BUDGET 2018-19 AND MEDIUM TERM FINANCIAL STRATEGY 2018-22

Cabinet	**16 January 2018**
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, Capital Programme and the Treasury Management Strategy documents for 2018-19 and the Medium Term Financial Strategy for 2018-22.

Recommendations:

1. Cabinet recommends to Council on 8 February 2018:

1.1 That the Medium Term Financial Strategy at Annex 1 is approved.

General Fund

1.2 That the General Fund revenue budget estimates for 2018-19 are approved.

1.3 That following on from the decision made by Ramsgate Town Council not to continue with the subsidy for free Saturday parking at the Royal Harbour car park, as outlined in section 4.2 and 4.3, the Council agree to charge for parking on Saturday at the Royal Harbour car park and free Saturday parking will revert to Cannon Road car park from 1 April 2018 as originally recommended in the 2016-17 Fees and Charges report considered at the Council meeting on 3 December 2015.

Housing Revenue Account (HRA)

1.4 That the HRA budget estimates for 2018-19 to 2021-22 and the Housing Revenue Account services charges as shown at **Annex 3** are approved.

Capital Programme

1.5 That the General Fund and Housing Revenue Account capital budgets for 2018-19 are approved.

1.6 That a new capital project addressing homelessness pressures, as set out in section 9.29, is included within the General Fund capital programme for 2018-19 to be funded by prudential borrowing.

Treasury Management

1.7 That the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as shown in Annex 5 are approved.

1.8 That the Flexible Use of Capital Receipts Strategy for 2018-19 as shown in Annex 6 is approved.

1.9 That the Section 151 Officer's Assurance Statement as set out in section 13 of this report is noted.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications of the budget are laid out within the body of the report. Based upon the financial risk assessment, it would at this stage be appropriate to maintain General Fund balances of at least 12% of the net service revenue base.
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 Sector Equality Duty	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. 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 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.

	A residents survey was undertaken during September and October 2017 covering a range of questions about the local area, the services the council provides and how residents would like the council to keep them informed. It also asked for views on the future budget and what residents would do if a service they cared about was at risk of being cut. The HRA budget, including the proposed rent and service charge increases, was presented to the Thanet Area Board on 22 November 2017.

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. Executive Summary

1.1 The Budget Strategy considered by Cabinet on 16 November 2017 gave Members an update on the various changes that would impact on the council's future financial position.

1.2 The Medium Term Financial Strategy (MTFS) sets out the council's strategic approach to the management of its finances and presents indicative budgets and council tax levels for the medium term. It covers the General Fund revenue account, the Housing Revenue Account (HRA) and the Capital Programme, and includes grant funded projects. It also comments on the significant risks facing the council in the forthcoming years and explains what is being done to reduce those risks. The main objectives of the council's MTFS are to:

(i) Explain the financial context within which the council is set to work over the medium term.

(ii) Identify the financial resources needed to deliver the council's priority outcomes.

(iii) Provide a medium term forecast of resources and expenditure.

(iv) Achieve a stable and sustainable budget capable of withstanding financial pressures.

1.3 This report considers:

(i) The General Fund budget proposals for 2018-19.

(ii) The Medium Term Financial Strategy (MTFS) to 2021-22.

(iii) The Housing Revenue Account (HRA) budget proposals for 2018-19 onwards.

(iv) The Capital Programme 2018-19 onwards.

(v) Treasury Management strategy documents for 2018-19.

(vi) Flexible Use of Capital Receipts Strategy 2018-19.

2. Introduction and Background

2.1 The financial pressures that face local government are well known. Despite these pressures however, the council remains committed to both the maintenance of service delivery and providing community outcomes that enhance the quality of life for the residents of Thanet.

2.2 That commitment is reflected in the Budget for 2018-19 contained herein and the financial projections for the following years up to 2021-22.

2.3 This report finalises the funding position for 2018-19 based on the provisional Local Government Finance Settlement announced on 19 December 2017. It also sets out budget pressures and service priorities that are reflected in the setting of the 2018-19 budget. The council's Medium Term Financial Strategy (MTFS) has been rolled forward to cover 2018-2022 with updated assumptions where appropriate. It also reflects savings themes to manage the future financial position.

2.4 The annual review of the council's reserves has been undertaken. The proposed reserve balances are considered to be adequate for supporting the council's ongoing needs and plans.

2.5 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 remains to be done to balance later years after 2024. The proposed Housing revenue and capital budgets were presented to the Thanet Area Board for consultation and comment on 22 November 2017 and reflect the feedback from that consultation.

2.6 The capital programme is dependent on the council's ability to generate capital receipts or to support borrowing to fund spending. The programme within this report focuses on the council's core priorities, of meeting health and safety requirements and schemes that will generate a revenue saving or income.

