The Medium Term Financial Strategy 2015 - 2019

Thanet District Council

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Introduction

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 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 the Council is doing to reduce those risks.

The main objectives of the MTFS are to:

- explain the financial context within which the Council is set to work over the medium term
- identify the financial resources needed to deliver the Council's priority outcomes
- provide a medium term forecast of resources and expenditure
- achieve a stable and sustainable budget capable of withstanding financial pressures.

Separate four-year plans have been developed that accord with the respective budget strategies for each of the Council's separate financial accounts, namely; the General Fund Revenue and Capital Accounts and the Housing Revenue Account. The objective of these plans is a safe and sustainable budget over the medium term.

Executive Summary

The National and Local Economic Outlook

The current economic climate and that of recent years has had a considerable impact on the Council, particularly due to its strong reliance on revenue from interest on reserves and fees and charges. The Bank of England base rate has remained at an historic low of 0.5% which has resulted in reduced investment receipts for the Council.

The council finds itself in an extremely challenging financial period as central Government continues with its drive to reduce the National deficit. Local government as a whole has continued to face larger reductions than other parts of the public sector. This Authority has, as a result, seen significant cuts in government funding over the last four years and further cuts are anticipated over the coming years. The council has already made savings of £6.2m between 2011-12 and 2014-15, primarily due to the reduction in formula grant. These savings have come from a number of different approaches including sharing services with our neighbouring councils, reviewing our staff structures and through service efficiencies, this while making no increase in its council tax, however there remains pressure to deliver further savings of £1.218m to balance the 2015-16 budget and it is increasingly difficult to find these without impacting on frontline services.

The Business Rates Retention Scheme (which is detailed further within this MTFS) provides further uncertainty. The financial risk associated with businesses leaving the district now passes to the Council (subject to a safety net) whilst any incentive from encouraging new business growth is likely to be minimal. The Council has recently received notification that it has been accepted along with most other Kent authorities, to operate a business rates retention pool which would go some way to mitigating this risk.

The new localised Council Tax Reduction Scheme replaced the Council Tax Benefit system from 1 April 2013. The Government transferred the responsibility for the design of the scheme to local authorities (subject to certain nationally set criteria), together with the transfer of the financial risks. The funding associated with this scheme was reduced by 14% which for Thanet District Council equated to a reduction of approximately £2.2m. The Council introduced a scheme which reduced the support given to working age claimants by 5.5% and removed second homes and empty property discounts. The principles of the scheme have been rolled into 2015-16. The risk of increases in the number of claimants is being underwritten by the major preceptors to 2015-16. Although to date the Council is not experiencing a significant increase in arrears following the introduction of the scheme, there is a risk that the number of bad debts could increase once the impact of the other Welfare Reforms are felt by residents.

The other Welfare Reforms regarding housing benefit may also lead to increased arrears in housing rents which in turn may lead to an increase in homelessness.

There is therefore significant uncertainty moving forward with regard to the financial implications of some of the Government's proposals which adds further pressure at a time when funding is already tight and income levels are being hit due to the economic downturn.

The Medium Term Financial Strategy

The Council's finances are captured within three different plans. A separate one exists for the General Fund Revenue Account; the Housing Revenue Account; and the Capital Programme, which contains financial projections for both General Fund and Housing Revenue Account capital expenditure.

The General Fund Revenue Account

The General Fund Revenue Account is where all of the expenditure and income that relates to the day-to-day running costs of the core services of the Council is recorded.

The net budget requirement (after taking into account income from fees and charges and other specific grants) is met by a combination of Central Government Grant (47%) and Council Tax (53%). With just under half of the Council's net budget being funded from Government Grant, a reduction in this funding makes the task of continuing to improve and evolve whilst honouring the commitment to keep Council Tax increases as low as possible very difficult to achieve.

The budget estimates for the General Fund Revenue Account over the next four years are summarised in Table 1.

Table 1

Summary General Fund Revenue Proposals 2015–19

	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Net Budget Requirement	**16,807**	**16,236**	**15,862**	**15,574**
Reduction in Requirement	5.75%	3.40%	2.30%	1.81%
Increase in Council Tax	0.00%	1.99%	1.99%	1.99%

This assumes that there will be a further 10% cut in funding each year and that there will be no Council Tax freeze grant from 2016-17

Reserves

Councils must have regard to the level of reserves needed for estimated future expenditure when calculating the budget requirement. The Council has reviewed its level of reserves, taking account of the financial risks that could pose a threat to the Authority over the medium term. As a result of this exercise, the Council has set its optimal level of general reserves at 12% of the net revenue budget, which is felt to be a sufficient level of contingency. The Council's general reserves currently stand at just over this level at 12.99% and therefore a sum of £166k is available to transfer to the Priority Improvement Reserve to take the balance down to 12%. There are no plans over the medium term to use any of the general reserves to support the base budget.

In addition to the general reserve, a number of earmarked reserves exist. These are sums set aside for specific purposes and essentially allow funds to be saved over a number of years for large and often one-off items of expenditure, thereby smoothing the impact on Council Tax. The need for these reserves has also been considered over the medium term.

