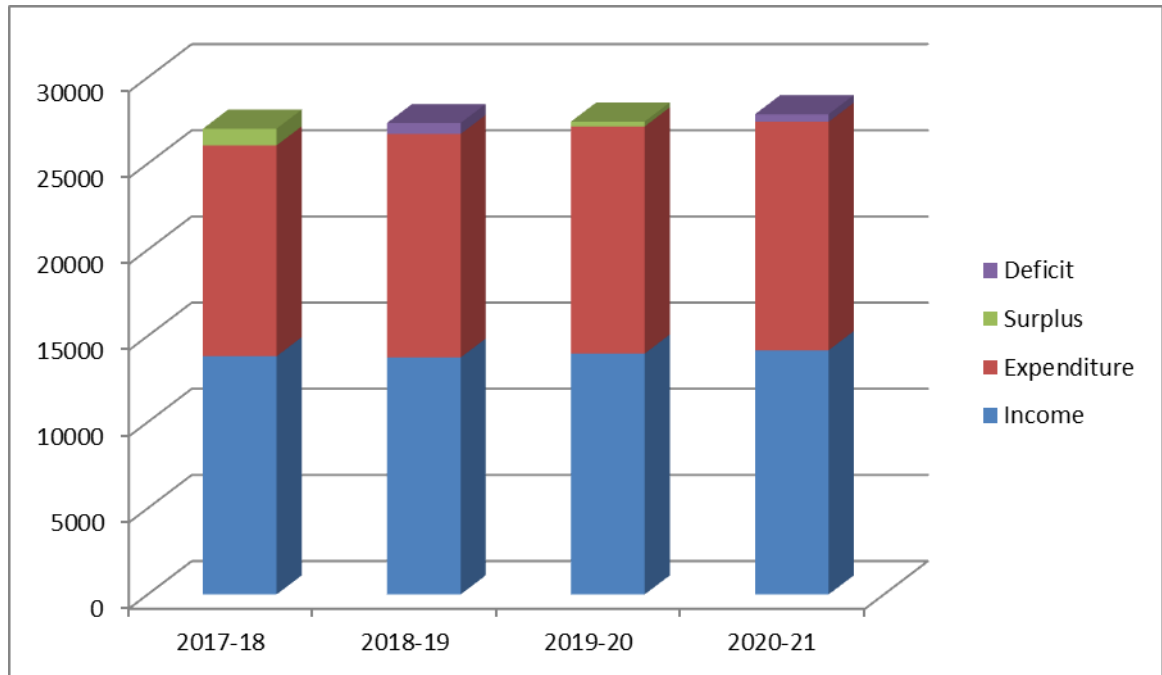
by annual contributions from the HRA. As at 1 April 2016 this reserve balance was £5.29m.

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

<b>HRA TABLE 3 - DRAFT - HOUSING REVENUE ACCOUNT BUDGET</b>				
	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Expenditure</b>				
Repairs & Maintenance	3,472	3,533	3,596	3,659
Supervision & Management – General	3,140	3,142	3,144	3,145
Supervision & Management – Special	657	665	673	681
Rents, rates, taxes and other charges	338	338	338	338
Bad or doubtful debts provision	170	170	170	170
Depreciation/impairment of fixed assets	3,300	3,300	3,300	3,300
Capital Expenditure funded from HRA	350	1,015	1,150	1,150
Debt Management Costs	9	9	9	9
Non-service specific expenditure	800	800	800	800
<b>Gross Expenditure Sub Total</b>	<b>12,236</b>	<b>12,973</b>	<b>13,180</b>	<b>13,253</b>
<b>Income</b>				
Dwelling Rents (gross)	-12,913	-12,837	-13,067	-13,264
Non-dwelling Rents (gross)	-178	-178	-178	-178
Charges for services and facilities	-453	-453	-453	-453
Contributions towards expenditure	-278	-278	-278	-278
<b>Income Sub Total</b>	<b>-13,822</b>	<b>-13,746</b>	<b>-13,976</b>	<b>-14,173</b>
<b>Net Costs of Services Sub Total</b>	<b>-1,586</b>	<b>-773</b>	<b>-796</b>	<b>-920</b>
HRA Investment Income	-20	-47	-90	-128
Debt Interest Charges	1,024	1,019	990	994
Government Grants and Contributions	0	0	0	0
Adjustments made between accounting basis and funding basis	-389	439	-389	-389
<b>(Surplus)/Deficit on HRA</b>	<b>-971</b>	<b>638</b>	<b>-285</b>	<b>-443</b>
<b>Housing Revenue Account Balance:</b>				
Estimated Surplus at Beginning of Year	-4,751	-5,722	-5,084	-5,369
(Surplus)/Deficit for Year	-971	638	-285	-443
<b>Estimated Surplus at End of Year</b>	<b>-5,722</b>	<b>-5,084</b>	<b>-5,369</b>	<b>-5,812</b>

