BUDGET 2019-20

Cabinet	**15 January 2019**
Report Author	**Tim Willis, Deputy Chief Executive and s151 Officer**
Portfolio Holder	**Cllr Ian Gregory, Cabinet Member for Financial Services and Estates**
Status	**For Decision**
Classification:	**Unrestricted**
Key Decision	**Non-key**
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 2019-20.

Recommendation(s):

1. Cabinet agrees and recommends to Council the following:

General Fund

1.1 That the General Fund revenue budget estimates for 2019-20 are approved.

Housing Revenue Account

1.2 That the HRA budget estimates for 2019-20 to 2022-23 are approved.

Capital Programme

1.3 That the General Fund and Housing Revenue Account budgets for 2019-20 are approved.

Treasury Management

1.4 That the Treasury Management Statement, Minimum Revenue Provision Policy Statement, Annual Investment Strategy, Capital Strategy and Non-Treasury Investments Report for 2019-20, as shown in Annex 3, are approved.

1.5 That the Flexible Use of Capital Receipts Strategy for 2019-20 as shown in Annex 2 is approved.

1.6 That the Section 151 Officer's Assurance Statement as set out in section 14 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.
Legal	Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Deputy Chief Executive and this report is helping to carry out this 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 contribute towards meeting those priorities and to deliver services.
Equality 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.	

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. INTRODUCTION

1.1 In September Cabinet approved the Medium Term Financial Strategy for 2019-23. The Strategy set out that, for 2019-20, there was a funding gap of £1.8m that needed to be met in order to arrive at a balanced General Fund budget.

1.2 Fees and charges have now been considered and approved by Cabinet on 15 November. They were then examined by the Finance, Budget and Performance Scrutiny Panel on 20 November and finally approved by Council on 6 December. Additional income of £189k will be generated in 2019-20 from the changes and has been built into the proposed budget.

1.3 The funding gap has been identified, but involves a number of actions and commitment to deliver the savings for next year. Unless this plan is adhered to, the council could be at significant risk of overspending the proposed budget. Grant Thornton, the council's external auditor, has already commented that the council's reserves do not provide much room for manoeuvre should savings not be identified (Grant Thornton Audit Findings Report 25 July 2018). But it is not just the identification of savings, it is the actual realisation of them.

1.4 This report considers:

1) The General Fund budget proposals for 2019-20.
2) The Housing Revenue Account (HRA) proposals for 2019-20 onwards.
3) The Capital Programme 2019-20 onwards.
4) Treasury Management Strategy documents for 2019-20.
5) Flexible Use of Capital Receipts Strategy 2019-20.

2. BACKGROUND

2.1 The budget has been prepared against a backdrop of significant funding uncertainty. The provisional settlement for 2019-20 was published on 13 December but the findings of the Fair Funding Review and review of Business Rates Retention that are to follow, mean that the council's future financial outlook is extremely difficult to judge. Whilst this report provides some future estimates (on capital and HRA) it is the 2019-20 financial year that remains the focus for consideration.

2.2 The objectives of the previously agreed Budget Strategy are to:

1. Adequately resource the council's statutory services and corporate priorities set out within the Corporate Plan.

2. Maintain a balanced General Fund such that income from council tax, business rates, grants and fees and charges is sufficient to meet its expenditure.
3. To keep council tax increases as low as possible so as to avoid triggering a local referendum.
4. To maintain the General Reserve at a level that is sufficient to cover financial risks and provide an adequate working capital.
5. 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.
6. To actively engage local residents in the financial choices facing the council.
7. To have due regard to the impact on the general public and business communities from charges levied by the council as set out within its approved fees and charges.

3. 2019-20 PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT

3.1 The announcement of the provisional Local Government Finance settlement for 2019-20 was made on 13 December. The settlement is broadly in line with the indicative 2019-20 figures provided by Government a year ago.

3.2 Key points from the announcement are as follows:

- The Kent and Medway bid to be a pilot for 75% business rates retention in 2019-20 was unsuccessful. Therefore, the council will be part of a Kent pool under 50% business rates retention (as in 2017-18).