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3. Corporate Plan 2015 to 2019

3.1 The council's Corporate Plan has been approved for the period 2015-19. The plan sets out the council's programme of priorities for the four year period and identifies three core aims that will help focus efforts towards achieving the vision.

Priority 1: A clean and welcoming environment – We want to encourage pride in our district by keeping Thanet clean. We are determined frontline services get it right. This will involve us:

- Continuing to improve waste and recycling services, reducing waste and increasing recycling.
- Keeping streets, parks and open spaces clean for residents and visitors.
- Maintain zero tolerance to encourage positive behaviour to help improve our environment.

Priority 2: Supporting neighbourhoods – We will work with partner agencies through the Thanet Health and Wellbeing Board to support people to make better lifestyle choices and operationally though our range of services provided directly to residents. This will involve us:

- Continuing our commitment to work with the public, private, voluntary and community sector to ensure the best outcomes for Thanet.
- Ensuring local residents have access to good quality housing, which meets people's changing needs and aspirations that is safe and affordable.
- Continuing to work with partners to improve community safety.
- Proactively enabling a collaborative partnership to reduce health inequalities.

Priority 3: Promoting inward investment and job creation – Our vision is to accelerate growth and achieve greater economic prosperity for our district. We will seek opportunities for inward investment, high quality job creation and work with partners to ensure we have the right skills, infrastructure and plans in place. This will involve us:

- Actively seeking inward investment, exploring the potential for using Enterprise Zones; encouraging new and existing businesses which support growth in the local and visitor economy.
- Working with partners to make the most of buildings and land we own. Maximising commercial opportunities for key assets.
- Writing a Local Plan which sets planning strategies and policies that support growth of the economy.
- Working with education training providers to develop the skills agenda for the benefit of residents and local businesses.

3.2 The council has agreed a list of corporate values to identify the way the council will work in order to deliver its priorities and these are as detailed below:

Value 1: Delivering value for money – Transforming and targeting resources to deliver services in a cost effective and efficient way that is open, honest, accountable and sustainable financially.

Value 2: Supporting the workforce – Maintaining a skilled and motivated workforce that are encouraged to achieve high performance standards encouraging new ways of working and new ideas, whilst delivering a good quality of customer service.

Value 3: Promoting open communications – Listening to the needs of the community and using this information to continue to improve our services Providing

clear, meaningful and timely communication in the most efficient manner in a way that is easy to access and understand.

3.3 Co-existing alongside the Corporate Plan are a number of other service related plans, such as the HRA Business Plan individual service plans, and capital and asset management strategies.

3.4 This Medium Term Financial Strategy and the Annual Budget Report provide a key link between all of these plans. They underpin all of these other strategic documents, by translating the plans, actions and non-financial resources into financial terms so as to evidence their affordability and sustainability. In addition to presenting the budget projections of the council's plans, these documents cover the planned approach to the financial management arrangements needed to obtain the maximum value from the council's assets.

4. Budget 2018-19

4.1 At its meeting on 16 November 2017, Cabinet received information on initial funding and proposals in the Budget Strategy, including the fees and charges policy. In addition, the proposed fees and charges for the year ahead were put to Cabinet for consideration. Fees and charges were subject to scrutiny by the Overview and Scrutiny Panel on 21 November. The Panel made two recommendations, to remove the cremation fee for non-viable babies and remove the planned increase to bulky waste collection charges. Cabinet on 30 November agreed to make these changes to the fees and charges, together with the removal of the cremation fee for stillborn babies.

4.2 Council on 7 December 2017 approved the fees and charges as agreed at 30 November Cabinet, with the the exception of the parking charges in respect of the Royal Harbour and Cannon Road car parks, Ramsgate. This was pending the agreement of Ramsgate Town Council for the continuation of the subsidy for free Saturday parking at the Royal Harbour car park. Council also agreed the flexible use of capital receipts, for which an application has been made to the DCLG. This will enable the use of £1million of 2017-18 capital receipts to be used to fund revenue investment that has an ongoing revenue benefit – specifically, the corporate restructuring and digital transformation.

4.3 Since the Council meeting on 7 December 2017, Ramsgate Town Council have met and voted in favour of not continuing the subsidy for free Saturday parking at the Royal Harbour car park and understand that free Saturday parking will revert to Cannon Road car park from 1 April 2018 as originally recommended in the 2016-17 Fees and Charges report considered at the Council meeting on 3 December 2015.

4.4 The information set out in this report represents the financial expression of the council's existing Corporate Plan over the next four years, against a backdrop of significant financial pressures.