The Housing Revenue Account

The Housing Revenue Account is used by the Council to record expenditure and income that relates to the operation of its council houses. These include costs of maintaining the houses, expenses for running communal areas and the overheads associated with council house services.

The Housing Revenue Account sits outside of the Council's own accounts and has to be budgeted for separately. Strict rules govern what can be charged to this account. Any money remaining in the budget at the end of the financial year is carried forward in a special reserve for future housing needs and can not be used by the Council for other purposes.

The budget projections for the Housing Revenue Account for the medium term are shown in the table below.

Table 2

Summary Housing Revenue Account Revenue Proposals 2015–18

	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Expenditure	11,796	13,600	11,367	11,470
Income	(13,926)	(14,446)	(14,971)	(15,267)
Net Cost of Services	**(2,130)**	**(846)**	**(3,603)**	**(3,797)**
Other	1,909	1,188	1,138	1,916
Net Operating Expenditure	**(221)**	342	**(2,465)**	**(1,881)**
HRA Balance:				
Surplus at the start of the year	(5,664)	(5,885)	(5,543)	(8,009)
Surplus at the end of the year	(5,885)	(5,543)	(8,009)	(9,890)

The Capital Programme

The Council's plans for capital investment are used to develop the Capital Programme, which includes capital expenditure associated with both the General Fund and Housing Revenue Account. The programme is driven by the need to get maximum value for money from the Council's assets by making sure that they are well maintained and remain fit for purpose, within the limits of available funding.

Although the Council can borrow to fund its capital expenditure, the cost of the repayments often makes this option unaffordable and so its future capital requirements in the medium term will depend upon a well managed programme of asset disposals; using assets that are no longer suitable or cost effective to fund the acquisition and development of assets for improved service delivery. The Council's Asset Management Strategy outlines the principles, criteria and processes that form the cornerstone of the Capital Programme. This requires a continual 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 assets 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 meet the corporate priority and/or reduce the pressure on the revenue account. Bids have been assessed, scored and reviewed by the Budget Review Group to ensure they focus on the core priorities of the Council. It is important therefore, that only the most important schemes are selected against the limited resources.

The asset investment plans over the next four years are summarised in the following table.

Table 3

The Capital Programme 2015–19

	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Statutory and Mandatory Schemes	1,408	1,408	1,408	1,408
Schemes continuing from prior years	1,039		300	
Annual Enhancement Schemes	800	800	800	800
Wholly/Part Externally Funded Schemes	40	607	244	
Replacements and Enhancements	812	813	570	
Area Improvement				
Capitalised Salaries	75	75	75	75
Housing Revenue Account Schemes	10,449	10,072	3,392	3,697
Total Capital Programme Expenditure	**14,623**	**13,775**	**6,789**	**5,980**
Capital Resources Used:				
Capital Receipts and Reserves	5,901	4,021	3,560	3,700
Capital Grants and Contributions	2,930	2,165	1,652	1,108
Contributions from Revenue	1,126	2,884	567	672
Prudential Borrowing	4,666	4,705	1,010	500
Total Funding	**14,623**	**13,775**	**6,789**	**5,980**

Detailed Medium Term Financial Plan

The following pages provide more detail of the Council's financial plans over the medium term. The budget is balanced, and reserves are forecast to remain above £2.01m. The net budget requirement, for the Council's own purposes, is £16.807m which is to be met mainly by:

- Revenue Support Grant of £3.630m;
- Distribution of Non-Domestic Rates of £4.587m;
- Council Tax of £8.409m

The Local Government Finance Environment

The cost of local authority services, such as those provided by Thanet District Council, are funded primarily from fees and charges for services, General Government Grant, the Council Tax and other grants.

The Council is able to generate a substantial amount of income from charging for a range of discretionary services, however the ability to raise revenues through this route is limited, due to the constraints that are placed on the Council through a variety of different pieces of legislation.

The General Government Grant is allocated by a complex model which amongst other things takes account of the relative need of an area and the ability to raise taxes locally (based on an area's council tax base). It is made up of two elements: the baseline funding level (in respect of business rates) and the Revenue Support Grant (to support council services).. The Council has faced significant cuts in funding over a number of years, this has seen the net revenue budget reduced by around 26.9% from 2010-11 to 2015-16. The Autumn Statement, issued 3 December 2014, announced that there would be no additional savings over and above those already indicated in 2014-15 and 2015-16 for local government, but there was an expectation in return that councils would apply the Council Tax freeze in both years. For the purposes of modelling, this MTFS assumes cuts of 10% in 2016-17, 2017-18 and 2018-19.

The impact of other Welfare Reforms associated with reducing housing benefit entitlement may potentially lead to an increase in homelessness. This is yet another uncertainty that could impact on MTFS assumptions and the effect of this will continue to be monitored.