- Government published the 2019-20 New Homes Bonus provisional allocations. The baseline threshold over which growth is measured has remained at 0.4% and the number of years that Bonus is paid remains at four years as previously. The council is to receive Year 9 New Homes Bonus of £13k for 2019-20. Table 3 illustrates the impact on the council of the changes since 2017-18 onwards. From 2018-19 to 2019-20 the reduction in New Homes Bonus is over £400k.

- There is a surplus on the Government's Business Rates Levy account which is being re-distributed to local authorities. The council is to receive £76k on a one-off basis.

- The confirmation that shire district councils will be allowed increases in council tax of up to 3%, or up to and including £5, whichever is higher. For Thanet, the 3% measure is the higher and is currently being used to inform the proposed council tax.

- A further reduction in the council's funding allocation from the Government towards housing benefit administration of £78k.

3.3 The funding announced in the Provisional Finance Settlement for 2019-20 is outlined in Table 1 below.

Table 1 - Provisional Government Funding

	2018-19 Actual £000	**2019-20 Provisional £000**
Revenue Support Grant	0	**97**
Business Rates Baseline	13,104	**13,405**
Tariff payable to Government	(7,434)	**(8,432)**
Settlement Funding Assessment	5,670	**5,070**

4. BUSINESS RATES RETENTION

4.1 The council is currently part of the Kent wide Pilot for 100% business rates retention. The pilot allows for levies payable to the Government, arising from growth, to be significantly reduced. Experience to date shows that the Pilot has been successful in retaining significant growth above baseline.

4.2 However, the application for Kent to be a pilot for 75% Business Rates Retention in 2019-20 has been unsuccessful. Instead, Thanet will be part of the 50% rates retention Kent pool.

4.3 The council's anticipated business rates budget for 2019-20 is £5.5m, made up as follows:

Table 2 - Anticipated Business Rates 2019-20

	£000
Business rates baseline	**13,405**
Anticipated growth above baseline	**572**
Less: tariff	**(8,432)**
Business rates retained	**5,545**

5. NEW HOMES BONUS

5.1 The New Homes Bonus was introduced from 2011-12 as a financial incentive and reward for housing growth. The growth 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.

5.2 Following changes introduced in 2017-18 the scheme is based on a 4 year period commencing from 2018-19 and growth over baseline of 0.4% is taken into account.

5.3 For 2019-20 the council is expected to receive £600k in New Homes Bonus. This is £400k lower than the 2018-19 allocation. The profile of the expected grant payments is outlined in Table 3.

Table 3 - New Homes Bonus (anticipated for 2019-20)

	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Scheme Year	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Year 3	403					
Year 4	562					
Year 5	425	425				
Year 6	485	485	485			
Year 7	5	5	5	5		
Year 8		96	96	96	96	
Year 9			13	13	13	13
TOTAL	**1,880**	**1,011**	**599**	**114**	**109**	**13**

5.4 The New Homes Bonus is a flexible, non ring-fenced grant for local authorities to spend as they deem appropriate. This can include:

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

5.5 The council has used the Bonus to support the General Fund Budget for 2019-20.

6.0 COUNCIL TAX BASE AND COLLECTION RATE

6.1 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.

6.2 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.

6.3 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.

6.4 The impact of CTSS, has, in part, been offset by the previously approved changes to the council tax discounts. The resultant tax base for 2019-20 is 43,763 and is being considered by Cabinet for approval on this same agenda. This compares to a figure of 42,905 for 2018-19.

6.5 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 98.0% and has been included within the budget calculations. Note - Please see Section 8 for Council Tax increase implications.

7. COLLECTION FUND

Council Tax

7.1 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 over £800k to be distributed by 31 March 2019. Table 4 shows how this will be distributed. This estimate remains to be finalised.

Table 4 - Estimated Collection Fund surplus distribution (to be finalised)

Authority	Amount £000
Thanet District Council	100
Kent County Council	625
Kent Police and Crime Commissioner	78
Kent Fire and Rescue Service	36

7.2 The distribution is prescribed by legislation. The surplus has to be shared amongst the major precepting authorities in accordance with their original precept value (for Thanet this equates to about 13%). The amount of surplus must then be included within the budget for 2019-20 to reduce the Council Tax Requirement for the year.