4.5 The 2017-18 half yearly budget monitoring has been used for the forecast outturn position and this has been reflected in the reserves position as at 31 March 2018 set out in this report. Any variation from this at the year-end will be reported to Cabinet during Spring 2018 with recommendations from the Section 151 Officer regarding any surplus or deficit balances.

2018-19 Provisional Local Government Finance Announcement

4.6 The provisional Local Government Finance Settlement for 2018-19 was announced on 19 December 2017. This covered the consultation on the local government finance settlement for 2018-19 with indicative figures provided for 2019-20. The settlement is broadly in line with the indicative figures for 2018-19 announced in the four year settlement last year. Key issues from the announcement are outlined below:

- The 2018-19 New Homes Bonus provisional allocations have been announced. The number of years that the scheme will be based upon will reduce to 4 years in 2018-19, as previously announced. Also, the scheme will only reward growth in homes above the assumed 0.4% baseline per annum. Following consultation, the Government confirmed no further changes to the system in 2018-19 but is minded to maintain them in 2019-20. Table 5 below illustrates the impact on the council of the changes that were introduced from 2017-18 onwards. From 2017-18 to 2018-19 the reduction in

New Homes Bonus is over £800k compared to the position this time last year. Members are reminded that the changes were introduced to divert resources to the Adult Social Care Support Grant.

- Government has recognised the sector's call for further flexibility in setting council taxes and is allowing councils the ability to increase their core Council Tax requirement by a further 1%.

- The Kent and Medway bid to be a pilot for 100% business rates retention in 2018-19 has been successful (see below).

4.7 The funding announced as part of the provisional Finance Settlement for 2018-19 is outlined in Table 3.

Table 3 – Government Funding (as adjusted to reflect pilot in 2018-19)

	2018-19 Provisional £'000	**2019-20 Provisional £'000**
Revenue Support Grant	-	98
Business rates baseline	13,130	13,397
Tariff adjustment	(7,460)	(8,428)
Settlement Funding Assessment	5,670	5,067

Business Rates Retention

4.8 The council is currently part of the Kent Wide Pool for Business Rates. The pool consists of twelve Kent local authorities comprising Kent County Council, Kent Fire and Rescue and ten Borough and District Councils. By pooling, any levy payments that would have been made to Central Government in relation to business rate growth can be saved and distributed to the members of the Pool. All Kent authorities jointly signed up to apply to the Government to be a pilot for 100% business rates retention during the next financial year. It is pleasing to see that the Kent and Medway bid is one of 10 new pilots agreed by Government. In view of the uncertainty surrounding the financial impact of this pilot, no additional income has been anticipated from being in a 100% rates retained pool. However, it is believed that the council will see benefits being realised from its membership.

4.9 The Business Rates retention figure represents the council's current share of the total amount collected from local businesses, less a tariff payment to central government. The estimated amount for 2018-19 is outlined in Table 4. It is assumed that we will retain a similar amount in future years. These amounts include a provision for losses resulting from any successful appeals by rate payers against the rateable value of their properties. Appeals are dealt with by the Valuation Office Agency and their success or failure is beyond the council's control.

Table 4 – Estimated Business Rates Retention (to be confirmed)

	2018-19 Indicative £'000	**2019-20 Indicative £'000**	**2020-21 Indicative £'000**	**2021-22 Indicative £'000**
Business Rates	5,870	5,245	5,045	5,045

4.10 With the council being a member of the Kent and Medway business rates pool pilot in 2018-19, its rates retention figure is larger than the later years to recognise that no revenue support grant is receivable under this system.

New Homes Bonus

4.11 The New Homes Bonus was introduced from 2011-12 as a financial incentive and reward for housing growth. The grant is based on a national average Council Tax value of additional homes including any properties brought back into use. There is also an additional premium for affordable homes. The Bonus was originally payable for 6 years.

4.12 However, the changes introduced in the 2017-18 Local Government Finance Settlement mean that the scheme is based upon 4 years from 2018-19 onwards. The scheme will now also only reward growth in homes above a 0.4% growth baseline.

4.13 For 2018-19, the council is due to receive £1.011m in New Homes Bonus. This is some £869k lower than the 2017-18 allocation due to the changes outlined in paragraph 4.6. The profile of the expected grant payments is outlined in Table 5, although the impact on NHB of the move to 100% business rates retention is unknown.

Table 5 – New Homes Bonus (to be confirmed)

	2016-17 £'000	2017-18 £'000	2018-19 £'000 Est	2019-20 £'000 Est	2020-21 £'000 Est	2021-22 £'000 Est
Yr 1	**509**					
Yr 2	**536**					
Yr 3	**403**	**403**				
Yr 4	**562**	**562**				
Yr 5	**425**	**425**	**425**			
Yr 6	**485**	**485**	**485**	**485**		
Yr 7		***5**	**5**	**5**	**5**	
Yr 8			**96**	**96**	**96**	**96**
TOTAL	**2,920**	**1,880**	**1,011**	**712**	**338**	**96**

* This figure has been reduced as a result of the top slicing decision announced in December 2016.