Council Tax Referendum and Council Tax Freeze

The Council Tax system requires local householders to contribute directly to the cost of local service provision. The collection of the Council Tax is administered by Thanet District Council on behalf of itself, Thanet Parish and Town Councils, Kent County Council, the Kent and Medway Fire and Rescue Authority and Kent Police Authority. The element of Council Tax that relates specifically to Thanet District Council is calculated after having taken into account the expenditure needs of the Council and its ability to fund this from charges for services, General Government Grants, the use of reserves and other grant streams.

The Government has determined that any Council Tax increases above 2% will be considered excessive and therefore any authority proposing an increase above this level will therefore be subject to consultation with the public via a referendum. The cost of such a referendum for this Council would be in the region of £100k.

Councils that have frozen their Council Tax have received grant funding since 2011-12. A further grant was also announced for those who freeze their Council Tax for 2015-16. This is equivalent to a 1% increase. There is no commitment from Government at this stage beyond 2015-16.

Council Tax is currently at the same level as 2010-11.

It is proposed to also freeze Council Tax for 2015-16 but to review thereafter. This is on the assumption of a further 10% reduction in Formula Grant each year and no Council Tax freeze grant being available for these later years

The tax base upon which the Council Tax is set has been agreed as 40,048 Band D equivalents for 2015-16. This reflects a proposed collection rate of 97.25% which is considered reasonable in light of recent payment trends.

The Local Context

Quality Services Directed Towards Community Priorities

District Councils have a duty to provide a range of services for the local community and visitors, and as a result much of a District Council's services are governed by statute. Although this sets out what the Council must do, there is often some choice as to how it is done. For example, the Council has a legal responsibility to collect refuse, however it can choose how often it makes collections and the method used.

But each local area or district will have its own particular needs and so, in addition to its statutory services, most councils also provide a range of services that are discretionary, where it believes the outcomes of providing a particular discretionary service are worth the inputs in terms of resources needed.

As part of the development of the Budget and MTFS, we must ensure that all statutory services are adequately resourced and that the discretionary services for which funding is to be provided continue to deliver beneficial outcomes that are proportional to the cost of providing them.

Members and Officers alike have high aspirations for the Council but the constraints on the budget mean that services and future developments need to be prioritised. In some cases, planned service enhancements have had to be scaled back and future investments re-phased. In the previous year, the Council reorganised its structure to ensure that the Council could deliver its priorities, whilst maintaining effective services. The Council also adopted new ways of working, including shared services, to enable it to concentrate on the core council aims whilst still delivering basic council services well. The Council will develop its future budget plans to protect its key priority services, such as Street Cleansing, Refuse Collection and Recycling; and Community Safety and Crime Reduction from budget reductions that will threaten service delivery, as far as possible. The Council remains committed to promoting a culture of continual improvement to ensure that it delivers good value for money for its residents.

The Corporate Plan Framework

The Council's Corporate Plan has been approved for the period 2012-16. The plan sets out the Council's programme of priorities for the four year period and identifies three core aims that will help focus the Council's efforts towards achieving its vision:

People - Working together to make Thanet safe and improve the quality of life and health prospects for all;

Place - Keeping Thanet beautiful by making the place cleaner and greener;

Prosperity - Attracting employment especially by supporting tourism and the green economy.

To ensure the Council delivers services that meet the needs of the community now and in the future, the Council has identified eleven priorities. These are:

- support the growth of the **economy** and the number of people in work
- tackle **disadvantage** across the district
- support the **community and voluntary organisations**
- make the district a **safer** place to live
- work to improve **parking and transportation** in the district
- make the district **cleaner and greener** and lead by example on environmental issues
- plan for the right number and type of **homes** in the right place (with appropriate tenure) to create sustainable communities in the future
- support excellent and diverse **cultural facilities and activities** for the residents and visitors
- support a broad range of **sports, leisure and coastal activities**
- influence the work of other agencies to ensure the best **outcomes** for Thanet
- protect and preserve **public open spaces**

Since the Peer Review the Cabinet and Corporate Management Team have agreed four areas of focus which overarch the around the Corporate Plan priorities above, this is to focus activity until the refresh of the Corporate Plan in 2016. These are:

- Environment/Place
- Economic Development
- Housing
- Communication

Co-existing alongside the Corporate Plan are a number of other service related plans, such as the HRA Business Plan, the Waste Management Strategy and individual Service Plans; as well as capital and asset related strategies, which include the Capital and Asset Management Strategy, the Information and the Computer Technology (ICT) Strategy, the Procurement Strategy and the Accommodation Strategy.

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 financial strategy documents cover the planned approach to the financial management arrangements needed to obtain the maximum value out of the Council's assets.

The General Fund Revenue Account

Overview

The General Fund Revenue Account is charged with any expenditure incurred on delivering the Council's services or meeting its day to day expenses that are not covered by legislation relating to the Housing Revenue Account, or can not be treated as capital expenditure. The majority of Thanet's expenditure (84%) is charged here.

This expenditure is funded from income that the Council raises through charging for goods and services (except if it relates to council houses or is of a capital nature) plus grants and Council Tax.

Fees and Charges

The Council has a fees and charges policy that establishes the corporate principles for charging for services provided by the Council. The three key principles are:

- The Council must comply with all legal requirements for setting charges and income generation. Where appropriate, this will override other factors to ensure the Council is not exposed to the risk of legal challenge.