Retained Business Rates

7.3 It is currently anticipated that there will be no surplus/deficit on the business rates Collection Fund.

7.4 The impact of any changes, to the estimated yield, from being in a Pool, will be managed through the Collection Fund in the normal manner.

8. GENERAL FUND REVENUE BUDGET 2019-20

8.1 The MTFS 2019-23 was agreed by Cabinet on 18 September and set out themes to be adopted to address the projected funding gap of £1.832m for 2019-20 and contribute towards the gap for future years. These were as follows:

- Transforming the way we work, particularly through effectively realising the benefits digital technology can offer.
- Exploring alternative and sustainable income streams, for example in the trade waste area.
- Explore and look to invest in commercial opportunities that can generate positive economic returns to the district (cash returns or by promoting growth). The council can look to use some of its benefits from being in the Kent Business Rates Pool to good effect in this way.
- Focusing on making better use of the significant assets the council owns such as the Port of Ramsgate, Dreamland, office accommodation.
- Ongoing financial stewardship i.e. review of 2017-18 actual spend, 2018-19 base budget, appropriateness of reserve levels, fees and charges.

8.2 The proposed budget for 2019-20, which deals with the funding gap identified within the MTFS, is summarised in Table 5 below.

Table 5 - Summary General Fund Revenue Budget 2019-20

	£000	**£000**
Opening Funding Position		16,800
Budget pressures (including inflation but excluding funding)		1,083
Income generation and efficiencies	-1,050	
Fees and charges	-190	
Total Savings		-1,240
Net Budget Requirement		**16,643**
Funded by:		
Government funding (including RSG, business rates and		-6,338

New Homes Bonus)		
Collection Fund surplus		-100
Council Tax income		-10,205
Net Financing		**-16,643**
Tax Base		**43,763**
Indicative Band D Council Tax		**£233.19**
% Increase on Band D		**2.98%**
£ increase on Band D		**£6.75**
General Reserve b/fwd		**2,011**
Contribution to/from reserve		**-**
General Reserve c/fwd		**2,011**

Addressing the funding gap

8.3 Savings, efficiencies and increases in income are proposed to bridge the funding gap in 2019-20 of £1.35m as outlined below in Table 6. The MTFS budget gap of £1.832m has increased slightly because of a small fees and charges income shortfall (£12k). The main change has been to net off the £500k growth for the port, which had previously been included in the £1.832m budget gap.

Table 6 - Income generation and efficiencies 2019-20

Proposed Savings	**£000**
Corporate resources savings	-170
Ramsgate Port (£230k in a full year, £130k in 2019-20)	-130
Organisational efficiencies	-250
Additional investment income	-40
Business transformation vacant post	-70
Cleaning and facilities management review	-40
Facilities within the district	-175

Reduction in homelessness growth	-150
Efficiencies in EK Services (£50k in a full year, £25k in 2019-20)	-25
Total for services	**-1,050**
Additional business rates income included within funding	-300
Final total	**-1,350**

8.4 In view of the financial pressures that were identified within the MTFS, the council has had to make some tough decisions. It has reviewed a number of services where savings and/or efficiencies can be realised in order to arrive at a deliverable/balanced budget. The largest single item is related to the port, which is proposed to have £500k growth removed and a further £130k savings, totalling £630k (or £730k in a full year). This recognises that in the absence of a ferry operation, the port will undertake significant cost reductions to start to reduce its budgeted deficit. The key decision point for the port is the Council meeting on 7 February, which sets the 2019-20 budget. If there is not a confirmed, contracted ferry operation by the end of January when the Council budget report is published, the cost savings will be recommended and if approved, will be actioned. Any further delay would require alternative savings to be identified, which is too late to inform the presentation of a balanced budget to Council.