4.14 The New Homes Bonus remains a flexible, non-ringfenced fund for Local Authorities to spend as they deem appropriate. This could include:

- Re-investing in housing or infrastructure.
- Support for local services or facilities.
- General financial support to hold down Council Tax levels.

4.15 For some time the council has used the New Homes Bonus to support the General Fund Budget. For 2018-19, the council will continue to treat the grant funding as general financial support.

4.16 Due to the changes in the New Homes Bonus allocations the impact of the provisional Local Government Finance settlement is a reduction in funding for the council of £1.3m in addition to the grant reduction.

5. Council Tax Base & Collection Rate

5.1 Under section 33 of the Local Government Finance Act 1992 (as amended) and supporting Regulations, the council must make an annual calculation of its tax base. The tax base is the total number of properties on which Council Tax will be charged expressed as a band D equivalent, after allowing for discounts, exemptions and losses on collection. The method of calculation is prescribed in the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012.

5.2 The tax base is used in the calculation of the Council Tax Requirement, to produce the standard amount of Council Tax for a band D property, in relation to both the District and the major precepting authorities.

5.3 As in previous years, the calculation of the tax base has been amended to take account of the Council Tax Support Scheme (CTSS). The replacement of Council Tax Benefit with CTSS effectively reduces the tax base as CTSS is provided as a discount against the Council Tax liability rather than a rebate which was previously repaid to the Council via Government Subsidy.

5.4 The impact of CTSS, has, in part, been offset by the previously approved changes to the council tax discounts. The resultant tax base for 2018-19 is 42,905 and is being considered by Cabinet for approval on this same agenda. This compares to a figure of 42,069 for 2017-18. An assumed growth of 0.5% has been included within the MTFS for future years.

5.5 The calculation of the Council Tax Base for a given year includes an assumption of the percentage of amounts due which are actually collected. The forecast collection rate has been assumed as 97.75% and has been incorporated within the Medium Term Financial Strategy calculations.

Note - Please see Section 8 for Council Tax increase implications.

6. Collection Fund

Council Tax

6.1 Following a calculation of the income and expenditure in the Collection Fund relating to Council Tax for this year, it is estimated that there will be an accumulated surplus of £658k to be distributed in respect of Council Tax by 31 March 2018. Table 6 shows how this will be distributed. This estimate remains to be finally confirmed.

Table 6 – Estimated Collection Fund Surplus Distribution (tbc)

Authority	Amount £'000
Thanet District Council	100
Kent County Council	467
Kent Police and Crime Commissioner	62
Kent Fire and Rescue Service	29

6.2 This distribution is covered by legislation. Since the Council Tax receipts collected have exceeded our forecast there is additional income. This has to be shared amongst all precepting authorities in accordance with their original precept value (for Thanet District Council that equates to about 14%). This amount must then be included within the budget for 2018-19 to reduce our Council Tax Requirement for that year.

Retained Business Rates

6.3 It is estimated that there will be no surplus/deficit on the business rates Collection Fund. This is the figure that has been estimated in the NNDR1 submission to the government at the end of January 2018.

6.4 With the council being part of a 100% retained business rates retention pilot for next year, the impact of any changes will be managed through the Collection Fund.

7 General Fund Revenue Budget

7.1 The summary revenue budget and forecast for 2018-19 is outlined in Table 7 below.

Table 7 – Summary General Fund Revenue Budget & Forecast to 2018-19

	£'000	£'000
Opening Funding Position		18,079
Budget pressures (including inflation and excluding Settlement Funding)		1,868
Income generation and efficiencies	-2,757	
Fees and charges	-390	
Total Savings		-3,147
Net Budget Requirement		**16,800**
Funded by:		
Government funding (including RSG, Business Rates and New Homes Bonus)		-6,985
Collection Fund surplus		-100
Council Tax		-9,715
Net Financing		**16,800**
Tax Base		42,905
Indicative Band D Council Tax		£226.44
% Increase on Band D		2.99%
£ increase on Band D		£6.57
General Reserve b/fwd		2,011
Contribution to/from reserve		-
General Reserve c/fwd		2,011

The MTFS and Addressing the Funding Gap

7.2 The MTFS provides the framework within which the council will achieve its aspirations.

7.3 The council will continue to explore opportunities to identify and secure additional income with which to support services. It is clear that there is also the opportunity to balance its budget through the strict management of expenditure levels and securing efficiencies.

7.4 Services need to continue to drive through efficiencies and continually review their working practices and operations to try and make them as efficient as possible.