- The charging arrangements for any service should meet the full cost of providing the service where possible and include sound arrangements for income collection. The full cost of provision includes a share of central costs and a forecast for the effects of inflation.

- The appropriateness of charges set may be dependent on the wider aims and context of the service and as a result other aspects, such as the impact on service users, must be considered rather than just financial gain when setting fees and charges.

To adhere to these principles the Council considers the following guidelines when setting fees and charges each financial year:

- Charging decisions will be taken in the context of the Council's corporate objectives;
- Access, affordability and elasticity of demand will be considered;
- Charges will be consistent with the Council's policies for Value for Money, Equalities and Customer Access, e.g. consideration will be given to any disproportionate impact on vulnerable groups and those least able to pay;
- Where services are provided on a trading basis, charges will be set at the maximum level the market can bare without eroding demand such that the overall financial position of the service offering is weakened;
- Charges will be benchmarked with comparable local authorities and where they are identified as being significantly lower than in other comparable authorities, increases will be fast tracked in order to bring them in line;

- Charges will not be set at a level above other comparable authorities simply to meet efficiency targets or in response to comparatively higher costs for providing services in Thanet;
- The impact of uptake will be considered so that charges are set at a level that would confer a more favourable financial position;
- Any exemptions and concessions on standard charges will be clearly justified. They will only be provided for services where benefits to the recipient groups are clearly evidenced. The Council will consider the adoption of a concessions policy as part of the review of fees and charges to help address inequalities within the district. Any approved policy will be included on the Council's website; and
- Enforcement charges will be set at a level proportionate to the nature of the offence and comparable charges in comparable authorities.

Application of these principles and associated guidelines aims to ensure that the Council's fees and charges are set within a framework of value for money management; whereby financial, performance, access and equity are considered fully and appropriately and decisions taken represent a transparent and balanced approach.

External Funding

Historically the Council has been very successful at attracting external funding. External funding is potentially a very important source of income to the Council, but funding conditions need to be carefully considered to ensure that they are compatible with the aims and objectives of the Council. The Council therefore has an external funding and grants protocol to standardise the process relating to external funding to ensure consistency and clarity and to protect the Council from unidentified risks. The protocol has improved processes over external funding streams by:

- Identifying and publicising the terms and conditions relating to external funding;
- Ensuring risks associated with external funding are identified, considered and managed;
- Ensuring exit strategies are considered where appropriate;
- Ensuring that all financial implications are identified e.g. match funding requirements and ongoing unsupported revenue costs;
- Ensuring that legal and VAT issues are identified and considered;
- Ensuring capacity issues are considered i.e. do we have the resources to deliver the project?
- Ensuring that the external funding being sought is considered within the context of the Corporate Plan and Council priorities;
- Ensuring that projects are monitored and that evidence and output data required by funders is collected, and any issues around these areas are highlighted in a timely manner;
- Increasing robustness particularly when there are staffing changes;

- Clarifying roles and responsibilities.

Developing the General Fund Revenue Budget

The General Fund Budget Strategy

Fundamental to the development of the budget and Medium Term Financial Strategy is an overarching Budget Strategy, the objective of which is a safe and sustainable budget that will deliver the policies and aspirations of the Council over the medium term. The strategy, which underpins the General Fund financial plan, is as follows:

The Council's Revenue Budget Strategy is:

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

These principles will enable the development of a budget that is sufficient to meet the Council's ongoing day to day business activities as well as progress its priorities as contained within the Corporate Plan. Such clear linkages between financial and business planning are the cornerstone of robust budget management practices.

The budget for 2015-16 and the three years that follow is developed by building onto the existing budget provision the anticipated increases for inflationary increases and budgetary growth that is needed for service developments; after which planned savings, growth in income and the use of reserves are reflected. This all has to be done so as to keep the resulting increase in Council Tax to a minimum.

The Budget Build Process

The paragraphs that follow show how the base budget for 2015-16 is built upon.

Budgetary Growth

Each of the different types of base budget pressure is discussed in turn below:

Employee Costs – A large proportion of the Council's expenditure is on staff related costs, the majority of which relates directly to service delivery. For the purposes of presenting an illustrative model of the impact of the budget strategy contained within this MTFS, the pay award has been included at an average of 1% for each year, for 2015/16 this equates to £180k. A vacancy level of 4% of the employee budget has also been assumed and Pay for Contribution is set at £104k.

Other Inflationary Increases – As a general rule the Council does not provide for price increases on goods and services, having instead to find ways to contain the increasing costs within existing budgets or negotiate a better price with its suppliers. The only budgetary growth for price increases that ends up being built into the budget is where it is unavoidable, such as where it is part of the terms of an existing contract or for supplies such as energy and fuel. Where provided for, contractual increases are derived from that specified in the contract. The inflationary growth has been increased in 2015-16 to reflect the increase in insurance costs and business rates growth associated with void properties.