MTFS 2019-23

8.5 On the basis that the savings detailed above are deliverable and remain permanent the projected updated General Fund deficit over the medium term is as follows:

Table 7 - Updated General Fund deficit projection

	2019-20	2020-21	2021-22	2022-23
	£000	**£000**	**£000**	**£000**
Updated deficit	-	962	1,001	1,112

Work must commence on addressing the deficit for 2020-21 onwards as soon as the year end out-turn and reserves position has been determined. If permanent deliverable savings can be realised in 2020-21 it will make a significant contribution to reducing the deficit thereafter.

Working Balances and Reserves

8.6 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.

8.7 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.

8.8 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 13 'Section 151 Officer's Assurance').

8.9 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.

8.10 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.

8.11 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).

8.12 General Fund reserves consist of a number of earmarked reserves, together with the unallocated general reserve.

8.13 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.

8.14 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.

8.15 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 2019-20. Revised calculations show that the assessed level should remain at £2.0m.

8.16 Although this report on adequacy of reserves is specific to 2019-20, the council should bear in mind that adequacy should also be judged against longer-term plans.

8.17 The council is currently predicting a significant funding gap after 2019-20 with the General Fund reserve depleted during 2022-23, if the future 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.

8.18 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 2018, including capital reserves, was around £42 million.

8.19 A summary of the projected reserves, allowing for the budget proposals, is shown in Table 8 below for information.

Table 8 Council Reserves

Reserves	**31 Mar 18**	**Movement**	**31 Mar 19**	**Movement**	**31 Mar 20**
	£000	**£000**	**£000**	**£000**	**£000**
General Fund	2,011	-	2,011*	-	2,011
HRA - Balances Reserve	7,753	(1,110)	6,643	175	6,818
Earmarked - GF	7,777	581	8,358	141	8,499
HRA - New Properties/ Repairs Reserve	5,244	(534)	4,710	(452)	4,258
Capital	9,221	(3,947)	5,274	(2,472)	2,802

receipts					
HRA - Major Repairs Reserve	10,019	(2,246)	7,773	1,232	9,005
Total	**42,025**	**(7,256)**	**34,769**	**(1,376)**	**33,393**

* The quarter 2 monitoring position projects a current overspend of £680k. Should this overspend not be dealt with by year end the General Fund reserve will stand at £1,331k.

Residents Survey 2018

8.20 A residents survey was undertaken during September and October 2018 covering a range of questions about the local area, the services the council provides and feedback on the council's performance. 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.

8.21 The council received 736 responses, a response rate of 12%.

8.22 It was found from the responses that nearly two-thirds were surprised that the council receives such a small proportion of the overall Council Tax bill. Almost 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 or make one off donations in such a case.

8.23 Respondents felt that the three things that most need improving in Thanet are clean streets, feeling safe 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.

9. Council Tax Referendum and Council Tax

9.1 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.

9.2 A Council Tax referendum principle of 3% & over and £5 will apply for 2019-20 to all shire districts.

9.3 The provisional settlement shows that the Government will continue to defer the setting of referendum principles for towns and parishes.

9.4 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.

9.5 The financial effect of a 2.99% rise is as follows:

Table 9 – Council Tax Increase yields

Year	**2.99% Increase £000**
2019-20	296
2020-21	305

10. GENERAL FUND CAPITAL PROGRAMME

10.1 This section considers the Capital Programme and supporting strategy for the period 2019-20 to 2022-23.

10.2 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.

10.3 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.

10.4 **The Asset Management Plan**

10.5 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 £244 million showing as the net book value of all property assets as at 31 March 2018 (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.

10.6 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.

10.7 **The Capital Budget Strategy**

10.8 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 Budget 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.

10.9 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.