7.5 Savings, efficiencies and increases in fees and charges are proposed to bridge the funding gap in 2018-19 of £2.808 million as outlined below in Table 8.

Table 8 – Proposed Savings Targets

Proposals	£'000

Fees and charges	-390
Review of income budgets	-230
Review of expenditure budgets	-207
Corporate restructuring	-564
EKS outsourcing	-250
New food hygiene service net income	-30
New trade waste service net income	-100
Port income as per MTFS	-250
Foreshores commercial opportunities	-150
Your Leisure/Winter Gardens	-350
Events grants	-64
Floral grants	-15
Re-profiling of Minimum Revenue Provision	-130
Organisational efficiencies	-78
Total Savings Proposals	**-2,808**

7.6 A significant amount of work has gone into balancing the council's budget for 2018-19. The council's previous MTFS forecast that a further £1.9m in savings would be required (over 2017-18) but there have been additional in-year growth pressures. It is vital that all fees and charges, savings and efficiencies proposals are monitored and acted on during 2018-19 along with strict control over spending. Cabinet will receive regular budget monitoring reports throughout the course of the year.

Working Balances and Reserves

7.7 Section 32 of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their Council Tax Requirement.

7.8 The Section 151 Officer is responsible for providing advice so that decisions taken on reserves represent proper stewardship of public funds. Reserves should be set at a level at least sufficient to meet any unexpected increase in expenditure or shortfall in income in the ensuing year that cannot be met from within the approved budget. Any decision that fails to take into account his advice may require a report to be made to the council under Section 114 of the Local Government Finance Act 1988.

7.9 Section 25 of the Local Government Act 2003 includes a duty on the Section 151 Officer to report, at the time the Council Tax is set, on the robustness of the budget calculations as well as the adequacy of the council's reserves and other matters (see Section 11 'Section 151 Officer's Assurance').

7.10 The Act also provides an enabling power for the Secretary of State to specify a statutory minimum level of reserves (Section 26 of the 2003 Act). The level of reserves is also a factor the external auditor will consider in appraising the council's financial standing. In providing advice to the council on the level of reserves, the Section 151 Officer has also had regard to professional guidance provided by CIPFA.

7.11 These safeguards are further reinforced through detailed scrutiny by our external auditors, which includes a methodology to assess the financial performance and standing of the authority.

7.12 When reviewing medium term financial plans and preparing annual budgets,

Members should consider the establishment and maintenance of reserves. These may be held for three main purposes:

(i) As a working balance to help cushion the impact of unexpected budgetary pressures.

(ii) As a contingency to cushion the impact of significant unexpected events or emergencies.

(iii) As a means of building up funds to meet known or predicted requirements and again to prevent significant fluctuations in net budget cost between years (earmarked reserves).

7.13 General Fund reserves consist of a number of earmarked reserves, together with an unallocated general reserve.

7.14 All reserves and balances form part of the General Fund but the Housing Revenue Account balance is specifically 'ring fenced' for use in connection with that account.

7.15 In addition to the cash-backed reserves described above, local authorities maintain a number of other reserves in the balance sheet. Some are required for statutory reasons and other reserves are required to comply with proper accounting practice. In either case these balances are not available for investment.

7.16 As part of the MTFS approved in February 2017, a minimum General Fund reserve of £2.0m was agreed. In accordance with best practice, an annual risk assessment is undertaken to check the level required for 2018-19. Revised calculations show that the assessed level should remain at £2.0m.

7.17 Although this report on adequacy of reserves is specific to 2018-19, the council should bear in mind that adequacy should also be judged against longer-term plans.

7.18 The council is currently predicting a significant funding gap every year with the General Fund reserve depleted during 2020-21, if the funding gap is not addressed. Whilst it is not permissible or feasible for the council to rely on the use of reserves on an ongoing basis to balance its budget, it may apply reserves as part of a short term strategy to manage, for example, a period of transition during which efficiency savings are identified to provide a longer term solution. Until the budgets for each year are balanced it is prudent for the council to plan on maintaining a level of reserves in excess of the minimum recommended level.

7.19 In addition to the General Fund reserve, the council keeps a number of earmarked reserves on the Balance Sheet. These reserves are required in order to comply with proper accounting practice, whilst others have been created to earmark resources for known or predicted liabilities. The balance of these Reserves as at 1 April 2017 was around £6.3 million.