Service Delivery Pressures –Given the economic context in which the Council finds itself, the overarching approach to developing the budget is to keep budgetary growth to a minimum to reduce the need to find compensating savings to deliver a balanced budget. Some budgetary growth is inevitable and therefore an allowance has been made to cover investment in Frontline Services Vehicle replacement, review of salary budgeting to align to current process, Cliff Retaining and Facing Panel Maintenance on the Thanet Coastline and a review of prior year savings.

Increase in Fees and Charges – The majority of fees and charges are increased in line with inflation. However, the level of some fees and charges are set by statute (e.g. planning fees) and some services are required to set their fees to break-even over a three year period (e.g. land charges), therefore the fees for these services will be increased accordingly.

Adjustments to Income – The budget for Housing has been reduced by £40k to reflect the anticipated loss of income from the in-house managing agent proposal in the MTFS 2012-18, further work is underway to review this option moving forward. Car parking income has also reduced by £60k to reflect loss in income from Staffordshire Street car park.

One-off funding for Street Cleansing Service – Following the budget consultation the area of most dissatisfaction was Street Cleansing, this one-off funding will enable the service to undertake a review of the service and develop efficient ways of working, a sum of £110k has been allocated.

All of the different sources of budgetary growth that are anticipated over the course of the medium term are summarised in Table 4.

Table 4

Budgetary Growth 2015- 2019

	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Employee costs	284.00	294.00	304.00	304.00
Unavoidable Prices	192.63	190.61	195.55	200.69
Service Delivery Pressures	1,066.19	240.00	100.00	100.00
Net Increase in Fees and Charges	-224.15	-304.20	-304.20	-304.20
Contribution to Reserve	90.00	-	-	-
Total Budgetary Growth	**1,408.67**	**420.41**	**295.35**	**300.49**
Increase in Budget Requirement	7.34%	2.17%	1.57%	1.60%

Key Proposals for Budget Reductions

The above principles have been taken forward as part of the budget developments for 2015-16. Budget reductions of £1,024, £0.571m, £0.374m and £0.287 for 2015-16 through to 2018-19 respectively have been identified in order to fund budgetary growth and to keep Council Tax increases to a minimum.

Managers' Savings – Star Chamber sessions were held for the 2013-14 budget and savings considered to remain achievable have been retained (£574.6k for 2015-16 and £698.5k for 2016-17).

- An efficiently run organisation should always keep costs to a minimum through setting organisational structures that minimise management costs. The Council reviewed its management structure ensuring services were grouped together appropriately and ensured that there was sufficient capacity at a senior level to enable delivery of the Council's priorities. Savings of £200k for 2015-16 were included, however there has been £50k growth built in 2015-16 to bring the 2015-16 down to £150k overall saving.

- A full review has been undertaken of previous years' outturns and savings have been identified as a result with no further savings being found.

- Non-Front Line Services Heads of Service have been tasked with identifying savings of £200k against their controllable budgets and given scope to spread this across their Department rather than individual managers. These are those budgets that are not contractual and over which the directors can exercise some discretion. They include printing, stationery, conferences, publications, equipment purchase etc.

- Contracts continue to be re-negotiated wherever possible to ensure that they are delivering value for money. A target of £50k for contract savings has been set for 2015-16.

- New opportunities for charging outside bodies for professional services are being considered moving forward.

- The staffing structures and working hours of the Thanet Frontline team will be reviewed moving forward. However, there will be continued focus on ensuring that the levels of service to the public continue to improve.

- Opportunities to increase income in recycling and waste will be fully explored.

- The Council will continue to work closely with Your Leisure to ensure that the subsidy provided to both the Theatre Royal and the Winter Gardens continue to provide value for money.

- A full review of the Council's office accommodation will take place. This will include consideration of where home-working may be appropriate. The Council has rationalised its office accommodation over the last few years, but by moving more staff to home-working, more office space will be freed up which could generate additional rental income.

- Opportunities for more joint working with neighbouring authorities are being explored.

- The centralisation of processes is being considered to improve efficiency and effectiveness. This will include a review of purchase ordering.

- Members of the public will also be encouraged to move towards on-line processing in order to reduce the cost of administration staff.

Other Savings – A number of other savings have also been identified to help bridge the budget gap:

- It is assumed that annual savings from East Kent Services will be in the region of 2.5% of their revenue budget and will be achieved in future years.

Presented below in Table 5 are the budget reductions that have been estimated for the medium term.

Table 5

Budgetary Reductions 2015-2019

	2015-16 £'000	**2016-17 £'000**	**2017-18 £'000**	**2018-19 £'000**
Managers' Savings	575	699	-	-
Other Savings	643	230	400	100
Total Budgetary Reductions	**1,218**	**929**	**400**	**100**
As a percentage of opening net budget	6.35%	4.79%	2.12%	0.53%

Phasing of Savings – It is proposed that where feasible all of the savings actions will be implemented at the earliest opportunity to give the Council the best chance of stabilising its budget requirement as soon as possible. However, as many of the savings are expected to take a few years before a full year reduction is able to be budgeted for, for modelling purposes it is assumed some of the savings identified in 2015-16 will be slipped to 2016-17.

