BUDGET STRATEGY 2018-19

Cabinet	**16 November 2017**
Report Author	**Director of Corporate Resources and s151 officer**
Portfolio Holder	**Cllr-John Townend, Finance and Estates**
Status	**For Information**
Classification:	**Unrestricted**
Key Decision	**No**
Reasons for Key	**Budget and Policy Framework**
Ward:	**All Wards**

Executive Summary:

1. To present the draft budget strategy for the General Fund revenue budget 2018-19, which includes:
   a. Proposed fees and charges policy.
   b. Assumptions for the medium term from 2019-20 to 2021-22.

2. The Draft Housing Revenue Account 2018-19 and the estimates for the HRA capital programme up to 2021-22.

3. The Draft Capital programme for 2018-19 and the provisional estimates for the following years to 2021-22.

Recommendation(s):

It is recommended that Members consider and approve the draft budget strategy and note the draft Housing Revenue Account estimates and the draft Capital Programme estimates.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications of the budget are laid out within the body of the report.
Legal	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.
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	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to

Sector Equality Duty	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. 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. 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. ☐ 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. 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.

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 To outline the process and assumptions for developing the budget for 2018-19 and the provisional assumptions for the following years to 2021-22. The paper also proposes the fees and charges policy for 2018-19.

1.2 To present the draft General Fund Capital budget for 2018-19 and the provisional estimates for the following years to 2021-22.

1.3 To present the provisional assumptions for the HRA budget for 2018-19 and the estimates for the HRA capital programme up to 2021-22.

2.0 Background

National Planning Context

2.1 Following the June 2017 Election the emphasis has been on the government concentrating on Brexit.

Business Rates Retention – there has been very little information from the government as to how this will be implemented for 2020.

TDC Budget Planning Process and Framework

2.2 Fundamental to the development of the budget and Medium Term Financial Strategy is an overarching Budget Strategy, the objective of which is a safe and sustainable budget that will deliver the policies and aspirations of the Council over the medium term. These principles are detailed below:-

- To adequately resource the Council's statutory services and the corporate priorities as set out within the Corporate Plan.
- To maintain a balanced General Fund such that income from fees and charges, council tax and Government and other grants is sufficient to meet all expenditure.
- To maintain council tax increases as low as possible to avoid a local referendum, subject to a satisfactory level of Government Grant.
- To maintain the General Fund Reserve at a level that is sufficient to cover financial risks and provide an adequate working capital.
- To maximise the Council's income by promptly raising all monies due and minimise the level of arrears and debt write offs, so as to optimise treasury management potential.
- To actively engage local residents in the financial choices facing the Council.
- To minimise the impact on the general public and business communities from charges levied by the council as set out within its approved fees and charges.

These principles will enable the development of a budget that is sufficient to meet the Council's ongoing day to day business activities as well as progress its

priorities as contained within the Corporate Plan.

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

Table 1: Budget and Service Planning Timetable

Activity/Milestone	Time frame
Resident Engagement Commences	13 September – 2 October
Cabinet considers this report and gives direction.	16 November
Overview and Scrutiny Panel (OSP) considers the Cabinet report and makes recommendations to Cabinet	21 November
Autumn Statement	22 November
Resident Consultation closes	2 October
Council considers proposals on the level of fees and charges to enable any changes to be in place from April	7 December
Governance and Audit Committee considers the Treasury strategy, with recommendations to the 17 January Cabinet.	6 December
Provisional Settlement announced	Mid 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.	16 January
OSP considers the Cabinet papers of 17 January and makes any recommendations to 30 January Cabinet.	25 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.	30 January (if available)
Council agrees the Treasury Strategy, the Budget report, Medium Term Financial Strategy, Council Tax Base, Adequacy of Reserves and Robustness of Estimates.	8 February
Council agrees the level of Council Tax	22 February

2.4 The MTFS 2017-21 was agreed by Council in February 2017 and set out the actions required to address the projected funding gap for 2018-19. These included:

- Income generation opportunities across a range of services
- A 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
- A review of contract arrangements and service efficiencies including from shared services.