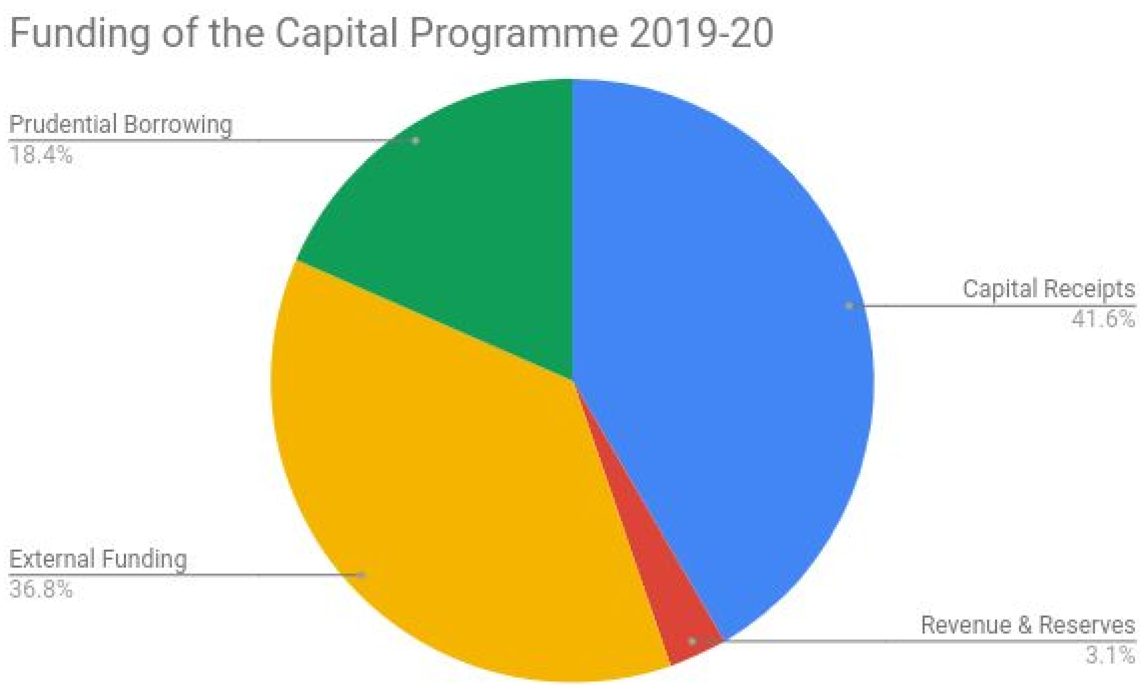
10.10 Applications for Capital Bids have been reviewed by the Corporate Management Team and scored against a weighted matrix to ensure they focus on the council's core priorities, health and safety requirements, the generation or protection of income streams and affordability. The level of resources 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 2019-20 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.

10.11 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 Budget 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 council's funding position this is unlikely to improve. It is likely that over the next four years some difficult decisions will need to be made on some of the asset holdings. 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 are likely to require an existing scheme to be deferred or funds re-allocated unless there is headroom in the General Fund to borrow.

10.12 **Available Capital Funding**

10.13 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 2019-2023 capital resources utilised to fund the Capital Programme is detailed in Annex 1, but shown graphically below.



10.14 **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 2019-20 is estimated at £2.789m of which £2.420m 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 2019-20 Capital Programme also includes projects to bolster Thanet's sea defences (funded by the Environment Agency) and the restoration, refurbishment and modernisation of Ellington Park, Ramsgate (funded by the Heritage Lottery Fund).

10.15 **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.

10.16 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 2 and details the criteria where this may be considered as per guidance issued by Government.

10.17 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 £5.181m in capital receipts has been forecast to fund the 2019-20 programme derived in part from the asset disposal report present to Cabinet on 14 June 2018. 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.

10.18 **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 £2.296m will be required to support the General Fund Capital Programme in 2019-20.

10.19 **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 2019-20 onwards.

10.20 The Capital Programmes for 2019-20 to 2022-23

10.21 The following budget amounts have been re-profiled from the 2018-19 capital programme to 2019-20: Homelessness Accommodation (£1,630,000), Ramsgate Flood and Coast Protection Scheme (£1,060,000), Westbrook to St Mildred's Sea Wall Work (£600,000), Ramsgate Port Berth 2/3 & 4/5 Replacement (£450,000).