\* Please note that Supervision and Management General costs are subject to change and provide an estimated projection

## Draft Housing Revenue Account 2017-2021



### 9.0 The HRA Capital Budget

- 9.1 A minimum level of £10k has been set for capital expenditure on a fixed asset which is expected to be in use for more than one year. Capital expenditure below this value is not treated as capital and is therefore not recorded on the asset register or funded from capital resources. Capital expenditure can be met from loans, capital receipts, capital grants or revenue contributions.
- 9.2 Due to the complex and large scale nature of capital projects, the original budgets have to be based on estimations that often need revising as the project advances.

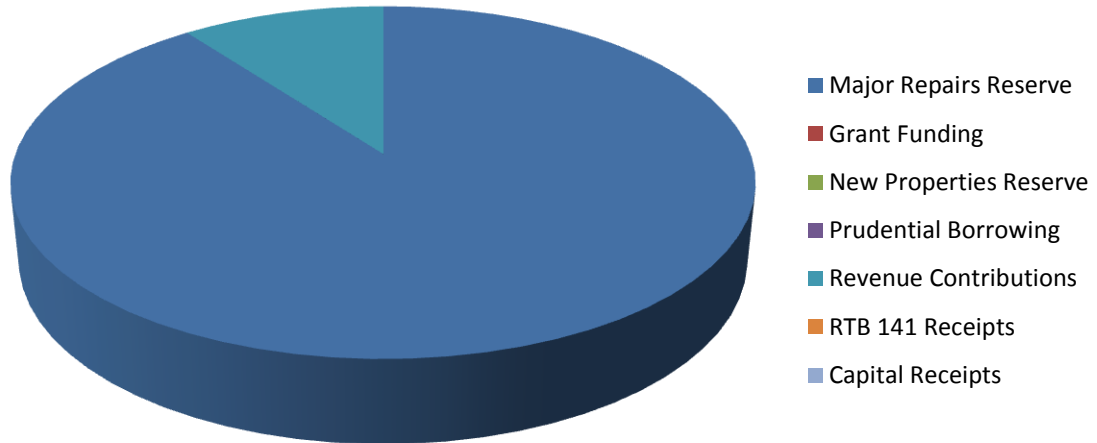
### The HRA Asset Management Strategy

- 9.3 The Strategic Housing Team is currently developing a new HRA Asset Strategy. Ongoing work has been undertaken to identify underutilised garage areas and a programme of New Build sites have been identified for development. The Council continues to review the land holdings within the HRA to develop a long-term new build programme. As part of the review, those small areas of land that no longer meet housing requirements and are not considered suitable for development will be reviewed for disposal to generate further capital receipts for re-investment into the new build programme.
- 9.4 The existing housing stock is continually reviewed for its suitability to provide good quality housing. Where stock is identified that requires considerable capital investment which far exceeds its worth to the authority, and or it has a greater market value consideration, will be given to disposal in order to generate capital receipts to fund new developments to increase the number of units or re-investment into the existing stock. The disposal of Coast Guard Cottages has recently been identified as falling into this category and the sale of some of these units is underway.