7.20 A summary of the reserves, allowing for the budget proposals, is shown in Table 9 below.

Table 9: Council Reserves

Reserves	31 Mar 17	Movement	31 Mar 18	Movement	31 Mar 19
	£000	£000	£000	£000	£000
General Fund	2,011	-	2,011	-	2,011
HRA	6,714	-333	6,381	-286	6,095
Earmarked-GF	6,339	-490	5,849	110	5,959
Earmarked-HRA	5,367	-3,755	1,612	-286	1,326
Capital receipts	7,120	-5,307	1,813	-	1,813
Major Repairs Reserve	8,359	-2,390	5,969	-1,112	4,857
Total	**35,910**	**-12,275**	**23,635**	**-1,574**	**22,061**

Residents Survey 2017

7.21 A residents survey was undertaken during September and October 2017 covering a range of questions about the local area, the services the council provides and how residents would like the council to keep them informed. It also asked for views on the future budget and what residents would do if a service they cared about was at risk of being cut.

7.22 The council received 630 responses, a response rate of over 10%.

7.23 It was found from the responses that nearly two-thirds were surprised that the council only receives 14p in every £1 from the overall Council Tax bill. Over 40% of respondents showed agreement to the statement that the council provides value for money for the Council Tax that is paid. Residents were more likely to support transferring services to parish/town councils and reducing councillor numbers if a service was at risk of being cut. However, they would be less likely to support an increase in council tax, making one off donations and doing nothing and expecting the service to be cut, in such a case.

7.24 Respondents felt that the three things that most need improving in Thanet are clean streets, job prospects and thriving towns. The council's budget and Medium Term Financial Strategy supports the corporate priorities set out within the Corporate Plan which very much focuses on delivering in these areas of concern.

8. Council Tax Referendum and Council Tax

8.1 As part of the 2011 Localism Act, Council Tax capping in England has been abolished and replaced by new powers for residents to approve or veto excessive tax increases through a referendum. If the residents vote against the increase, the council will have to revert to a Council Tax level that is compliant with the Government's proposed increase.

8.2 A Council Tax referendum principle of 3% & over and £5 will apply for 2018-19 to all shire districts.

8.3 The Government has announced that they will not be introducing referendum principles for parish and town councils, a proposal which they consulted on as part of the summer technical consultation on the 2018-19 settlement. They will keep the level of precepts set by town and parish councils under review and may introduce referendum principles in the future.

8.4 To hold a referendum is a costly exercise to undertake, with estimates in excess of £50,000, and would have to come from the council's budget. This means that other savings would have to be identified to fund it. In addition, the council would have to have justifiable cause to put to the electorate for what is regarded as an excessive increase.

8.5 Members are asked to note that the provisional Local Government Settlement announced in December 2017 assumes that councils will increase Council Tax levels by up to 3%. The financial effect of a 2.99% rise is as follows:

Table 10 – Council Tax Increase yields

Year	2.99% increase £'000
2018-19	282
2019-20	290

9. General Fund Capital Programme

9.1 This section considers the Capital Programme and supporting Strategy for the period 2018-19 to 2021-22.

9.2 A minimum level of £10k has been set for capital expenditure on a fixed asset which is expected to be in use for more than one year. Expenditure below this value is not treated as capital and is therefore not recorded on the asset register or funded from capital resources. Capital expenditure also includes qualifying grants and loans, 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 borrowing, capital receipts, capital grants or revenue contributions.

9.3 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.

9.4 **The Asset Management Plan**

9.5 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 £220 million showing as the net book value of all property assets as at 31 March 2017 (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.

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

9.7 **The Capital Budget Strategy**

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

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

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

9.9 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.

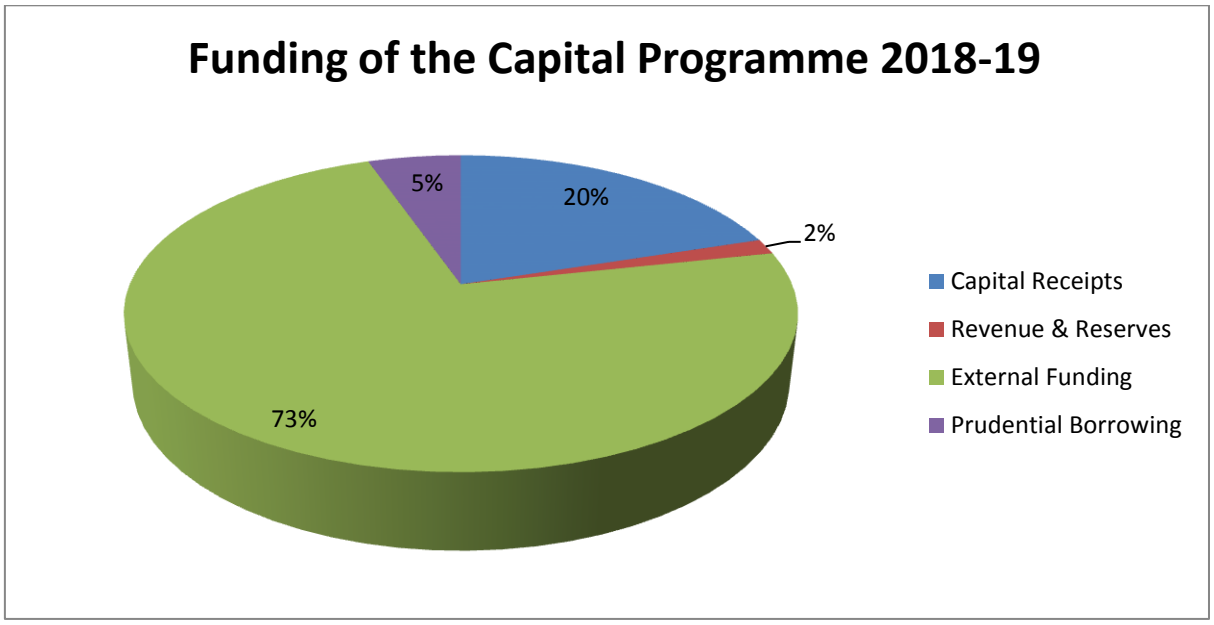
9.10 Applications for Capital Bids have been reviewed by the Capital Programme Group and scored against a weighted matrix to ensure they focus on the council's core priorities, health and safety requirements, the generation or protection of income streams and affordability. The level of resources available 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 2018-19 onwards this will result in a need to 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.

