

BUDGET 2017-18 AND MEDIUM TERM FINANCIAL STRATEGY 2017-21

Cabinet	17 January 2017
Report Author	Director of Corporate Resources and S151 officer
Portfolio Holder	Cllr John Townend, Cabinet Member Finance and Estates
Status	For Decision
Classification:	Unrestricted
Key Decision	Yes
Reasons for Key	Budget and Policy Framework
Ward:	All Wards

Executive Summary:

This report presents the budget for the General Fund, Housing Revenue Account and Capital Programme for 2017-18 and the Medium Term Financial Strategy for 2017-21.

Recommendations:

1. That Members approve the draft Medium Term Financial Strategy at **Annex 1**.
2. That Members approve the draft General Fund Revenue budget estimates for 2017-18 to 2020-21 and the resulting budget requirement for 2017-18.
3. That Members agree to a reduction in the grant to minor preceptors as per section 2.7.
4. That Members approve the General Fund and Housing Revenue Account Capital

	Budgets for 2017-18 as detailed at Annexes 2 and 5 .
5.	That Members approve the Flexible Use of Capital Receipts Strategy as detailed at Annex 3 .
6.	That Members approve the HRA budget estimates for 2017-18 to 2020-21 and the Housing Revenue Account services charges as shown at Annex 4 .
7.	That Members approve the level of general reserves be held at £2.011m and the approval of earmarked reserves as identified in Table 5 of the MTFS.

CORPORATE IMPLICATIONS	
Financial and Value for Money	<p>The financial implications of the budget are laid out within the body of the report.</p> <p>Based upon the financial risk assessment, it would at this stage be appropriate to maintain the general level of reserves of at least 12% of the net service revenue base.</p>
Legal	<p>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.</p> <p>The requirements of other relevant statute have been referenced within the body of this report, where relevant.</p>
Corporate	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.
Equalities Act 2010 & Public Sector Equality Duty	<p>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 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 & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.</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.	
<p>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. 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. A full assessment of the equality impact will be undertaken for any specific service changes.</p> <p>A six week public consultation was held giving local residents and businesses an opportunity to comment on the budget proposals. The consultation was available to complete online and hard copy surveys were made available on request, for collection from the council offices and local libraries and printed in the local newspaper. Promotion was undertaken throughout the six week period, including social media, website, press and posters. A total of 442 responses were received by the closing date.</p> <p>The HRA budget, including the proposed rent and service charge increases, was presented to the Tenant Area Board on 23 November 2016. The new contract for repairs and maintenance awarded to Mears has identified that the pricing module for blocks of flats has changed resulting in some large increases for block costs that are required to be recharged to tenants and leaseholders at actual cost as per tenancy and leasehold agreements. Further analysis of the financial impact of all service charges to tenants has been undertaken and is detailed in section 13 of the report.</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>		

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	✓
Promoting inward investment and job creation	✓
Supporting neighbourhoods	✓

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

1.0 Introduction and purpose of report

- 1.1. The purpose of this report is to present the Budget for 2017-18 and financial projections for the following years up to 2020-21.
- 1.2. The report finalises the funding position for 2017-18 based on the Provisional Local Government Financial Settlement. It also sets out budget pressures and service priorities that are reflected in setting the 2017-18 budget.
- 1.3. The existing Medium Term Financial Strategy (MTFS) has been rolled forward to cover 2017-21 with updated assumptions where appropriate. It also reflects savings themes to manage the future financial position.
- 1.4. The annual review of the council's reserve holdings has been undertaken. The proposed reserve balances are considered to be adequate for supporting the council's ongoing needs and plans.
- 1.5. The budget assumptions for the Housing Revenue Account (HRA) are outlined within the report and the proposed HRA balance is considered to be sufficient to support the initial requirements of the HRA Business Plan, although further work is required to balance later years after 2024. The proposed Housing Revenue and Capital budgets were presented to the East Kent Housing Tenant Board for consultation and comment on 23 November 2016.
- 1.6. The capital programme is dependent on the council's ability to generate capital receipts or to support borrowing to fund the programme. The programme within this report reflects health and safety requirements, corporate priorities and schemes that will generate a revenue saving.

2.0 Background

National Context

- 2.1 The detail of Government grant funding for each local authority was announced on 15 December 2016 in the Provisional Settlement. This will be confirmed in the Final Settlement in late January/early February. The four-year funding settlement that this council signed up to provides some certainty regarding 2017-20 in respect of Non-Domestic Rate baseline funding and Revenue Support Grant (RSG). The certainty, however, is for reduced funding each year: 13.1% in 2017-18, 8.1% in 2018-19 and 9.8% in 2019-20.
- 2.2 The provisional New Homes Bonus (NHB) allocation for 2017-18 was also revealed with the Provisional Settlement. The Government had consulted on changing the calculation of NHB and the outcome of the consultation resulted in reductions. NHB will be paid for four years instead of six years, with a transitional year in 2017-18 when five years NHB will be paid. Also, there is the introduction of a new 0.4% growth threshold before any NHB is payable.
- 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 – where local authorities retain all Business Rate income, but take on additional responsibilities and cease 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 Cabinet noted the budget and service planning timetable at its meeting on 17 November 2016 as part of the budget strategy. Full Council approved fees and charges at its meeting on 1 December 2016.