2.5 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 the need to consider the following factors:

- Uncertainty: addressed by using what little capacity we have to generate sustainable, local projects with an ongoing income stream.
- Existing and planned efficiencies: restructuring, outsourcing non-core services.
- Income generation: raising fees and charges where applicable, introducing new fees for existing services and new income-generating services.
- Strategic enablers: collaborating with partners such as the CCG and our East Kent neighbours, exploiting digital, reviewing accommodation needs.
- Protecting critical services and corporate priorities wherever possible.

2.6 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.

Business Rates

2.7 The Government Business Rates Retention 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 share the risk of a fall in yield, subject to a safety net mechanism.

2.8 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. The council is part of a Kent business rates pool, which helps to ensure a greater proportion of the benefit of Kent growth, stays in Kent. In addition, Kent has applied to become a pilot under the Government's new arrangements, which offer the prospect of the retention of more locally-raised business rates.

2.9 The longer term future of business rates, and indeed of local government funding, is subject to debate at the time of writing.

Local Government Settlement Funding

2.10 In addition to business rates, authorities receive Revenue Support Grant (RSG) from Central Government as support towards the cost of running Council services. In 2017-18 RSG was £1.446m, but in 2018-19 is estimated to fall to £809k.

2.11 New Homes Bonus changes last year will have a negative effect on the sum projected for next year. New Homes Bonus for 2017-18 was £1.879m but is currently forecast to be £1.026m in 2018-19.

Council Tax Base Adjustments for Minor Preceptors

2.12 The Council has previously shared RSG with parish councils, reducing in proportion to RSG reductions. Last year, parishes were informed that this source of funding was uncertain. The amount paid in 2018-19 (£117k in 2017-18) is being reviewed in the context of the budgetary constraints facing the council.

Council Tax and Collection Fund

2.13 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 2017. The tax base will be taken to Cabinet on 16 January 2018 for agreement, with the Statutory Resolution being taken to Council for agreement on 22 February 2018.

2.14 For the purpose of the budget build, it is assumed the Council Tax base for 2018-19 is 2% higher than the 2017-18 level and a 2% increase is expected for future years.

2.15 Council Tax is calculated by dividing the council's Council Tax requirement 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 2018-19 is 97.25%, this is the same rate used in the assumptions for 2018-19.

2.16 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 2017-18 of which £100,000 would be available in 2018-19.

3.0 Fees and Charges:

3.1 The fees and charges policy is presented at Annex 3, which sets out the process followed when reviewing increases. Given the substantial budget gap for 2018-19 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.

4.0 Budget Consultation

4.1 A revised approach has been undertaken this year and a Residents Survey has been issued to 6,000 residents to ascertain their views. The Resident engagement commenced on the 13 September and closed on the 2 October, it targeted a sample of residents. These will be considered as part of the draft budget process for January Cabinet.

4.2 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 15th November 2017.

5.0 Housing Revenue Account Budget and Housing Capital Programme

5.1 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.

5.2 **The Housing Revenue Account 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.

5.3 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.

5.4 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.

5.5 Thanet first went live with Universal Credit in October 2015, limited only to new claimants and those with a change of circumstances. From July 2017 the roll out of

the Universal Credit programme continued and extended to families as well as single claimants. Thanet has a higher than average percentage of the population claiming out of work benefits in the District. From the phased introduction programme, Thanet presented the highest number of claimants on Universal Credit across the Kent authorities at 15 people per 1,000 of the population, nearly double the average across Kent, being 8. There are many potential issues for Thanet residents, including IT skills, budgeting support, educating private sector landlords, anti-social behavior, and crime and health implications. 18-21 year olds in the district will also be heavily at risk due to the changes. Payments of Universal Credit are made in arrears and it takes approx. 6 weeks before the first payment is made. It will be paid direct to claimants into a bank account of their choice and no longer paid direct to the landlord. £50k has been allocated to Welfare Reform, to assist with the impact of Universal Credit and it is initially anticipated that this will be required to contribute to the bad and doubtful debt allowance.

Details of the HRA estimates

Expenditure Budgets

5.6 The main assumptions that have been applied to the HRA for the 2018-19 expenditure budgets are summarised below:

5.7 **Contract and Price Inflation** - For direct expenditure budgets, price increases have been included at 2.5%, which is the best estimate of the level of inflation at this point in time, unless there is a known inflation factor within a specific contract, in which case this has been used.