General Fund Reserve

The Local Government Finance Act 1992 specifies that precepting authorities, such as Thanet District Council, must have regard to the level of reserves needed for estimated future expenditure when calculating the budget requirement. In order to comply with this requirement each year the Council reviews its level of reserves, taking account of the financial risks that could pose a threat to the Authority over the medium term. The optimal level is considered to be at 12% of the net revenue budget as this is felt to be a sufficient level of contingency.

The opening balance as at 1 April 2014 was £2.177m, which equates to 12.99% of the 2015-16 Net Revenue Budget. There are no planned withdrawals from the General Fund balance to support the base budget over this MTFS, however as identified on page 4 of this report that will make £166k available for transfer to the Priority Improvement Reserve for pump priming future projects.

Earmarked Reserves

In addition to the General Reserve, a number of earmarked reserves exist, which are sums set aside for specific purposes. Essentially these allow funds to be saved over a number of years for large and often one-off items of expenditure, thereby smoothing the impact on Council Tax.

The earmarked reserves over the medium term are shown below. Where the exact demand on the reserve is not known sufficiently far enough in advance over the medium term no estimates are allowed for within the MTFS. This does not affect the 'bottom line' of the budget requirement, as neither the expenditure nor the equivalent amount of funding from the earmarked reserves are reflected.

The Earmarked Reserves over the medium term are:

- **Risk Management** – This is to meet potential increases in insurance premiums and also to cover the cost of large excesses relating to insurance claims.
- **Local Plan Reserve** – This reserve is held to cover the future cost in relation to consultation and inspection on the Local Plan.
- **General Fund Repairs** – This reserve is held as a contingency for necessary essential repairs and maintenance works to Council assets.
- **Information Technology Reserve** – This reserve was created to control and enhance the development of new information technology initiatives with the objective of improving efficiency throughout the Council's activities. Monies are also held in this reserve to support the replacement of ICT equipment.
- **Environmental Action Plan Reserve** – The Environmental Action Plan is a fundamental part of the Council's Corporate Plan and a key corporate priority. This reserve therefore holds funds that have been set aside to meet various improvements to public assets throughout the district.

- **Office Accommodation Reserve** – A small balance is held on this reserve to support any office accommodation changes required following the implementation of the staffing restructure.
- **Cremator and Cemeteries Reserve** – This reserve was created to hold the surcharge element of the cremator fee. This was set aside to meet the cost of the cremator project undertaken in 2012-13 to meet the Council's environmental obligations. The surcharge on both cremations and burials will continue to be set aside in this reserve to support future burner replacement and works required at the cemeteries.
- **Decriminalisation Reserve** – The Council administers the on-road parking service but has to account for the income and expenditure separately. This reserve holds any unutilised revenues from parking charges. These are used to fund future parking, transport or environmental improvement related schemes. A sum of £40k per annum is drawn down from this reserve to meet base budget transport related costs. The funds within this reserve are not available for general Council use.
- **Priority Improvement Reserve** – This holds money set aside to fund initiatives that require one-off funding that will deliver service improvements or act as an invest to save reserve, providing initial start-up funds for projects that will ultimately save money.
- **Council Elections Reserve** – This is a saving account for the elections which occur every four years.
- **Renewal Fund** - This is a saving account for specific purposes based on the average annual amount required e.g. for the cost of CRB checks.
- **Customer Services Reserve** – This reserve is for housing benefit subsidy. Due to the volatility of this activity and the tight financial constraints which preclude the budget being set at a level that would be sufficient for upper activity levels, it is prudent to set aside underspends that arise in this area as a contingency for future years. This reserve will also help to negate the impact of an increase in the level of bad debts due to the move towards paying claimants direct.
- **Unringfenced Grants** – Past underspends against the Area Based Grant funding have been set aside in an earmarked reserve to be utilised in future years to help support the Economic Development and Community Development functions.
- **Waste Reserve** - This reserve holds service under-spends to support future service enhancements and the costs of replacing the waste fleet.
- **Homelessness Reserve** – Service under-spends have been set aside in this reserve to meet future homelessness needs.
- **Maritime Reserve** – This is to be used to support improvement works at the Port and Harbour and for income protection/maximisation works.
- **Pensions Reserve** – Due to the uncertainty around pensions, a reserve has been set up from pension savings in order to mitigate future risks around pensions.
- **VAT Reserve** – The receipt of monies in relation to the Council's Fleming claim have been set aside in an earmarked reserve to offset the risk of the Council breaching its partial exemption VAT limit.
- **East Kent Services** – The Council holds this budget as accountable body. It holds year end surpluses in respect to the operation of East Kent Services and the delegated responsibility for spend against the reserve is with the Director of East Kent Services.
- **New Homes Bonus** – The New Homes Bonus monies are held in this reserve and will be utilised to support one-off projects as agreed by Members. An element of the Formula Grant is being top-sliced to fund the New Homes Bonus scheme so the

Council will need to draw down some of this funding in future years to offset this top-slice. A sum of £185k per annum is also being drawn down to support events and floral grants.