Council Tax Support Scheme funding

- 2.5 RSG 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. The Council meeting on 1 December 2016 approved the CTSS for 2017-18. The revised scheme will go some way towards bridging the gap between the notional element of RSG set aside for the CTSS and the real cost of the scheme. However, the cost of the exceptional hardship scheme will reduce any savings.
- 2.6 The current scheme adopted by the Council reflects a county-wide agreement, with local discretion. Kent County Council pays TDC a contribution of £125k per annum towards the cost of the administration of the scheme. The approval of the revised CTSS in December ensured that KCC will be presented with budget proposals that assume the continuation of the payment, although this will not be known for sure until KCC has approved its budget.

Council Tax Base Adjustments for Minor Preceptors

- 2.7 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 continue to be reduced by 10% in accordance with existing policy, as indicated in the 17 November Cabinet report and shared with parishes at the Parish Forum on 27 October. This results in Council RSG funding for parishes of £117k for 2017-18.

Council Tax and Collection Fund

- 2.8 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.
- 2.9 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. It is expected that a small surplus will be achieved in 2016-17 of which £100,000 would be available in 2017-18.
- 2.10 Taking into account all the above, the overall estimated funding position is illustrated in Table 2 below:

Table 1: Funding Position 2017 - 2021

FUNDING	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Council tax	9,250	9,647	10,057	10,479
Revenue Support Grant	1,446	809	98	0
Non-Domestic Rates Baseline	4,716	4,855	5,010	5,010
New Homes Bonus	1,877	1,163	989	755
Business Rate Retention	200	200	200	0
Council Tax Collection Fund	100	100	100	100
Total	17,589	16,774	16,454	16,344

3 Budget Pressures

- 3.1 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 2 below:

Table 2: 2017-18 Budget Pressures

Growth	Detail	£000's
Economic factors 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
Pension Fund	Increased contribution in pension costs resulting from 2016 revaluation.	340
Policy	Ongoing reduction in financial settlement and NHB funding offset against changes in council tax and business rates	1,560
Total		2,600

4 The Budget Gap

- 4.1 Given the above budget pressures, 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 a savings requirement for 2017-18 of £2.6m. A breakdown of income generation and cost savings proposals are set out in Table 3 below:

Table 3: Bridging the 2017-18 Budget Gap

Action	Detail	£000's
Income generation initiatives	Income generation opportunities across a range of services including in respect of car parking, planning, housing, the port and a lottery	-890
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
Savings agreed as part of the previous MTFS	Cost savings including a review of assets, contract arrangements and service efficiencies including from Shared Services.	-770
Reserves	One off contribution from reserves to be repaid over the period of the MTFS	-450
Total		-2,600

4.2 Description of the income generation and cost savings are as follows:

- **Income Generation:** 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. The MTFS already includes an assumption of additional income from the port; and a new lottery is expected to generate a new income stream.
- **Fees and charges:** Council approved new fees and charges on 1 December 2016.
- **Existing MTFS cost savings:** the MTFS 2016-20 included cost savings in 2017-18 which are included here, the main ones being greater efficiencies from shared services and leisure management, savings in asset management and provisions for inflation.
- **Reserves:** In order to comply with the requirements of the Local Government Act 2003, the Council undertakes a review of the level of reserves as part of the annual budget preparation. Given that the current level of reserves is relatively low, following a series of one-off costs and liabilities and the challenging economic environment following further changes to the annual settlement from central government a robust sensitivity analysis has been carried out. Whilst it is necessary to use some of these reserves in the short term, the MTFS sets out a plan to replenish them over the following three years and additional work is in progress to improve the position further.

5 Council Reserves

- 5.1 The Local Government Finance Act 1992 requires all authorities issuing a precept, such as Thanet District Council, to have regard to the level of reserves needed for future expenditure when calculating the budget requirement.

Earmarked Reserves

- 5.2 It is good practice to use reserves to 'save' funds over a period of time to manage risk and spread the impact on the Council Tax of large fluctuating expenditures. The MTFS shows the planned level of reserves which will be used to fund anticipated expenditure during the year.
- 5.3 In recent years, the council has drawn on reserves to fund one-off costs and liabilities that arose as a result of past decisions. To some extent, this is the purpose of holding such reserves – to fund unexpected costs without causing a financial crisis for the council in the year that such costs have to be accounted for. However, the council needs to try to re-establish reserves so that, if liabilities of the magnitude of those of the recent past were to occur again, then it could cope financially without a serious impact on services.
- 5.4 The External Auditor has recommended in the Annual Audit Letter that *“going forward, cost savings and income generation need to be developed in excess of the estimated funding gap to help cover the possibility of unforeseen additional financial pressures ...”* The council's response, which was accepted by the External Auditor and approved at Governance & Audit Committee on 7 December, stated *“Steps will be taken to replenish reserves where possible to help manage the known and unknown financial risks”*.
- 5.5 Whilst reserves have fallen over the last two years, they have been used to fund specific one-off costs. They have not been used to fund ongoing expenditure or income losses. The sensible and necessary use of reserves, along with tighter financial stewardship and a willingness to make the decisions to deliver balanced budgets has helped place the council on a firm financial footing. Assuming the 2017-18 budget and 2017-21 MTFS are agreed, it will be possible for the council to move forward from a solid financial platform and replenish reserves in the medium term.
- 5.6 A review of the council's reserve holdings has been undertaken by the S151 Officer. The proposed reserve balances are considered to be adequate for supporting the council's ongoing needs and plans. However, the risks associated with the low level of reserves can be mitigated by making net contributions over the life of the MTFS and by maintaining tight financial controls over budgets and decision making.
- 5.7 Useable reserves as at 31 March 2016 reported in the 2015-16 annual statement of accounts were £30.2m (£32.3m 2014-15) and are analysed below together with projected movements as a result of the budget proposals in this report.