5.8 **Repairs and Maintenance**

Day to Day Repairs Contract	A new 4 year contract started in January 2017. Contract inflation is based on the average of Jan-Dec CPI inflation rates of the previous financial year. The economic forecast for the average of Jan-Dec 2017 is 2.7%
Cleaning Contract	A new 3 year contract started in July 2016 with an option to extend for a further 2 years. Contract inflation is applied in July and linked to July CPI. Contract inflation is 2.6% for 2018-19.
Cyclical External Refurbishment and Repairs Contract	A new 7 year contract started in April 2016. The contract included a no inflation clause for the first 2 years with fluctuations to commence from 2018 based on BCIS Tender Price Index. The inflation for 2018-19 is 3%.
Gas Servicing	A new 5 year contract started in April 2017. Contract inflation is based on January CPI. Contract inflation is 2.6% for 2018-19.
Water Safety	Water safety is now included in the gas servicing contract. The new contract has generated a saving of £16k.
Refuse Chute & Paladin Bin cleaning	The day to day repairs contract now includes these services and has generated a saving of £7k.
Equipment - Paladin Bin	EKH are currently reviewing the replacement programme. A number of the paladin bins will need to be replaced in line with

Replacement Programme	the fire safety recommendations.
Handyman Services	£1k saving as this service is now included in the repairs contract
Dry Riser cabinets	Repairs not required in 18-19, saving of £1.5k
Rodent Control and Damp Proofing Works	Works have decreased, £2.5k to be re-allocated to asbestos system software support, £24k saving achieved.
Keep It Clean	£3k saving while the scheme is under review.
Asbestos Removal	EKH have employed a software company to scan in the asbestos data. Back scanning will complete in 2017-18 at a cost of £9.5k. Annual maintenance is £2.5k. As the contract has been arranged, ongoing annual budgetary growth will be required. £2.5k to be vired from the disinfestation saving to repairs admin software costs.

5.9 **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 2018-19 management fee base budget is currently under review by East Kent Housing and will be finalised late this financial year However in the interim it is assumed that the core management fee will remain the same.

A number of supervision and management budgets are subject to change due to internal recharges based on staff costs following the TDC restructure.

The number of court application referrals has increased. This has impacted on the budget and growth of £5k has been applied from 2018-19.

5.10 **Supervision and Management Special** – Electricity contracts were reviewed in September 2017 and a new fixed term contact is now in place. There will be an increase in cost to the HRA of approximately £40k based on current rates of consumption.

5.11 **Rents, Rates, Taxes and Other Charges** – The Empty Homes Programme and Ramsgate Intervention Programme fully completed in 2016-17. A number of sites in the Margate Intervention programme also completed in 2016-17 and a few other sites are due to complete in 2017-18. Following early delays, a revised timetable for the approved new build programme has been agreed with the Homes and Community Agency. Phase 1 and 2 will hopefully complete in 2018-19 and phase 3 in 2019-20. The budgets that the Council holds as a landlord have been reviewed and reduced for running costs. These include Council Tax, utility standing charges on empty Margate Intervention sites and running costs of leased halls and has generated a saving of £13k.

5.12 **Allowance for Bad or Doubtful Debts –** The allowance for bad or doubtful debts for 2018-19 will remain the same at £170k, however the £50k welfare reform contingency

budget may be need to be utilised if the roll out of Universal Credits impacts on the arrears balances at the same level of the Universal Credit pilot Local Authorities. 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.

5.13 **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 £3.6m in 2018-19, the depreciation charge for other HRA assets is estimated to be at £139k. 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 ended on 31 March 2017. From April 2017 impairment charges on dwelling assets can continue to be reversed out of the HRA following the end of the transitional period. This principle has now also been extended to non-dwelling assets in the HRA from 2017-18.

5.14 **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 2017 the HRA had £20.04m of loans outstanding. A loan repayment of £816k becomes due for repayment during 2018-19.