- **Housing Intervention** – This reserve is held to support the one-off costs associated with the Housing Intervention project.
- **Economic Development and Regeneration Reserve** – This reserve is to support one-off service improvements and initiatives encouraging economic growth.
- **Pay and Reward Reserve** – This is to support the new pay and reward scheme.
- **Vehicle, Plant and Equipment Replacement** – The Council has identified that there are a number of vehicles, plant and equipment that will be coming to the end of their useful lives over the next few years. Any service in-year underspends in relation to waste, street cleansing, maritime, parks and grounds will be set aside in this reserve to support a replacement programme.
- **Dreamland Reserve** – Monies have been set aside to bolster the contingency for the Dreamland project.
- **Coastal Infrastructure** – A sum of £500k has been set aside from the New Homes Bonus monies to support the objectives of the Destination Management Plan by enhancing council assets that help to support and encourage tourism.
- **HRA Properties Reserve** – This is held to support the purchase and refurbishment of HRA properties. Its usage is ring-fenced for the HRA.

The General Fund Revenue Budget Requirements

All of the stages in developing the General Fund Revenue Budget that have been described above have been used to calculate the estimated budget requirement for 2015 – 2019 which are presented in summary in Table 6.

Table 6

The Medium Term General Fund Revenue Budget 2015 – 2019

	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Brought forward Revenue Budget	19,184	19,374	18,862	18,754
Inflationary Increases	193	191	196	201
Increases in Fees and Charges	-224	-304	-304	-304
Increase/Decrease in Income	-100	-100	-400	-100
Service Growth	1,350	530	400	400
Savings	-1,101	-739	0	0
Contribution to reserves	90	0	0	
Phasing of Savings	-17	-90	0	0
Net Service Revenue Budget	**19,375**	**18,862**	**18,754**	**18,950**
Use of Earmarked Reserves	-90	-90	-40	-40
New Homes Bonus	-2,478	-2,537	-2,852	-3,336
Net Revenue Budget Requirement	**16,807**	**16,235**	**15,862**	**15,574**

Funding the Medium Term General Fund Revenue Budget

Local Government Finance Settlement

Formula Grant – The Local Government Finance Settlement has announced the provisional figures for 2015-16 which reflect a cut of 15.9%. It is anticipated that further cuts are to come and for the purposes of this MTFS, cuts of 10% in 2016-17, 2017-18 and 2018-19 have been assumed. Also rolled into this funding from 2013-14 are the homelessness grant, the Council Tax freeze grant and the Council Tax Support grant:

- The Council receives annual funding of £124k to support homelessness initiatives.
- The Council has assumed a grant of £103k for the 2015-16 freeze on Council Tax.
- The CTRS is under three year agreement with KCC, and 2015-16 is the last of the three years. Proposals for future financial years will be issued by KCC for consultation early in financial 2015-16. It is not expected there will need to be a substantial changes to the scheme.
- Following consultation it is proposed further to amend the local scheme to introduce a 50% premium for long term empty properties which have been left substantially unfurnished for 2 years or more which is being taken as a separate report.

Specific Grants – Specific Grants are received for administering the housing benefit and council tax payment and collection systems on behalf of Government. A reduction in this funding of £165k has been announced for 2015-16.

New Homes Bonus

The New Homes Bonus rewards local authorities that deliver sustainable housing development. Local authorities receive a New Homes Bonus equal to the national average for the Council Tax band on each additional property built in the area in the preceding year. This is paid for the following six years as a non ring-fenced grant meaning the Council is not fettered in how it chooses to spend this funding.

The provisional New Homes Bonus allocation for 2015-16 is £2.559m. The Council will receive this for each of the following five years and will also receive additional sums for any further new homes built. The MTFS assumes that these funds are held for projects that will have benefit for its local communities. However, the formula grant has been top-sliced to fund the New Homes Bonus programme and therefore the Council will require some of this funding to offset this top-slice in future years. It is anticipated that £1.843m will be required to support the 2015-16 budget, with further drawdowns of £ £1.902m, £2.217m and £2.886m required in, 2016-17, 2017-18 and 2018-19 respectively.

It is proposed to use the New Homes Bonus to cover the shortfall of taking the Council Tax freeze grant rather than increasing Council Tax by 1.99%.

It has been agreed to use £185k per annum to fund the events and floral grants budgets and £40k to support domestic violence advisors and £31k to support the Dalby Square project. In 2015-16 onwards £100k it is proposed to fund the Cliff Retaining and Facing Panel Maintenance – Thanet Coastline and £350k to fund the Frontline Services vehicle replacement.