Table 4: Council Reserves

Reserves	31 Mar 16	Movement	31 Mar 17	Movement	31 Mar 18
	£'000	£'000	£'000	£'000	£'000
General Fund	2,011	-	2,011	-	2,011
HRA	5,296	(545)	4,751	984	5,735
Earmarked - GF	6,152	(677)	5,475	(564)	4,911
Earmarked - HRA	5,495	(5,495)	0	0	0
Capital Receipts	4,031	(1,982)	2,049	(312)	1,737
Major Repairs Reserve	7,171	395	7,566	(510)	7,056
Total	30,156	(8,304)	21,852	(402)	21,450

- 5.8 The General fund reserve is fixed at approximately 12% of the net revenue budget in line with the policy agreed in 2015-16.
- 5.9 Movements in General Fund earmarked reserves in 2016-17 included contributions to NNDR appeals costs, capital projects, Local Plan and pension costs. The main movement in 2017-18 reserves is projected to be the £450k short term contribution to services which will be repaid over the life of the MTFS.
- 5.10 The HRA balance is analysed in Table 10 below and the earmarked reserve of £5,495k is planned to match fund the Homes & Communities Agency grant for the affordable housing programme. The overall timetable for affordable housing is being examined and it is likely that some of the activity will be delayed into 2017-18 and the value of slippage will be confirmed at the end of the financial year. This is being monitored closely to ensure the HCA funding deadline of 31 March 2018 is met.
- 5.11 Capital receipts are identified in the capital financing section of tables 6 (General Fund) and 11 (Housing Revenue Account) below and capital receipts from asset sales in 2017-18 are projected to be £2m.

6 Fees and Charges

- 6.1 The fees and charges proposals were agreed by Council on 1 December 2016. As a result of benchmarking all the council's fees and charges and the income targets, an additional income contribution of £490k has been factored into the budget for 2017-18 as identified above.

7. Budget Consultation

- 7.1 The budget consultation was launched on 11 November 2016 which examined the priority of council services and satisfaction levels within the district. 442 responses were received in total with 399 from residents and 43 from businesses. 2 business respondents were not resident in Thanet.
- 7.2 Services ranked as a high priority by residents included; Household Waste & Recycling, Street Cleansing & Community Safety.
- 7.3 Services ranked as a low priority included: Land Charges, Allotments and Sports Development.
- 7.4 Some 52% of respondents agreed with, or had no view on, the approved changes to fees & charges for 2017-18.

- 7.5 The budget proposals in this report take into account the priorities highlighted by respondents in the consultation.
- 7.6 The council's housing budget was discussed at the East Kent Housing Tenant and Leasehold Board on 23 November 2016 with representatives of our residents and leaseholders in attendance. The budget was agreed with a recommendation from the Board to cap service charge increases at £5 (excluding heating service charges) although the recommendation in this report is for a cap of £3.

8 Medium Term Financial Strategy 2017-21

- 8.1 A Medium Term Financial Strategy (MTFS) was approved by Council in February 2016, covering the period 2016-17 to 2019-20. In the light of the continuing unprecedented economic climate, 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 MTFS covering the period 2017-18 to 2020-21 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 budgetary demands, as a result of inflationary and other pressures. It 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 plan addresses 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 change.
- 8.2 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 MTFS at Annex 1.
- 8.3 At the time of writing, merger discussions are taking place with other East Kent districts. No decisions have been made but it is possible that a consensus will be agreed during the process of 2017-18 budget approval. The degree of uncertainty is such that it is not possible to factor into the MTFS any assumptions about merger – the MTFS assumes TDC will continue in its current form throughout the four year period. Despite this necessary assumption, TDC is playing an active part in the examination of merger options.
- 8.4 Future challenges and opportunities include consultations that this Government will undertake in relation to the future of local government funding. Government has a stated desire to change the current methodology for Business Rate retention, moving to 100% being retained by local authorities and with it, the potential for self-financing. This will present opportunities, as in principle local authorities will not be reliant on central Government, but will also bring with it additional responsibilities and therefore challenges. Currently no more information has been made available as a result of this consultation and we maintain a watching brief.

9 Overall 2017-18 General Fund Revenue Budget Projection

- 9.1 The impact of the above changes when applied to the 2016-17 base give a net budget requirement of £18,457k for 2017-18 which is considered sufficient to enable the delivery of the council's statutory services as well as its priority discretionary services.
- 9.2 A summary of the key changes that have been made to arrive at the draft General Fund Revenue Budget for 2017-18 is shown in Table 5 below:

Table 5: General Fund Revenue Budget 2017-18

	£'000	£'000
Opening Funding Position		19,159
Budget Pressures (including Inflation and excluding Settlement Funding)		1,070
Income Generation	-890	
Efficiencies	-770	
Fees & Charges	-490	
Total Savings		-2,150
Net Service Revenue Budget		18,079
Contribution from reserves		-490
Net Budget Requirement		17,589
Funded by:		
Government Funding (including RSG Business Rates and New Homes Bonus)		8,239
Collection Fund Surplus		100
Council Tax		9,250
Net Financing		17,589
Tax Base		42,069
Indicative Band D Council Tax		219.87
% increase on Band D		2.31%
£ Increase on Band D		£4.95

10 Council Tax for 2017-18

- 10.1 The council's net budget requirement is met from the settlement funding assessment, made up of Revenue Support Grant and the Baseline Funding Level (the local share of business rates), plus New Homes Bonus. The rest (known as the Precept) has to be raised by local taxes in the form of Council Tax.
- 10.2 The 2.31% increase identified in the above table represents increased income of £208k when applied to the revised tax base of 42,069.