Income Estimates

5.15 The main assumptions that have been applied to the HRA for the 2018-19 Income budgets are summarised below:

5.16 **Rent Increases** –The council operates two distinct rent policies across its housing stock. Social rents, which are applied to the Council's original housing stock and affordable rents which are applied to all properties within the Margate and Ramsgate Intervention programmes, empty homes programme and new build programme.

5.17 Since April 2002, social rents 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.

5.18 Affordable Rents are linked to local market rents and to the local housing allowance for the area. Rents are applied to individual properties at the lower of either 80% of the local market rent of the Local Housing Allowance.

5.19 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 up to 2020-21. The rent baseline for the reductions is the rent payable on 8th July 2015.

5.20 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.

5.21 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 we have had to scale back development programmes and estimate a deficit in 2018-19, we have had a surplus in previous financial years, so currently do not qualify for an exemption. If the higher value assets determination payment is resumed, this will need to be reviewed.

5.22 The Prime Minister recently announced that additional resources would be made available to support new house building by both local authorities and housing associations. The press statements included that from April 2020 rent increases would resume to CPI + 1% for 5 years.

5.23 Rental estimates are based on the government guidance for a rental decrease of 1% for 2018-19 and 2019-20 and a 2% inflationary increase from 2020-21 onwards.

5.24 Social rents will be decreased by 1% in line with the Government rent guidance. Across the whole stock the average rent is £80.36, this is an average decrease of £0.77p per property.

HRA TABLE 1 – AVERAGE SOCIAL HOUSING PROPERTY RENTS	
Property	**Est. Ave Rent**
Bedsits	£55.59
1 Bed Flat	£66.45
1 Bed House	£76.94
2 Bed Flat	£74.53
2 Bed House	£82.84
3+ Bed Flat	£86.24
3 Bed House	£92.82
4 Bed Flat	£89.05
4 Bed House	£101.70
5 Bed House	£109.65

5.25 Affordable rents will also be decreased by 1% in line with Government rent guidance.

HRA TABLE 2 – AVERAGE AFFORDABLE RENTS INC OF SERVICE CHARGES	
Property Type	**Average Actual Rent**
1 Bed House	£76.94
1 Bed Flat	£72.86
2 Bed House/ Bungalow	£91.45
2 Bed Flat	£100.67
3 Bed House	£117.11
3 Bed Flat	£134.33
4 Bed House	£139.26
4 + Bed Flat	£144.88

5.26 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 reviewed, taking into account 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. Detailed arrangements are set out in the Council's Tenancy Strategy which is due for review in the coming period.

5.27 **Non Dwelling Rents** - Income generated from aerials 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 remain the same at £12 per week while a programme of repairs is drafted.

5.28 **Service Charge Increases** –Service charges are calculated based on actual cost.

5.29 **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.

5.30 **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 2018-19 of £35k is based on achieving an average interest rate of 0.25%.

The Housing Revenue Account Reserves

5.31 The Council operates three HRA reserves: a HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties reserve, each of which is discussed in turn:

5.32 **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 £3.63m.

5.33 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. A stock condition survey was carried out in 2016-17 which has highlighted works and major repairs that need to be carried out in the coming years; the estimated cost of these works is estimated to be around £8m. The HRA has 6 high rise blocks of flats; following the Grenfell tower block fire detailed fire safety reports have been carried out and a number of enhanced fire safety works have been identified. These need to be carried out as soon as possible and estimated costs are currently £900k for the high rise tower blocks. Other blocks will also need additional fire safety works to comply with recommendations. EKH are currently drafting a programme of works and estimated costs. As at 1 April 2017 this reserve balance was £8.36m.

5.34 **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 2017 this reserve balance was £6.71m.

5.35 **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, New Build Programme and 141 Acquisition Programme has been set aside in this reserve as agreed by Cabinet. As at 1 April 2017 this reserve balance was £5.37m and is due to be drawn down during the 2018-19 and 2019-20 programmes. Income generated from affordable rents will continue to be set aside in this reserve for re-investment in a new build programme.