## **Available Capital Funding**

- 9.5 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.
- 9.6 **Capital Grants** – These are offered by Government Departments to assist with certain types of expenditure. The HRA has been awarded £1.37m funding towards the delivery of a new build programme for 58 new affordable units within the district from the Homes and Communities Agency (HCA) Affordable Homes Programme 2015-18.
- 9.7 **Housing Capital Receipts** - On the 26 July 2012 Cabinet gave approval to enter into an agreement with the Secretary of State for Communities and Local Government which allows the Council to retain additional Right to Buy receipts over and above that budgeted by Treasury. Under this regime, Treasury receive 75% of income on sales for approximately the first four right to buy properties and the Council is able to keep all of the sales income over and above.
- 9.8 **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.
- 9.9 **HRA Capital Reserves** – A summary of the HRA reserves has been detailed in para (8.34). The major repairs reserve is used to fund expenditure on the council housing stock and debt repayment, whilst the new properties reserve is utilised to fund the creation of new affordable homes.
- 9.10 **Revenue Contribution to Capital** – Revenue contributions from surpluses generated from rental income can be utilised to fund any budgetary shortfall within the capital programme. Over the longer term, this resource could be under threat because of the requirement to reduce rents.

## Funding of the HRA Capital Programme 2017-18



### The Capital Programmes for 2017-18 to 2019-20

- 9.11 **Housing Revenue Account Capital Programme** – The Housing Revenue Account Capital Programme has been set to ensure that the Council's social housing stock meets Decent Homes Standard Plus and to provide a continuing maintenance scheme to the Council's housing stock. The programme has been set based on existing stock data, however, East Kent Housing have recently commissioned a stock condition survey over the entire housing stock, the results of which may require a revision to the programme to be brought back to Members if the findings vary greatly from the existing budget set.
- 9.12 The Roofing programme is due to be re-tendered in 2016-17. A number of blocks have been surveyed and are in need of roof replacements in 2017-18 and 2018-19. These properties also require structural works and so both works will be carried out at the same time to make best use of scaffolding costs. Some properties have also been identified from the stock condition database as needing roof replacement surveys to be carried out.
- 9.13 A number of properties have been identified as needing window and door replacements. Some of these properties require specialist works and the budget has been increased by £40k to carry out these replacements. A new contract is due to be tendered in 2017-18.
- 9.14 Kitchen and Bathroom replacement budgets have been reduced as the previous backlog is now complete.
- 9.15 A report was carried out to review fire safety in 2015-16. The three year programme will complete in 2017-18 and the budget reflects the remaining contract works to be carried out.
- 9.16 A number of properties have been identified as needing structural and repointing works. Where applicable these works will be carried out at the same time along with

any roofing works required to make best use of scaffolding costs. Due to the scale of the works, the programme and budget will be split over 2017-18 and 2018-19.

- 9.17 Thermal Insulation works are currently being carried out when the property becomes void. The properties in rural locations are due for a review and are most likely to require works to be carried out following the survey. As a result the budget has been increased by £30k in 2017-18.
- 9.18 The lift programme is currently under review. Two lifts have been completed. The budget has been reduced for the remaining lifts based on the costs of the completed works.
- 9.19 Disabled adaptations will remain the same for 2017-18. This is a demand-led budget and will be reviewed annually.
- 9.20 Estate Improvements has been reduced to £50k for 2017-18 and 2018-19. The budget will resume to £125k once the large scale structural programme has been completed.
- 9.21 The Margate Housing Intervention Programme sets out to transform the housing market in two of England's most deprived wards, Cliftonville West and Margate Central. The properties that are currently in the programme will continue to be developed. The programme will continue to be closely monitored and the rental income generated re-invested to continue the programme.
- 9.22 With the flexibilities now available as part of the self-financing changes, the Council is currently developing an HRA Asset Management Strategy to review land and buildings within the HRA, including garage sites to ensure they are being put to best use and obtaining value for money for the tenants. This has been the driving factor towards the first tranche of a new development programme for the HRA consisting of 58 new units. The new build development programme is funded by HCA grant funding, HRA reserve balances and prudential borrowing and the programme is scheduled to complete in 2018-19.
- 9.23 A detailed breakdown of the HRA capital programme is provided in Annex 1.