11 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. 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.

The Asset Management Plan

- 11.3 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.
- 11.4 The 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 investment in 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 liabilities and to generate capital receipts to fund new developments or be transferred for community benefit.

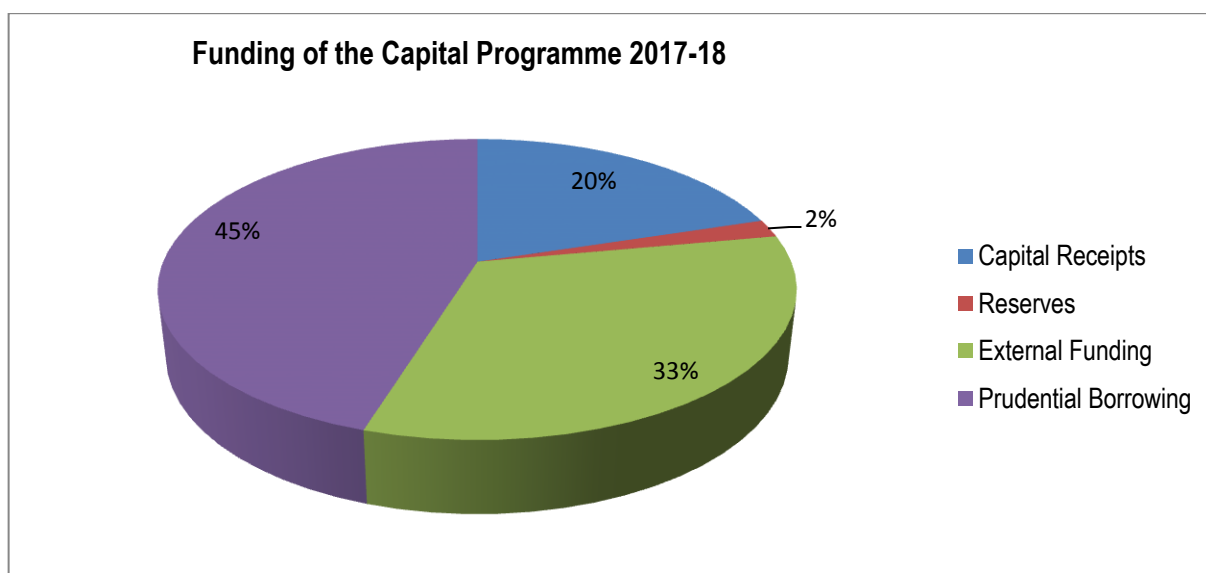
12 The Capital Budget Strategy

- 12.1 Although the Asset Management Plan is used to inform the contents of the capital budget, it is only one element. The Capital Programme is underpinned by a Capital Strategy as set out in the MTFS.
- 12.2 Applications for capital bids are reviewed by the Capital Programme Group and scored against a weighted matrix to ensure they focus on core priorities, health and safety requirements, the generation or protection of income streams and affordability. 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 need reduce or defer the capital programme or 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.
- 12.3 There is limited scope for future investment in new assets or making improvements to existing buildings. The Asset Management Plan is key to deliver the Capital Strategy and to reduce the financial and risk burden of the property portfolio. The current

portfolio is not maintainable with the current funding available for repairs and maintenance and given the council's 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. Any additional schemes will require an existing scheme to be deferred or funds re-allocated unless there is headroom in the General Fund to borrow.

Available Capital Funding

- 12.4 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, revenue resources are limited.
- 12.5 A summary of the 2017-2021 capital resources utilised to fund the capital programme is detailed in Annex 2, but shown graphically below.



- 12.6 **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. The 2017/18 Capital Programme also includes a number of projects to bolster sea defences and these are fully funded by the Environment Agency.
- 12.7 **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 (with one or two specific exceptions) to fund capital expenditure. All of the monies received from the disposal of General Fund assets are available for use.
- 12.8 Before the start of each financial year, a Flexible Use of Capital Receipts Strategy is prepared as part of the budget documents. This strategy 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 it is now possible to apply to

capitalise the costs of transformational revenue reform projects. The Capital Receipts Strategy is set out in Annex 3 and details the criteria where this may be considered as per guidance issued by Government.

- 12.9 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 an estimated £2.025m in capital receipts has been forecast to fund the 2017-18 programme derived in part from the asset disposal report approved by Cabinet on 17 November. This will be monitored closely during the financial year, as it may be necessary to adjust the programme in-year depending on asset disposal and funding outcomes.
- 12.10 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.
- 12.11 **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 £4.725m will be required to support the General Fund Capital Programme in 2017-18.
- 12.12 Capital Projects Reserve – Balances in this reserve were materially reduced in 2015-16 due to significant pressures on the budget, and it is anticipated this will continue in 2017-18 onwards.