TABLE 3 - DRAFT - HOUSING REVENUE ACCOUNT BUDGET

	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000
Expenditure				
Repairs & Maintenance	3,265	3,338	3,413	3,490
Supervision & Management – General	3,328	3,255	3,255	3,255
Supervision & Management – Special	724	735	752	770
Rents, rates, taxes and other charges	257	257	257	257
Bad or doubtful debts provision	170	170	170	170
Depreciation/impairment of fixed assets	3,771	3,771	3,771	3,771
Capital Expenditure funded from HRA	300	300	300	300
Debt Management Costs	9	9	9	9
Non-service specific expenditure	1,381	1,381	1,381	1,381
Gross Expenditure Sub Total	**13,206**	**13,216**	**13,308**	**13,403**
Income				
Dwelling Rents (gross)	-12,786	-12,687	-13,004	-13,413
Non-dwelling Rents (gross)	-139	-148	-158	-166
Charges for services and facilities	-480	-515	-523	-574
Contributions towards expenditure	-349	-349	-349	-349
Income Sub Total	**-13,754**	**-13,699**	**-14034**	**-14,502**
Net Costs of Services Sub Total	**-549**	**-483**	**-725**	**-1,098**
HRA Investment Income	-35	-70	-105	-140
Debt Interest Charges	1,007	962	982	1,008
Government Grants and Contributions	-1,034	-345	0	0
Adjustments made between accounting basis and funding basis	897	-620	-965	-965
(**Surplus)/Deficit on HRA**	**286**	**-556**	**-813**	**-1,195**
Housing Revenue Account Balance:				
Estimated Surplus at Beginning of Year	-6,381	-6,095	-6,651	-7,464
(Surplus)/Deficit for Year	286	-556	-813	-1,195
Estimated Surplus at End of Year	**-6,095**	**-6,651**	**-7,464**	**-8,659**

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

Capital Funding

5.36 **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 51 new affordable units within the district from the Homes and Communities Agency (HCA) Affordable Homes Programme 2015-18.

5.37 **Unsupported Borrowing** – 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.

5.38 **HRA Capital Reserves** – A summary of the HRA reserves has been detailed in paragraphs (5.32 to 5.36). 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.

The Capital Programmes for 2018-19 to 2020-21

5.39 The Roofing programme was due to be re-tendered in 2016-17 but has been delayed until 2018-19. The flat roofs that were due to replaced in 2017-18 will now be carried out in 2018-19 and 2019-20. Slippage of £300k from 2017-18 and an additional £100k is required in 2019-20 to enable a catch up programme to be undertaken. The roofing and structural works at block 4-15 Royal Crescent that were due to be carried out in 2017-18 have been delayed as the stock condition survey has identified roofing and structural works at block 19-23 that are also required. It is likely to be more cost effective to deal with both blocks at the same time and a detailed assessment is underway. Slippage of £200k is required from 2017-18 for the 2 Royal Crescent blocks. An increased budget is required from 2019-20 onwards to replace the roofs identified from the stock condition data and to catch up with a backlog of roofing works from the past 2 years.

5.40 A number of properties have been identified as needing window and door replacements. Some of these properties require specialist works. A new contract is due to be start in Q3 2017-18. Slippage of £35k is required from 2017-18 to enable the backlog of works to be carried out.

5.41 Kitchen and bathroom replacements, electrical re-wiring and heating replacements have been identified from the stock condition data. Previous backlogs have now been caught up and proposed budgets are for a future on-going programme.

5.42 The planned refurbishments budget is being utilised to replace the door entry systems. The majority of the replacements that were required are now complete, with the remaining systems being replaced in 2018-19 and 2019-20.

5.43 A report was carried out to review fire safety in 2015-16. The three year programme was due to complete in 2017-18. However, in light of recent events, KFRS have been instructed to carry out new fire risk assessments. The revised risk assessments have identified additional fire safety works that need to be carried out. Some works have commenced in 2017-18 with additional funds being identified. However, a further £810k is required to complete the recommendations during 2018-19. From 2019-20, £100k will be required to continue with the non-urgent fire safety recommendations.

5.44 As mentioned previously in para (5.40) roofing and structural works at blocks 4-15 and 19-23 Royal Crescent have been aligned to reduce costs. Works at both blocks will now be carried out at the same time utilising slippage of £600k from 2017-18. The balconies at the low rise blocks have been delayed to enable the roofing works to be carried out at the same time, to reduce costs for which £900k is required to carry out the structural works, £387k slippage, £213k in 2018-19 and £300k in 2019-20. Works from 2019-20 onwards have been identified from the stock condition data.