## 10.0 The Draft Capital Budgets 2017-18 to 2020-21

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

<b>TABLE 4 – HRA CAPITAL PROGRAMME</b>				
	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Total HRA Capital Programme Expenditure</b>	<b>3,255</b>	<b>4,160</b>	<b>3,325</b>	<b>3,225</b>
<i>HRA Capital Resources Used:</i>				
HRA Major Repairs Reserve	2,905	3,145	2,175	2,075
HRA Revenue Contributions	350	350	425	425
New Properties Reserve		665	725	725
<b>Total Funding</b>	<b>3,255</b>	<b>4,160</b>	<b>3,325</b>	<b>3,225</b>

## 11.0 General Fund Capital Programme

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

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

## 11.3 The Asset Management Plan

- 11.4 By far the largest element of the Council's capital worth (as represented by the fixed asset values on the Balance Sheet) is in its property holdings, with a total of £210 million showing as the net book value of all property assets as at 31 March 2016 (after depreciation has been applied). In line with Government and best practice guidelines, the Council is required to have prepared and published an Asset Management Plan (AMP) which outlines its approach to its material asset holdings. This is to ensure that it acts responsibly in terms of undertaking a stewardship role

over valuable public assets whilst deriving the maximum use from them in terms of service delivery so that value for money is able to be evidenced.

11.5 The Council's Asset Management Plan outlines the principles, criteria and processes that form the cornerstone of the draft Capital Programme. This requires a continuous assessment of the relative value of an asset (both financial and non-financial) in order to ensure that 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.

#### 11.6 **Capital Receipts**

11.7 The level of capital receipts available from the sale of surplus assets has been very constrained over the last few years. Reasons for this have included the economic situation, assets being removed from the disposal list following consultation, and capital funding being switched from reserves to capital receipts wherever possible due to significant pressures on the Council's revenue budget. Members should note that capital receipts will be monitored closely during the 2017-18 financial year, as it may be necessary to adjust the programme in year depending on asset disposal and funding outcomes.

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

#### 12.0 **The Capital Budget Strategy**

12.1 Although the Asset Management Plan is used to inform the contents of the Capital Budget, it is only one element. 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

12.2 Due to the limited availability of capital receipts and the need to contain the level of borrowing undertaken to minimise the revenue impact, it has been necessary to review the Capital Programme. This is to ensure sufficient funding is available for existing schemes that have commenced and that any new projects are of the highest corporate priority and/or reduce the pressure on the revenue account.

12.3 Applications for Capital Bids have been reviewed by the Capital Programme Group and are scored against a weighted matrix to ensure they focus on the Council's core priorities, health and safety requirements, the generation or protection of income streams and affordability.