13 The Capital Programmes for 2017-18 to 2020-21

- 13.1 The following budget amounts have been re-profiled from 2016-17 to 2017-18: Port Low Carbon Plan (£239k), Vehicle Replacement Programme (£900k), Dalby Square (£80k), CCTV (£400k), and Ramsgate Port Berths (£600k). The existing, new and reserve capital projects are set out in the MTFS in Annex 1.

The Draft Capital Budgets 2017-18 to 2020-21

- 13.2 The draft General Fund Capital Expenditure Budget for 2017-18 that is proposed for Members' approval is £10.458m (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 overleaf

Table 6: Capital Programme 2017-2021

	2016-17 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	1,319	250			
Annual Enhancement Schemes	900	580	330	580	2,285
Wholly/Part Externally Funded Schemes		1,981	1,437	942	2,742
Construction, Replacements and Enhancements		3,753	50	50	3,000
Capitalised Salaries		75	75	75	75
Total Capital Programme Expenditure	2,219	8,239	3,492	3,247	9,702
Capital Resources Used:					
Capital Receipts and Reserves	1,530	782	205	205	310
Capital Grants and Contributions		3,421	3,037	2,542	4,342
Contributions from Revenue		0	0	0	0
Prudential Borrowing	689	4,036	250	500	5,050
Total Funding	2,219	8,239	3,492	3,247	9,702

14 Housing Revenue Account Budget and Housing Capital Programme

14.1 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. Activities are reported separately from the General Fund Revenue Account reflecting the ring-fenced nature of tenants rent payments. 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.

14.2 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.

Main items of Income within the HRA are as follows:-

- Rents
- Charges for Services
- Leaseholders

- Other Rents
- Interest on balances

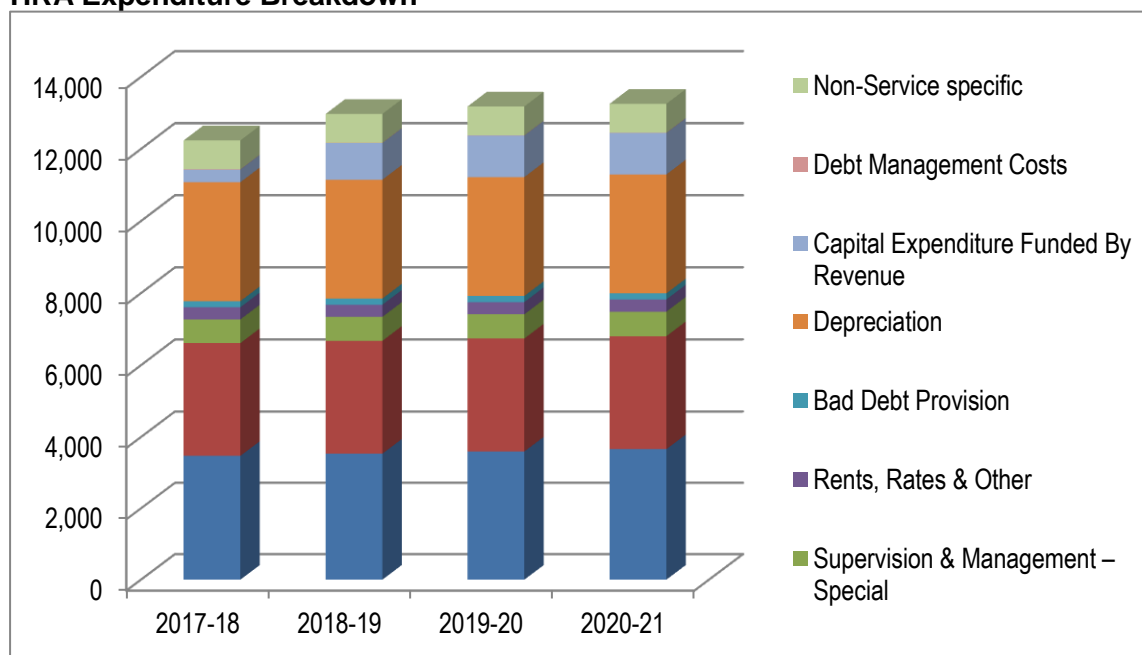
Main items of Expenditure are:-

- Repairs & Maintenance
- Management Costs
- Borrowing Costs
- Depreciation on Council Stock (used to fund Capital Expenditure)
- Other land lord costs i.e. council tax charges for void properties, insurance costs
- Provision for Bad Debts

14.3 The current HRA Business Plan is forecast to fall into deficit post 2024 and further work is required to identify sufficient efficiencies to allow for a sustainable 30 year HRA Business Plan. A new detailed financial model has recently been purchased and both Finance and the Head of Housing will work together to remodel a sustainable plan. This will include a review of charges and costs from the General Fund, maximising income generation opportunities such as aerial rental charges, contract efficiencies through EKH by procuring with neighbouring councils and asset management.

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

HRA Expenditure Breakdown



14.4 Repairs and Maintenance

Table 7: Proposed HRA Repairs and Maintenance Growth and Savings

Expenditure	Details of Growth and Savings
Day to Day Repairs Contract	A new 4 year contract started in January 2016. 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 Funds	Housing Officer funds will be reduced by £20k as this is a 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.

14.5 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.