5.45 A number of properties have been identified as needing thermal insulation improvements. A new contract is due to start in Q3 2017-18 and therefore £24k slippage required from 2017-18 is required to enable the backlog of works to be carried out.

5.46 The lift replacement programme is also currently under review. Lift refurbishments at Invicta House have been completed whilst Brunswick Court, Trove Court and Kennedy House lifts are now in need of urgent refurbishment or replacement. Brunswick Court lifts are due to be replaced during 2017-18, along with 1 or both of the lifts at Trove Court and Kennedy House. Lifts are still due to be replaced at Staner Court, Harbour Towers, Janice Court and Turner Court. It is proposed to allocate £260k into the capital programme from 2019-20 to 2022-23 to be able to carry out the remaining replacements from the major repairs reserve.

5.47 Trove Court and Kennedy House soil stacks are due for replacement. A consultancy report was commissioned in 2017-18 to identify the works required and £200k has been budgeted to carry out these works.

5.48 Disabled adaptions will remain the same for 2018-19. This is a demand-led budget and will be reviewed annually.

5.49 The Estate Improvements budget has been removed while the additional fire safety works are carried out. Once the fire safety works are complete, the budget will be reviewed.

5.50 A new SMART meter bill has been released and EKH are currently reviewing the bill to determine if there are have any landlord obligations.

5.51 The vacant HRA shop and flats above, at St Johns Crescent, Ramsgate are in need of refurbishment. It is proposed to convert the shop to affordable housing to create new affordable homes and refurbish the flats to decent homes standards. This will be funded from £100k within the 2017-18 set aside for Buy Backs and 1-4-1 receipts.

5.52 The Margate Housing Intervention Programme set 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.

5.53 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 51 new units. The original programme consisted of 58 units, however due to the previously reported delay in project commencement; the original costs increased, resulting in 2 of the sites being removed from the current programme due to affordability and deliverability. These 2 sites will be reviewed and considered for

another programme if further funding is available. 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 2019-20.

5.54 A £2.1m new acquisitions programme was considered at Cabinet on 25 October and is due to start during 2017-18. This will be funded by £630k of right to buy 141 receipts and £1.5m from HRA balances and will provide new affordable homes.

5.55 A detailed breakdown of the HRA capital programme is provided in Annex 1.

6.0 The Draft Capital Budgets 2018-19 to 2021-22

6.1 The draft Housing Revenue Account Capital Programme for 2018-19 that is proposed for Members' approval is £4.484m, 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 4 – HRA CAPITAL PROGRAMME				
	2018-19 £'000	**2019-20 £'000**	**2020-21 £'000**	**2021-22 £'000**
Total HRA Capital Programme Expenditure	**4,484**	**3,695**	**3,188**	**3,347**
HRA Capital Resources Used:				
HRA Major Repairs Reserve	3,793	2,978	2,400	2,400
HRA Revenue Contributions	300	300	300	300
New Properties Reserve	391	417	488	647
Total Funding	**4,484**	**3,695**	**3,188**	**3,347**

7.0 The General Fund Capital Budget Strategy

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

- To maintain an affordable four-year rolling capital programme.
- To ensure capital resources are aligned with the Council's strategic vision and corporate priorities.
- To undertake Prudential Borrowing only where there are sufficient monies to meet in full the implications of capital expenditure, both borrowing and running costs.

- ➢ To maximise available resources by actively seeking external funding and disposal of surplus assets
- ➢ To engage local residents in the allocation of capital resources where appropriate

7.2 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.

7.3 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.

Available Capital Funding

7.4 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, the revenue resources are limited.

A summary of the 2018-2022 capital resources utilised to fund the Capital programme is detailed in Annex 2.

7.5 **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 available for use in 2018-19 is estimated at £2.342m which has been set aside to fund the Disabled Facilities Grants within the capital programme.

7.6 **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.

7.7 **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 £0.250m will be required to support the General Fund Capital Programme in 2018-19.