10.22 **Existing Programmes already agreed** – Programmes already agreed from previous years within the four year programme are the Disabled Facilities Grants, Ellington Park, Northdown Road Townscape Heritage, Dreamland, Homelessness Accommodation, End User Computing Refresh of Devices, IT Infrastructure, Property Enhancement Programme, Vehicle & Equipment Replacement Programme, Royal Harbour (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, Ramsgate Flood and Coast Protection Scheme, Broadstairs Flood and Coast Protection Scheme, Ramsgate Harbour Sluice Gate, Replacement of Lead Lights at Port, Ramsgate Harbour Fuel Barge Access Ramp and Ramsgate Port Berth 2/3 & 4/5 Replacement.

The Email System Replacement project previously agreed is no longer required, as the council has subsequently moved to Gmail as part of the End User Computing Refresh of Devices project.

10.23 **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 may need to be reconsidered, once capital receipts have been received and the project funding identified.

10.24 **New Capital Projects**

10.25 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
Printer Renewal	Purchase rather than lease printers, where cost-effective to do so.
New Air Conditioning for Server Room	Replace old air conditioning so that IT servers do not overheat.
Parkway Railway Station	Assist in the establishment of a new railway station in Thanet.
Office Accommodation	Ensure the council's office accommodation remains as cost-effective as possible.
Memorials for Children's Area in Margate Cemetery	Redesign of the children's area in Margate Cemetery, including the introduction of memorials appropriate for the loss of a child.
Automatic Cremator Charging Equipment	Installation of an automatic charger (to site coffins correctly in the cremator) and strengthening of the catafalque (used to support coffins).

10.26 **The Draft Capital Budgets 2019-20 to 2022-23**

10.27 The draft General Fund Capital Expenditure Budget for 2019-20 that is proposed for Members' approval is £12.456m (including 2018-19 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 2019-2023

	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Statutory and Mandatory Schemes	0	2,420	2,420	2,420	2,420
Schemes Continuing from Prior Years	450	1,473	0	0	0
Annual Enhancement Schemes	0	805	2,492	739	1,037
Wholly/Part Externally Funded Schemes	1,660	693	3,260	780	260
Construction, Replacements and Enhancements	1,630	3,250	5,189	0	0
Capitalised Salaries	0	75	75	75	75
Total Capital Programme	**3,740**	**8,716**	**13,436**	**4,014**	**3,792**

Expenditure					
Capital Resources Used:					
Capital Receipts and Reserves	446	5,037	503	314	612
Capital Grants and Contributions	1,500	3,088	5,630	3,200	2,680
Contributions from Revenue	64	25	50	0	0
Prudential Borrowing	1,730	566	7,253	500	500
Total Funding	**3,740**	**8,716**	**13,436**	**4,014**	**3,792**

11.0 Housing Revenue Account Budget and Housing Capital Programme

11.1 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.

11.2 The Housing Revenue Account Strategy

11.3 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.

11.4 **Details of the HRA expenditure estimates**

11.4.1 **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.

11.4.2 **Repairs and Maintenance -** The net revenue budget has increased by £84k in most part to reflect contractual inflation.

11.4.3 **Supervision and Management General** – EKH have submitted proposals in regards to the management fee and a business case for additional staff, mainly in relation to rent collection and universal credit support.

Thanet are included in the EKH Northgate single system project. Any additional costs relating to the project will be reflected in 2018-19.

A new fees and charges schedule for 2019-20 were approved by Council on 6 December 2018.

11.4.4 **Bad or Doubtful Debts Provision** – The provision for bad or doubtful debts for 2019-20 will increase to £200k.

Due to increased rent arrears and the effects of universal credit, it is anticipated that bad debts will increase and so the budget for the provision for bad and doubtful debts has been increased by £30k, while mitigating actions are under review.

11.4.5 **Depreciation for Fixed Assets** – The estimated depreciation charge for dwellings is calculated at £3.6m in 2019-20, the depreciation charge for other HRA assets is estimated to be £110k.

11.4.6 **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 currently has its debt capped at £27.792m. As at 1 October 2018 the HRA had £20.04m of loans outstanding. A loan repayment of £888k becomes due for repayment on 1st April 2019.

11.5 Details of the HRA income estimates

11.5.1 **Rent Increases** – Social rents have been set based on government rent guidance. 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.

For 2019-20 social and affordable 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.

For 2020-21 to 2024-25 an estimated 2% inflationary increase has been assumed.