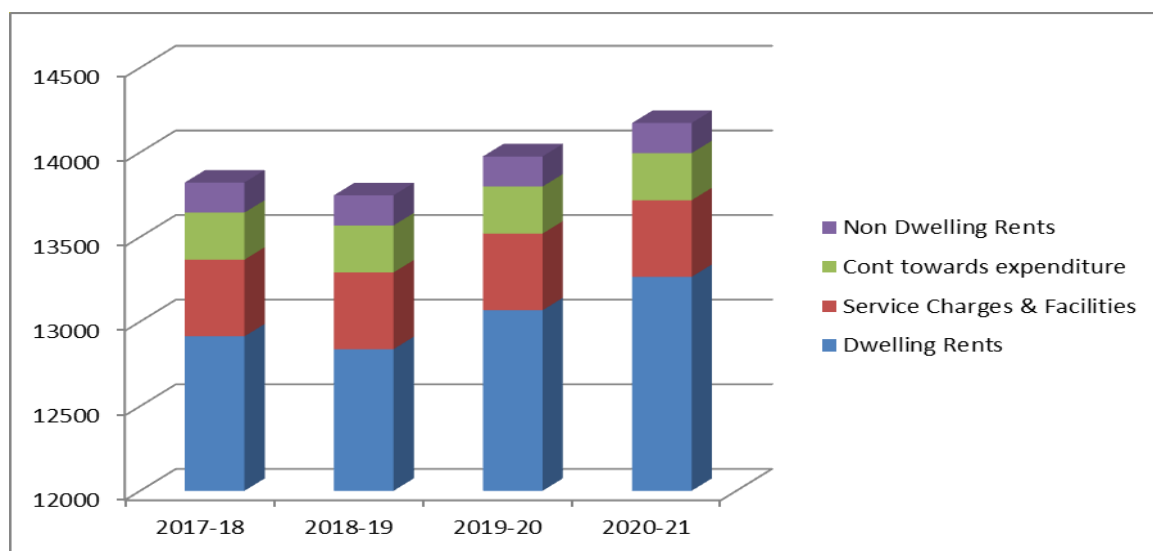
14.6 **Supervision and Management General** – The East Kent Housing management fee is calculated on an activity based costing basis, in that the Council's charge is based on the amount of staff provided to deliver the service and their supporting budgets. The core management fee will remain the same for 2017-18. The software support budget for the housing management system will be included in the management fee once the new single system is live. The management fee base budget for 2017-18 will be £1.4m.

- 14.7 **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.
- 14.8 **Rents, Rates, Taxes and Other Charges** –The budgets that the Council holds as a landlord have been reviewed in light of the completion of the Empty Homes Programme and reduced for running costs. These include Council Tax and utility standing charges on void properties and have generated a saving of £11k.
- 14.9 **Provision for Bad or Doubtful Debts** – The provision for bad or doubtful debts for 2017-18 will remain the same at £170k.
- 14.10 **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.
- 14.11 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.
- 14.12 **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

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

HRA Income Breakdown



- 14.14 **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.
- 14.15 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 8th July 2015.
- 14.16 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 3rd March 2016 to agree this.
- 14.17 A local authority may be granted an exemption (in full or in part) if the Secretary of State considers the authority would be unable to avoid financial difficulties if it were to comply with the requirements. Local authorities must explore thoroughly what it can do to mitigate any financial risk, including looking at contractual commitments, before applying for an exemption. Although the council has had to scale back development programmes and is estimating a deficit in 2018-19, it has generated a surplus in previous financial years, so currently does not qualify for an exemption. However once the higher value assets determination payment has been circulated, this will need to be reviewed.
- 14.18 In the 2013 guidance the Government confirmed that social landlords could charge tenants with an income of over £60,000 a market rent. The Housing and Planning Act 2016 confirmed that the 'Pay to Stay' scheme was to be compulsory and tenants with a household income of £30,000 or more must pay rent equal to the market rent. The Government has decided not to proceed with the policy in its current compulsory form. Local Authorities will continue to have the discretion to implement the policy for tenants with incomes over £60,000.
- 14.19 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.
- 14.20 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.
- 14.21 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.
- 14.22 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.

Table 8: HRA Average Property Rents

Property	Average Social Rent	Average Affordable Rent
Bedsits	£56.87	N/A
1 Bed Flat	£67.11	£73.62
1 Bed House	£77.72	£77.72
2 Bed Flat	£75.28	£100.69
2 Bed House	£83.70	£92.46
3 Bed Flat	£87.11	£129.09
3 Bed House	£93.72	£111.22
4 Bed Flat	£89.95	£146.34
4 Bed House	£102.57	£140.67
5 Bed Flat	N/A	N/A
5 Bed House	£110.76	N/A

14.23 **Non Dwelling Rents** - Income generated from aeriels on tower blocks is expected to increase as a number of leases are due for renewal; £8k is anticipated in extra income. Garage rents have been reviewed and continue to be in line with market rents and so will see no increase this year.

14.24 **Service Charge Increases** – It has been identified that the lowest increase in chargeable service charges is £1.62 per week and the highest increase is £15.06 per week (before caps). The breakdown of the impact is detailed below:

Table 9: Service charge increases

Weekly Service Charge Increase	Number of Tenants Affected
£0-£1	493
£1-£2	488
£2-£3	107
£3-£4	13
£4-£5	0
£5-£10	14
£10-£16	16

14.26 The impact was highlighted at the Tenant Area Board and consultation was undertaken to discuss potentially limiting the financial impact to tenants. The tenant board voted unanimously to cap service charge increases at £5 (excluding heating charges) to enable the recovery of actual costs to take place over a longer period of 3 years and reduce the financial hardship on tenants.