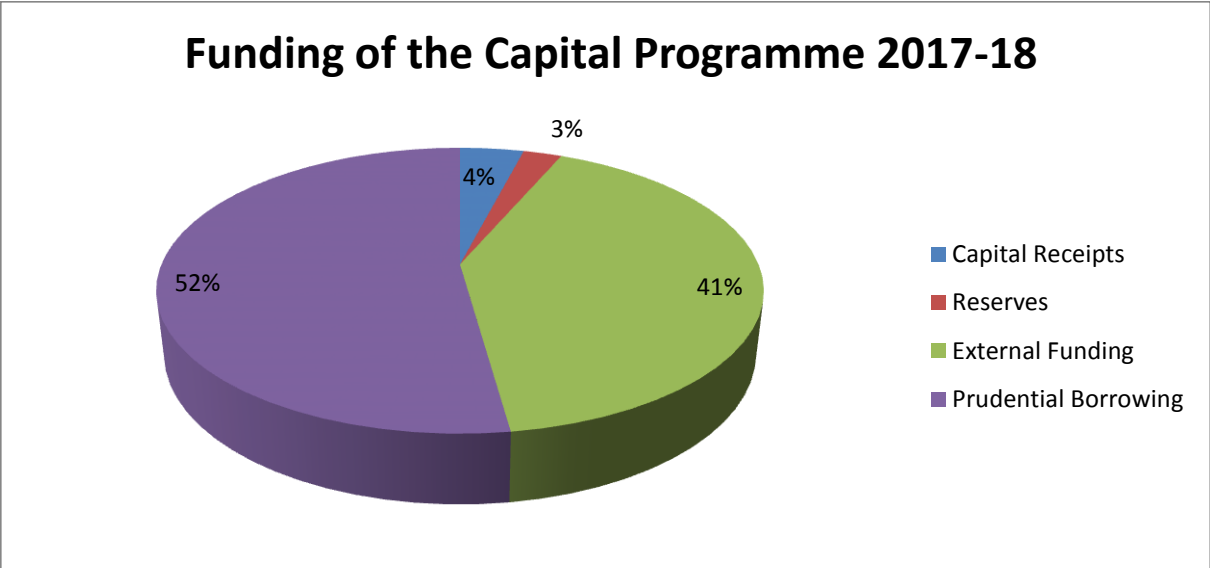


- 12.4 The level of resources available raises a number of issues and risks for future years, which need to be addressed. Over the past few years the Council has seen significant constraints in its available capital receipts. It is difficult to estimate the funding level achievable as a number of changes often arise to the asset disposal programme once the consultation process has been completed. In the event that sufficient disposals cannot be realised in 2017-18 onwards this will result in a further need to borrow, thus increasing the revenue pressure on the General Fund. Regular monitoring will need to be reported back to members and the Capital Programme adjusted accordingly.
- 12.5 There is limited scope for future investment in new assets or making improvements to existing buildings. The Asset Management Plan is key in delivering resources to the Capital Strategy and reducing the size of the Council’s asset and property portfolio. It is imperative that limited resources do not damage the Council’s ability to maintain its significant income streams as assets deteriorate from lack of investment. The current portfolio is not maintainable with the current funding available for repairs and maintenance and resources available and given the Councils funding position this is unlikely to improve. It is likely that over the next four years some difficult decisions will need to be made on some of the asset holdings. 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.

**12.6 Available Capital Funding**

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

A summary of the 2017-2021 capital resources utilised to fund the Capital programme is detailed in Annex 3, but shown graphically below.



- 12.8 **Capital Grants** – these are offered by external funders to assist with certain types of expenditure. Capital grants include: Environment Agency, Lottery funding and European grants. The Better Care Fund allocation for 2017-18 is estimated at £2.342m of which £1.6m has been set aside to fund the Disabled Facilities Grants

within the capital programme. Plans are still being agreed for the remainder of the determination.

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

Before the start of each financial year, a Flexible Use of Capital Receipts Strategy should be prepared as part of the Annual Budget documents. This sets out the rare occasions the Council can apply to Government to capitalise expenditure that would normally be deemed as revenue. Government have advised that the Council can apply to capitalise the costs of transformational revenue reform projects. The Capital Receipts Strategy is set out in Annex 2 and details the criteria where this may be considered as per guidance issued by Government.