7.8 **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 2018-19 onwards.

8.0 The Capital Programmes for 2018-19 to 2021-22

8.1 The following budget amount has been re-profiled from the 2017-18 capital programme to 2018-19: Thanet Groyne Reconstruction (£388k).

8.2 **Existing Programmes already agreed** – Programmes already agreed from previous years within the four year programme are the Disabled Facilities Grant, Property Enhancement Programme, Operational Services Vehicle Replacement Programme, Leopold Street Multi-Storey 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, Ramsgate Harbour Water Supply Upgrade and Thanet Groyne Reconstruction.

8.3 **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 permanent Head of Asset Management 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.

8.4 **New Capital Projects**

Email System Replacement – To ensure continued access to email facilities across the Council.

End User Computing Refresh of Devices – Renewal of desktop computers, laptops, tablets and other peripherals across the Council.

Civica Open Revenues Upgrade – Upgrade of the Revenues and Benefits IT system.

TDC Computing Infrastructure – Renewal of network infrastructure and solutions across the Council.

Ellington Park – Restoration, refurbishment and modernisation of Ellington Park, Ramsgate.

Northdown Road Townscape Heritage – Grant scheme for Northdown Road, Cliftonville to improve the historical environment, community pride, public image and visitor numbers, and to support businesses.

Botany Bay Car Park – To enhance the car park and increase income generation.

Broadstairs Flood and Coast Protection Scheme – To ensure Broadstairs continues to be protected from coastal erosion and increase the level of flood protection afforded by the harbour arm.

Ramsgate Harbour Sluice Gate – Enhancements for health and safety purposes, and to protect income.

Replacement of Lead Lights at Port - Enhancements for navigational, health and safety purposes, and to protect income.

Port of Ramsgate East Pier Building Structural Improvements - Enhancements for health and safety purposes, to protect income, and to preserve the character of the East Pier Building on the listed pier.

Port of Ramsgate Fuel Barge Access Ramp – Enhancements for health and safety purposes (replacing a vertical ladder with a ramp).

Port of Ramsgate Berth One Refurbishment – Major refurbishment to protect income.

Replace Pontoon Piles – To extend the life of the existing pontoon system infrastructure at Ramsgate marina.

Pontoon Decking Improvement East and West Inner Marina – To replace the existing decking at Ramsgate marina, which is coming to the end of its working life and regularly being repaired, with slip resistant and low maintenance decking.

Upgrade of Western and eastern Amenity Blocks – To refurbish existing customer facilities at Ramsgate port/harbour to protect income and reduce frequent and unplanned work.

The Draft Capital Budgets 2018-19 to 2021-22

8.5 The draft General Fund Capital Expenditure Budget for 2018-19 that is proposed for Members' approval is £4.689m (including 2017-18 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.

	2017-2018 Slippage £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000
Statutory and Mandatory Schemes	0	2,342	2,342	2,342	2,342
Schemes continuing from prior years	0	0	0	0	0
Annual Enhancement Schemes	0	378	703	2,620	700
Wholly/Part Externally Funded Schemes	388	695	693	3,335	780
Construction, Replacements and Enhancements	0	811	175	3,310	0
Capitalised Salaries	0	75	75	75	75
Total Capital Programme Expenditure	**388**	**4,301**	**3,988**	**11,682**	**3,897**
Capital Resources Used:					
Capital Receipts and Reserves	0	1,014	453	830	275
Capital Grants and Contributions	388	3,037	3,010	5,597	3,122
Contributions from Revenue	0	0	25	50	0
Prudential Borrowing	0	250	500	5,205	500
Total Funding	**388**	**4,301**	**3,988**	**11,682**	**3,897**

9.0 Reserves

General Reserve

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

10.0 Options

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

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Annex List

Annex 1	HRA Draft Capital Programme
Annex 2	General Fund Draft Capital Programme
Annex 3	Fees and Charges Policy

Background Papers

Title	Details of where to access copy
Medium Term Financial Strategy 2017-2021	Full Council 9th February 2017 http://tdc-mgapp-01:9070/documents/s53687/Budget%20report%20Annex%201%20-%20MTFS.pdf

Corporate Consultation

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