9.11 There is limited scope for future investment in new assets or making improvements to existing buildings. The Asset Management Plan is key in delivering resources to the Capital Strategy and reducing the size of the council's asset and property portfolio. It is imperative that limited resources do not damage the council's ability to maintain its significant income streams as assets deteriorate from lack of investment. The current portfolio is not maintainable with the current funding available for repairs and maintenance and resources available and given the councils funding position this is unlikely to improve. It is likely that over the next four years some difficult decisions will need to be made on some of the asset holdings. There are limited capital resources to fund any overspends/new requirements which could occur during the financial year. Any additional schemes during the financial year will require an existing scheme to be deferred or funds re-allocated unless there is headroom in the General Fund to borrow.

9.12 **Available Capital Funding**

9.13 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, but shown graphically below.



9.14 **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 2018-19 is estimated at £2.789m of which £2.342m has been set aside to fund the Disabled Facilities Grants within the capital programme with the rest being utilised by County for other disabled adaptations. The 2018-19 Capital Programme also includes projects to bolster Thanet's Sea Defences and these are fully funded by the Environment Agency.

9.15 **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.

9.16 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 has advised that the council can 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.

9.17 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 £0.941m in capital receipts has been forecast to fund the 2018-19 programme derived in part from the asset disposal report present to Cabinet on 16 November 2017. 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.

9.18 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, apart from £0.750m for the Ramsgate Harbour Gate & Bridge project in the 2017-18 capital programme.

9.19 **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.

9.20 **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.

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

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

9.23 **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.

9.24 **Funding position** - Due to continuing pressure on the council's funding position, the new capital projects below are predominantly 'spend to save', income generation, health and safety and externally funded projects. The absence of a new Asset Management Plan and comprehensive 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 project funding identified.

9.25 **New Capital Projects**

9.26 Capital bids for the forthcoming years have been reviewed and scored. Where projects require prudential borrowing further details can be found within the attached Annex 3.

Capital Table 1: New Capital Projects

New Capital Project	Project Outline
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.
TDC Computing Infrastructure	Renewal of network infrastructure and solutions across the Council.
Ellington Park	Restoration, refurbishment and modernization 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.

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

9.28 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.

Capital Table 2: Draft Capital Programme 2018-2022

	2017-18 £'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**

9.29 Further to the process set out in section 9.10 and Cabinet agreeing to the draft capital programme in its Budget Strategy, an item has come forward subsequently for inclusion within next year's programme, that Cabinet is asked to support. New capital investment of £1.63m is proposed, to be funded by prudential borrowing, that aims to effectively address some of the homelessness pressures being faced within the district and will contribute towards reducing the council's expenditure on homelessness. The project has been scored in the usual way and has been approved by the responsible officer team (Capital Programme Group).

10. Housing Revenue Account (HRA) Budget 2018-19

10.1 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.

The Housing Revenue Account Strategy

10.2 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.

10.3 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.

10.4 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.

10.5 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 approximately 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.

10.6 **Details of the HRA estimates**

Expenditure Budgets

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

10.8 **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.