AVERAGE RENTS 2019-20		
PROPERTY TYPE	SOCIAL RENT	AFFORDABLE RENT (inclusive of service charges)
BEDSITS	£55.72	-
1 BED HOUSE	£76.17	£76.17
1 BED FLAT	£65.78	£72.13
2 BED HOUSE/BUNGALOW	£82.01	£96.46
2 BED FLAT	£73.77	£104.77
3 BED HOUSE	£91.84	£115.93
3 BED FLAT	£85.38	£135.45
4 BED HOUSE	£100.56	£146.81
4 BED FLAT	£88.16	£143.43
5 BED HOUSE	£108.55	-

11.5.2 **Non Dwelling Rents** - Income generated from aerials on tower blocks is expected to increase by £19k as a number of leases are due for renewal. Garage rents are to remain at £12 per week. All sites are being reviewed for development and regeneration opportunities, as well as a new planned maintenance programme.

11.5.3 **Service Charge Increases** – Service charges are calculated based on actual cost. Tenant service charge increases continue to be capped at £3 a week.

11.5.4 **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.

11.5.5 **Investment Income** – This consists of interest accruing on mortgages granted in respect of Right to Buy sales and interest on HRA balances. The budget for 2019-20 of £240k is based on achieving an average interest rate of 1%.

11.6 The Housing Revenue Account Reserves

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

11.6.2 **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 2019-20 is £3.6m.

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.

11.6.3 **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 2018 this reserve balance was £6.71m.

11.6.4 **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 2018 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.

DRAFT - HOUSING REVENUE ACCOUNT BUDGET				
	2019-20	**2020-21**	**2021-22**	**2022-23**
	£'000	**£'000**	**£'000**	**£'000**
Income				
Dwelling Rents (gross)	-12,345	-12,701	-13,174	-13,437
Non-dwelling Rents (gross)	-227	-227	-227	-227
Charges for services and facilities	-466	-480	-503	-528
Contributions towards expenditure	-366	-366	-366	-368
Income Sub Total	**-13,404**	**-13,774**	**-14,270**	**-14,560**
Expenditure				
Repairs & Maintenance	3,361	3,271	3,337	3,405
Supervision & Management – General	3,163	3,065	2,972	2,944
Supervision & Management – Special	741	780	821	866
Rents, rates, taxes and other charges	254	258	268	279
Bad or doubtful debts provision	200	200	200	200
Depreciation/impairment of fixed assets	3,754	3,754	3,754	3,754
Capital Expenditure funded from HRA	1,370	3,067	1,606	300
Debt Management Costs	9	9	9	9
Expenditure Sub Total	**12,852**	**14,404**	**12,967**	**11,757**
Net Costs of Services Sub Total	**-552**	**630**	**-1,303**	**-2,803**
Share of Members and Democratic Core	148	151	154	157
HRA Investment Income	-240	-360	-420	-420
Debt Interest Charges	946	1,022	1,204	1,370
Government Grants and Contributions	0	0	0	0
Adjustments made between accounting basis and funding basis	117	-2,335	-821	588
(Surplus)/Deficit on HRA	**419**	**-892**	**-1,186**	**-1,108**
Housing Revenue Account Balance:				
Estimated Surplus at Beginning of Year	-6,714	-6,295	-7,187	-8,373
(Surplus)/Deficit for Year	419	-892	-1,186	-1,108
Estimated Surplus at End of Year	**-6,295**	**-7,187**	**-8,373**	**-9,481**

11.7 The HRA Capital Programmes for 2019-20 to 2022-23

11.7.1 The major works capital programme budgets have been allocated according to the latest stock condition survey report.

11.7.2 Due to continuing financial pressures and ongoing health and safety priorities, the Environmental Improvement Programme budget remains suspended.

11.7.3 A new planned maintenance budget has been allocated for 2019-20 to refurbish all garages in need of major repairs.

11.7.4 The current new build programme is progressing well. Phase 1 is due to complete in November 2018, delivering 11 affordable homes. Phase 2 and 3 are due to start on site in 2019-20, delivering 40 units. 5 affordable homes are due to complete in 2019-20 and the remaining 35 in 2020-21.