14.27 The impact of this decision is that 30 tenants will receive capped service charges, this will leave an annual recovery shortfall of £9,340 in the first year, reducing to £2,436 in year 2 and £10.05 in year 3 a total impact of £11,786 which the HRA would be

required to fund. The service charge increases are eligible for Housing Benefit and housing tenants have received a 1% decrease on rents.

- 14.28 Since the Tenant Board meeting the Portfolio Holder for Community Services has requested that the impact of a £3 cap is modelled. The impact of which would mean that 43 tenants receive a capped service charge. This will leave an annual recovery shortfall of £12,885 in the first year, reducing to £7,780 in year 2 and £3,424 in year 3 a total financial of impact of £24,089 which the HRA would be required to fund. It should be noted that by year 3, it is estimated that 19 properties will still not be at full recovery cost for service charges. The Cleaning Contract is due for re-tendering in July 2019 and the Mears contract is due for re-tendering in 2020. If the cost of these contracts sees an increase in costs this will in turn impact on service charge increases and could affect those already not at full recovery.
- 14.29 **Heating Charges** – These will be recovered on actual cost based on usage and contract price and then apportioned across the block dependant on bedroom size.
- 14.30 **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%.

Draft Housing Revenue Account 2017-2021

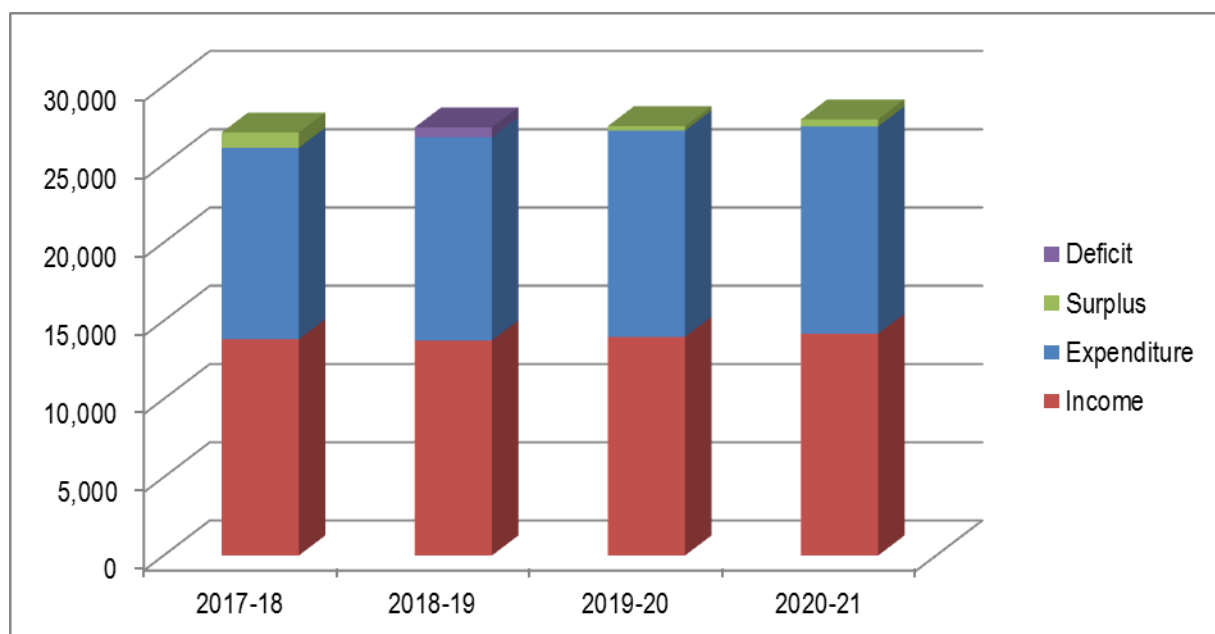


Table 10: Draft Housing Revenue Account Budget 2017 - 2021

	2017-18	2018-19	2019-20	2020-21
	£'000	£'000	£'000	£'000
Expenditure				
Repairs & Maintenance	3,486	3,548	3,611	3,675
Supervision & Management – General	3,213	3,213	3,100	3,100
Supervision & Management – Special	666	674	683	692
Rents, rates, taxes and other charges	241	249	258	267
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
Gross Expenditure Sub Total	12,235	12,978	13,081	13,163
Income				
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	(290)	(290)	(290)	(290)
Income Sub Total	(13,834)	(13,758)	(13,988)	(14,185)
Net Costs of Services Sub Total	(1,599)	(780)	(907)	(1022)
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)
(Surplus)/Deficit on HRA	(984)	631	(396)	(545)
Housing Revenue Account Balance:				
Estimated Surplus at Beginning of Year	(4,751)	(5,735)	(5,104)	(5,500)
(Surplus)/Deficit for Year	(984)	631	(396)	(545)
Estimated Surplus at End of Year	(5,735)	(5,104)	(5,500)	(6,045)

15 **The HRA Capital Budget**

- 15.1 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.
- 15.2 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.