- 12.10 **Unsupported Borrowing** – The Local Government Act 2003 gave local authorities the ability to borrow for capital expenditure above the level supported by Government Grant, provided that such action complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Prudential Borrowing (“The Prudential Code”); the objectives of which are to ensure that capital investment plans are affordable, prudent and sustainable. Essentially, it provides a number of controls to ensure that the Council does not incur additional debt without fully understanding the financial implications both now and in the future. It is anticipated that borrowing of £4.275m will be required to support the General Fund Capital Programme in 2017-18.

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

### 13.0 The Capital Programmes for 2017-18 to 2020-21

- 13.1 The following budget amount has been re-profiled from the 2016-17 capital programme to 2017-18: Port Low Carbon Plan (£239k).

- 13.2 **Existing Programmes already agreed** – Programmes already agreed from previous years within the four year programme are the Disabled Facilities Grant, Jackey Bakers Enhancements, Margate Pedestrian Connections, Marina Management System, Boat Wash Separator, Property Enhancement Programme, Sea Wall Work East of Epple to Westgate Bay (now Minnis Bay to Grenham Bay), Operational Services Vehicle Replacement Programme, Thanet Crematorium Memorial Chapel Area, Ramsgate Port & Harbour Low Carbon Plan and Ramsgate Main Beach Timber Groyne Installation. Previously agreed projects that have been removed are the Sea Wall Refacing Work West of Westgate Bay (this work was done as part of the North Thanet Coastline project which is now completed) and the Thanet Crematorium Columbaria Provision (alternatives have now been introduced).

- 13.3 **Funding position** - Due to continuing pressure on the Council’s funding position, the new capital projects below are predominantly ‘spend to save’, income generation, health and safety and externally funded projects. The absence of a new Asset Management Plan and disposals programme has made it difficult to project the estimated capital receipt income anticipated over the next 4 years. Those capital projects that have no identified funding source and are reliant on capital receipts will need to be reconsidered by Cabinet and Council once capital receipts have been received and the projects funded.

#### 13.4 **New Capital Projects**

**In-Cab & Back Office System for Refuse Collection** – To allow better management of service delivery and a reduction of missed bins and hence complaints.

**Ramsgate Harbour Installation of Aquastores** – To provide an innovative combination of bespoke storage containers and access solution from their tops to adjacent boats.

**Ramsgate Harbour Replacement of Self Storage Containers** – To replace the existing containers which have reached the end of their service lives.

**Dreamland Car Park Enhancement** – To improve the layout, drainage and lighting in the Dreamland car park.

**Louisa Bay to Dumpton Gap Sea Wall Work, Westbrook to St Mildred's Sea Wall Work, Viking Bay Flood Defence Scheme, Stone Bay Sea Wall Work** – Replacement/new defence measures against flooding and erosion risks.

**Thanet Groyne Reconstruction** – For sand retention on the beaches of Thanet.

**Mill Lane and Leopold Street Multi-Storey Car Parks** – To purchase these two car parks, of which the Council is currently the lessee.

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

### 13.5 The Draft Capital Budgets 2017-18 to 2020-21

13.6 The draft General Fund Capital Expenditure Budget for 2017-18 that is proposed for Members' approval is £8.186m (including 2016/17 re-profiling identified below), which will be funded in the main from capital grants, usable capital receipts and prudential borrowing. This is shown in summary format below.

	2016-2017 Slippage £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Statutory and Mandatory Schemes		1,600	1,600	1,600	1,600
Schemes continuing from prior years	239	250			
Annual Enhancement Schemes		580	330	580	2,285
Wholly/Part Externally Funded Schemes		1,939	1,395	900	2,700
Construction, Replacements and Enhancements		3,503			3,000
Capitalised Salaries		75	75	75	75
<b>Total Capital Programme Expenditure</b>	<b>239</b>	<b>7,947</b>	<b>3,400</b>	<b>3,155</b>	<b>9,660</b>
<b>Capital Resources Used:</b>					
<i>Capital Receipts and Reserves</i>		532	155	155	310
<i>Capital Grants and Contributions</i>		3,379	2,995	2,500	4,300
<i>Contributions from Revenue</i>		0	0	0	0
<i>Prudential Borrowing</i>	239	4,036	250	500	5,050
<b>Total Funding</b>	<b>239</b>	<b>7,947</b>	<b>3,400</b>	<b>3,155</b>	<b>9,660</b>