10.9 **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 Replacement Programme	EKH are currently reviewing the replacement programme. A number of the paladin bins will need to be replaced in line with 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 2018-19, saving of £1.5k
Rodent Control and Damp Proofing Works	Works have decreased, £2.5k to be re-allocated to repairs administration software support, £24k saving achieved.
Keep It Clean	£3k saving while the scheme is under review.
Asbestos Removal	Medway Insulation have been contracted to scan in the asbestos data. Back scanning of historic data will complete in 2017-18 at a cost of £9.5k. Annual maintenance is £2.5k. Ongoing annual budgetary growth will be required. £2.5k to be moved from the disinfestation saving to repairs administration software costs.

10.10 **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 later 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.

10.11 **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.

10.12 **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.

10.13 **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 as 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 orders are having a significant impact on former tenant arrears and recovery

10.14 **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 the 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 £139k.

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

10.16 **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, new build programme and acquisitions programme.

10.17 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.

10.18 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 or the Local Housing Allowance.

10.19 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.

10.20 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.

10.21 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.

10.22 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.

10.23 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.

10.24 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

10.25 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

10.26 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.

10.27 **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.

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

10.29 **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.

10.30 **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%.

10.31 **The Housing Revenue Account Reserves**

10.32 The council operates three HRA reserves: a HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties Reserve:

10.33 **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.

10.34 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.

10.35 **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.

10.36 **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.

HRA 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

10.37 **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.

10.38 **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.

10.39 **HRA Capital Reserves** – A summary of the HRA reserves has been detailed in section 7.2. 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

10.40 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.

10.41 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 start in Q3 2017-18. Slippage of £35k is required from 2017-18 to enable the backlog of works to be carried out.

10.42 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.

10.43 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.

10.44 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.

10.45 As mentioned previously in section 9.40 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.

10.46 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 is required from 2017-18 to enable the backlog of works to be carried out.

10.47 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.

10.48 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 in 2018-19 to carry out these works.

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

10.50 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.

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

10.52 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 the £100k set aside in 2017-18 for Buy Backs and 1-4-1 receipts.

10.53 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.

10.54 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 as well as the previously reported delay in project commencement; the original costs have 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.

10.55 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.

10.56 A detailed breakdown of the HRA capital programme is provided in Annex 4.

The Draft Capital Budgets 2018-19 to 2021-22

10.57 The draft Housing Revenue 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**

11. Treasury Management 2018-19

11.1 The Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2018-19 were considered by Governance and Audit Committee on 6 December 2017. The report to the Committee and annexes are attached as Annex 5.

11.2 The Committee agreed to approve the report and annexes and that it be approved by Cabinet and Full Council.

11.3 Cabinet is asked to consider and approve the Treasury Management strategy documents for 2018-19 for recommendation to Full Council.

12. Flexible Use of Capital Receipts Strategy 2018-19

12.1 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 has advised that the council can apply to capitalise the costs of transformational revenue reform projects. The Capital Receipts Strategy is set out in Annex 6 and details the criteria where this may be considered as per guidance issued by Government.

13. Section 151 Officer's Assurance Statement

General Fund

13.1 Section 25 of the Local Government Act 2003 requires that, when the council is considering next year's budget and Council Tax levels, the council's Section 151 Officer (the Director of Corporate Resources) must report on:

- The robustness of the estimates, and
- The adequacy of the proposed financial reserves.

13.2 The estimates are considered to be robust. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and fees and charges income.

Housing Revenue Account (HRA)

13.3 Section 25 of the Local Government Act 2003 also requires that, when the council is considering the HRA budget and rent levels, the council's Section 151 Officer (the Director of Corporate Resources) must report on:

- The robustness of the estimates, and
- The adequacy of the proposed financial reserves.

13.4 The estimates are considered robust. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these

have been reflected in both expenditure and income.

14. Council Tax Requirement 2018-19

14.1 The full Council Tax resolution will be included within a separate report to Full Council on 22 February 2018.

15. Options

13.1 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.

Contact Officer:	Ramesh Prashar – Head of Financial Services Gary Whittaker – Interim Finance Manager
Reporting to:	Tim Willis–Director of Corporate Resources and S151 Officer

Annex List

Annex 1	Medium Term Financial Strategy 2018-2022
Annex 2	General Fund draft Capital Programme
Annex 3	HRA Service Charges
Annex 4	HRA draft Capital Programme
Annex 5	Treasury Management Strategy documents for 2018-19
Annex 6	Flexible Use of Capital Receipts Strategy 2018-19

Background Papers

Title	Details of where to access copy
Budget Strategy for 2018-19 - Cabinet 16th November 2017	https://democracy.thanet.gov.uk/documents/s58075/Cabinet%2016%20Nov%20-%20Budget%20Strategy.pdf
Fees and Charges 2018-19 – Council 7th December 2017	https://democracy.thanet.gov.uk/documents/s58451/Council%207th%20Dec%2017%20-%20Fees%20and%20Charges.pdf

Corporate Consultation

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