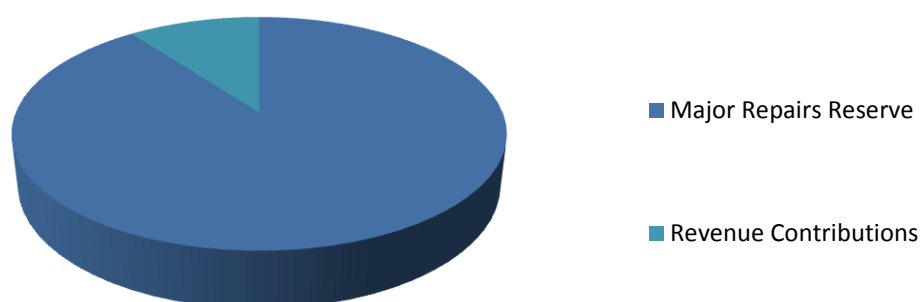
The HRA Asset Management Strategy

- 15.3 The Strategic Housing Team is currently developing a new HRA Asset Strategy. On-going work has been undertaken to identify underutilised garage areas and a programme of New Build sites have been identified for development. The council continues to review the land holdings within the HRA to develop a long-term new build programme. As part of the review, those small areas of land that no longer meet housing requirements and are not considered suitable for development will be reviewed for disposal to generate further capital receipts for re-investment into the new build programme.
- 15.4 The existing housing stock is continually reviewed for its suitability to provide good quality housing. Stock that requires considerable capital investment or has a high market value will be considered for disposal to fund new developments. The disposal of Coast Guard Cottages has recently been identified and the sale of some of these units is underway.

Available Capital Funding

- 15.5 Capital expenditure can be financed from revenue resources, capital grants, usable capital receipts and borrowing.
- 15.6 **Capital Grants** – These are offered by Government Departments to assist with certain types of expenditure. The Council was 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 and work is continuing on this programme
- 15.7 **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.
- 15.8 **Unsupported Borrowing** –. As part of the self-financing settlement a housing debt cap of £27.792m was set for the council, being the maximum amount the HRA can borrow which must not be exceeded.
- 15.9 **HRA Capital Reserves** –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.
- 15.10 **Revenue Contribution to Capital** – Revenue contributions from surpluses generated from rental income can be utilised to fund any budgetary shortfall within the capital programme.

Funding of the HRA Capital Programme 2017-18



The Capital Programmes for 2017-18 to 2019-20

- 15.11 **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. The programme has been set based on existing stock data, however, a stock condition survey is due to be carried out in 2017 and the programme may require revision following completion. .
- 15.12 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.
- 15.13 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.
- 15.14 Kitchen and Bathroom replacement budgets have been reduced as the previous backlog is now complete.
- 15.15 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.
- 15.16 A number of properties have been identified as needing structural and repointing works which will generally be carried out at the same time as roofing works to make best use of scaffolding costs.
- 15.17 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.
- 15.18 The lift programme is currently under review. Two lifts have been completed and the budget has been reduced for the remaining lifts based on the costs of the completed works.
- 15.19 Disabled adaptations will remain the same for 2017-18. This is a demand-led budget and will be reviewed annually.

- 15.20 Estate Improvements has been reduced to £50k for 2017-18 and 2018-19 in order to fund the identified large scale structural works programme. The budget will resume to £125k once the programme has been completed.
- 15.21 The Margate Housing Intervention Programme sets out to transform the housing market in two of England's most deprived wards, Clintonville 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.
- 15.22 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.
- 15.23 A detailed breakdown of the HRA capital programme is provided in Annex 5.

16 The Draft HRA Capital Budgets 2017-18 to 2020-21

- 16.1 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:

Table 11: HRA Capital Programme

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
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
Total Funding	3,255	4,160	3,325	3,225

17 A Statement of assurance from the Corporate Director of Resources, Section 151 officer

- 17.1 Under the Local Government Act 2003 the Chief Finance Officer, who for Thanet District Council is the Director of Corporate Resources and Section 151 Officer, is required to give Members an opinion on the robustness of the budget estimates and the adequacy of reserves.
- 17.2 The main areas of uncertainty which could put the budget under pressure for 2017-18 are the delivery of savings, the achievement of income targets and uncertainties around the full impact of potential one-off liabilities. 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 guidance of the Financial Services staff, and as a consequence the figures contained within this report are believed to be achievable. 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 Finance Officer believes the Council is well placed to deliver against the budget proposals presented within this report.

- 17.3 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.
- 17.4 In conclusion, it is the Director of Corporate Resources and Section 151 Officer's opinion that the budget is robust and achievable and that the proposals for reserves are adequate.

Contact Officer:	Ken Trotter– Interim Head of Finance
Reporting to:	Tim Willis–Director of Corporate Resources and S151 Officer

Annex List

Annex 1	Medium Term Financial Strategy
Annex 2	General Fund Draft Capital Programme
Annex 3	Flexible Use of Capital Receipts Strategy
Annex 4	HRA Service Charges
Annex 5	HRA Draft Capital Programme

Background Papers	Details of where to access copy
Medium Term Financial Plan 2016-2020	Full Council 4 th February 2016 http://democracy.thanet.gov.uk/documents/s49468/Annex%201%20MTFP%202016%20final%20v2.pdf
Budget Strategy 2017-18	Cabinet 17 th November 2016 http://democracy.thanet.gov.uk/ieListDocuments.aspx?CId=151&MId=4346
Fees and Charges	Full Council 1 st December http://democracy.thanet.gov.uk/ieListDocuments.aspx?CId=141&MId=4361
Council Tax Support Scheme	Full Council 1 st December http://democracy.thanet.gov.uk/ieListDocuments.aspx?CId=141&MId=4361

Corporate Consultation

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