### 14.0 Reserves

#### 14.1 General Reserve

14.2 The Local Government Finance Act 1992 requires precepting authorities, such as Thanet District Council, to have regard to the level of reserves needed for future expenditure when calculating the budget requirement. Each year the Council reviews its level of reserves and a draft proposal of the recommended levels of reserves will be completed for the January Cabinet report. No change in the general reserve is currently proposed.

### 14.3 Earmarked Reserves

- 14.4 It is good practice to use reserves to 'save' funds over a period of time to spread the impact on the Council Tax of large fluctuating expenditures. The projected level of reserves is in the order of £4.5m.
- 14.5 At the end of the financial year 2015-16, the Council had to utilise some funds set aside in earmarked reserves to provide a provision for liabilities in relation to Hand Arm Vibrations Syndrome (HAVS) and the ongoing Court Case.
- 14.6 The Council carries significant risk by holding such low levels of reserves. A 2015 review by the Chartered Institute of Public Finance & Accountancy showed the level of reserves held across the country and it suggested that a local authority the size of Thanet would normally hold in excess of £20m of reserves. This level of reserves is also mirrored amongst neighbouring districts. However, Thanet is projected to hold £2.1m general reserves plus £4.5m earmarked reserves, i.e. a total of £6.6m which represents less than a third of the reserves typical of a similar authority, based on the CIPFA analysis. Comparing Thanet to other districts carries a degree of uncertainty, as every local authority has its own set of risks. However, the Council has suffered a number of unexpected, unbudgeted events in recent years, including Transeuropa, live animal exports, HAVS and a sizeable overspend on Dreamland heritage park. This suggests Thanet carries certain inherent risks – it owns and runs a port, it issued a CPO on a heritage theme park and it retains an in-house direct labour workforce. No other district has all these characteristics. This implies Thanet carries far more risk than average and so, even the £20m average reserves of a typical district may be on the low side.
- 14.7 The council achieved a clean audit of its 2015-16 accounts. However, the external auditor, when commenting on the council's year-end reserves position, recommended that the council should replenish its reserves by over-achieving its income generation and cost saving targets.
- 14.8 The council's joint highest corporate risk is Limited Resources, specifically: "Within the context of limited ongoing resources and minimal reserves, the council will face a substantial liability which cannot be funded without unplanned actions that could damage services. Also, lack of resources could undermine the council's ability to exploit opportunities and/or develop services."
- 14.9 In light of the council's track record, its continued risk profile, external audit views and its relatively low level of reserves, consideration will be given to the use of any earmarked reserve to be subject to the approval of the S151 Officer or his nominee. This arrangement will be reflected in the scheme of delegation and remain in force until such time as reserves are significantly replenished.

### 15.0 Options

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

Contact Officer:	
Reporting to:	Tim Willis, Director of Corporate Resources and S151 Officer

## Annex List

Annex 1	HRA Draft Capital Programme
Annex 2	Flexible Use of Capital Receipts Strategy
Annex 3	General Fund Draft Capital Programme
Annex 4	Fees and Charges Policy

## Background Papers

<b>Title</b>	<b>Details of where to access copy</b>
Medium Term Financial Plan 2016-2020	Full Council 4 <sup>th</sup> February 2016 <a href="http://democracy.thanet.gov.uk/documents/s49468/Annex%201%20MTFP%202016%20final%20v2.pdf">http://democracy.thanet.gov.uk/documents/s49468/Annex%201%20MTFP%202016%20final%20v2.pdf</a>

## Corporate Consultation

<b>Finance</b>	N/A
<b>Legal</b>	Tim Howes, Director of Corporate Governance