11.7.5 The Margate Housing Intervention is also continuing to make progress. 24 Ethelbert Crescent is due to complete in 2019-20, delivering 3 affordable homes. Godwin Road and Warwick Road developments have both encountered problems, however both projects are now scheduled to complete late 2019-20.

11.7.6 The 141 replacement acquisitions programme is to continue into 2019-20. 5 new properties have been acquired so far, and a number of homes are currently being considered for future purchases.

11.7.7 The draft Housing Revenue Capital Programme for 2019-20 that is proposed for Members' approval is £12,788k, which will be funded from the HRA reserves, revenue contributions to capital, grant, prudential borrowing and 141 receipts.

11.7.8 A summary of this programme and the proposed funding sources are shown in the following tables:

HRA CAPITAL PROGRAMME					
	2018-19 Slippage	2019-20	2020-21	2021-22	2022-23
	£'000	£'000	£'000	£'000	£'000
Major Works					
Re-Roofing	575	600	300	300	300
Window & Door Replacements	0	120	120	120	120
Kitchen Replacements	0	450	450	450	450
Bathroom Replacements	0	150	150	150	150
Rewiring	0	270	150	150	150
Heating	0	300	300	300	300
Fire Precaution Works	446	40	40	40	40
Planned Refurbishments (Door Entry and Entrance Doors)	0	50	50	50	50
Structural Repairs	1,040	360	360	360	360
Thermal Insulation	0	30	30	30	30
Lift Refurbishment & Replacements	239	200	120	0	0
Garages	0	150	80	0	0
Total Major Works	**2,300**	**2,720**	**2,150**	**1,950**	**1,950**
Revenue Contribution to Capital					
Disabled Adaptations	0	300	300	300	300
Development Programme Re-Profiled					
Margate Housing Intervention		2,588	1,072	0	0
New Build Programme Phase 2		2,240	0	0	0
New Build Programme Phase 3		3,940	557	0	0
New Development Programmes					
New Build Programme Phase 4		1,000	3,500	4,332	0
Total HRA Capital Expenditure	**2,300**	**12,788**	**7,579**	**6,582**	**2,250**

HRA CAPITAL PROGRAMME FUNDING				
	2019-20	2020-21	2021-22	2022-23
	£'000	£'000	£'000	£'000
Total HRA Capital Programme Expenditure				
HRA Major Repairs Reserve	2,720	2,150	1,950	1,950
HRA Revenue Contributions	856	300	300	300
New Properties Reserve	1,034	1,072	0	0
Prudential Borrowing	6,409	3,007	3,032	0
Capital Grant	192	0	0	0
Capital Receipts	1,149	0	0	0
141 Capital Receipts	428	1,050	1,300	0
Total Funding	**12,788**	**7,579**	**6,582**	**2,250**

12. Treasury Management 2019-20

12.1 The Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2019-20 were considered by Governance and Audit Committee on 5 December 2018. The report to the Committee and annexes are attached as Annex 3.

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

12.3 Cabinet is asked to consider and approve all of the Treasury Management strategy documents for 2019-20 for recommendation to Full Council.

13. Flexible Use of Capital Receipts Strategy 2019-20

13.1 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 2 and details the criteria where this may be considered as per guidance issued by Government.

14. Section 151 Officer's Assurance Statement

General Fund

14.1 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 Deputy Chief Executive) must report on:

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

14.2 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)

14.3 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 Deputy Chief Executive) must report on:

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

14.4 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.

15. Council Tax Requirement 2019-20

15.1 The full Council Tax resolution will be included within a separate report to Full Council on 28 February 2019.

16. Options

16.1 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:	Interim Head of Financial and Procurement Services
Reporting to:	Tim Willis, Deputy Chief Executive and s151 Officer

Annex List

Annex 1	General Fund Capital Programme
Annex 2	Flexible Use of Capital Receipts Strategy
Annex 3	Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2019-20

Background Papers

Title	Held in Financial Services

Corporate Consultation

Finance	N/A
Legal	Sophia Nartey, Interim Head of Legal Services