The following table shows the New Homes bonus allocations and agreed drawdowns:

Table 7

New Homes Bonus Funding

	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Balance brought forward	**401.37**	**410.85**	**951.19**	**1,177.64**
New Homes Bonus allocation	2,559.47	3,109.35	3,150.44	3,164.12
To cover shortfall in Formula Grant	-1,843.00	-1,902.00	-2,217.00	-2,886.00
Events/floral grants support	-185.00	-185.00	-185.00	0.00
Domestic violence advisors	-40.00	0.00	0.00	0.00
Dalby Square	-32.00	-32.00	-72.00	0.00
Frontline Services - vehicle replacement	-350.00	-350.00	-350.00	-350.00
Cliff Retaining and Facing Panel Maintenance - Thanet Coastline	-100.00	-100.00	-100.00	-100.00
Balance to carry forward	**410.85**	**951.19**	**1,177.64**	**1,005.76**

Council Tax

The Council sets its net budget requirement (after having taken account of increased income from charges and the use of reserves) which is then part funded from Government Grant and part from Council Taxes. The total amount that is needed to be raised by Council Taxes is known as the Precept. This is divided by the total number of equivalent Band D properties (the tax base) in order to calculate the individual Council Tax band amounts. For medium term planning purposes, the level of growth in the tax base has been assumed to be zero.

The Council's budget plans, grant predictions and the assumed Council Tax base give the projected levels of Council Tax increases which are shown in Table 8.

This shows that the Council will be utilising the Freeze grant in 2015-16 and is based on an assumption of a further 10% reduction in Formula Grant each year and no Council Tax freeze grant being available for these years.

Table 8

The Medium Term Revenue Funding Summary 2015 - 2019

This includes the Council Tax Freeze Grant

	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Net Service Budget	**19,375**	**18,862**	**18,754**	**18,950**
Transfer from Earmarked Reserves	-40	-40	-40	-40
Priority Improvement	-50	-50	0	0
New Homes Bonus	-2478	-2537	-2852	-3336
Net Budget Requirement	**16,807**	**16,235**	**15,862**	**15,574**
Funded From:				
Formula Grant (RSG & NNDR)*	8,048	7,138	6,412	5,757
Collection Fund Surplus	50	50	50	50
Business Rate Retention	300	300	300	300
Precept	8,409	8,748	9,100	9,467
Council Tax Base	40,048	40,849	41,666	42,500
Band D Council Tax	**£209.97**	**£214.15**	**£218.41**	**£222.76**
Increase in Band D Council Tax	£0.00	£4.18	£4.26	£4.35
% Increase in Band D Council Tax	0.00%	1.99%	1.99%	1.99%

The Housing Revenue Account

Overview

The Council is required by the Local Government and Housing Act 1989 (section 74) to keep a Housing Revenue Account (HRA) which records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is heavily prescribed by statute and the Council is not allowed to fund any expenditure for non-housing related services from this account.

The HRA 30 Year Business Plan

The HRA Business Plan indicates that the Council can maintain its properties to the Decent Homes Standard for the full 30 years of the plan (which runs to 2036).

To extend the financial viability of the HRA Business Plan an Arms Length Management Organisation (ALMO), East Kent Housing, was established in April 2011 to manage the council housing of all of the East Kent Local authorities. Each council continues to determine its own HRA Business Plan and its stock investment priorities. The annual planned maintenance budgets also continue to be determined by each council as part of its existing constitutional and budget processes. The feasibility study for the ALMO identified that savings could be achieved as a result of merging the services. By pooling resources, the councils can also develop greater expertise in specialist areas like asset management, community development and housing and tenancy law. The aims of the ALMO are:

- Delivering excellent customer service – aiming for 3 stars;
- Realising greater efficiencies and savings for reinvestment;
- Encouraging stronger and more prosperous communities;
- Improving procurement capacity;
- Providing additional investment for council housing estates;
- Ensuring longer term resilience for the council’s individual Housing Revenue Accounts;
- Establishing a stronger housing role for the councils;
- Developing a stronger role for tenants in shaping housing services;
- Improving career opportunities for staff.

Developing the Housing Revenue Account

The Housing Revenue Account Budget Strategy

The main strategic objectives of the Housing Revenue Account, which provide the underlying principles for financial planning, are summarised in the box below. This strategy accords with the current HRA 30 Year Business Plan and has been used as the basis on which this Medium Term Financial Plan has been developed.

The Council's Housing Revenue Account Strategy is:

- 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.

As with the General Fund Revenue Account, the HRA budget is arrived at after the consideration of inflationary increases; growth in expenditure arising from service led demands and other pressures; reductions in expenditure through the realisation of efficiencies; and changes in income through rent increases and the impact of the sale of council houses.

Budgetary Growth

Inflationary Increases - For direct expenditure budgets, price increases have been included at 2%, in line with the budget assumptions for the General Fund Revenue Account. Where there is a known inflate within a specific contract, this has been used.

Increased Income

The Council receives income from a variety of sources in respect of its council houses, including that raised from rents and from service charges to residents of flats for communal services in order to recover its costs.

Service Charges – A review of the service charges within the HRA has been undertaken to take into consideration Welfare Reform changes, Department of work and Pensions requirements and feedback from the Tenant board. Service charges will now be recovered at actual cost and follow the new government guidance that increases should not exceed September CPI +1%.

Rents – In May 2014 the government issued revised guidance on rents for social housing. It is anticipated the new guidance will provide stability to the rent setting process and Housing Business Plans for the next 10 years. Rental estimates are based on the new government guidance for rental increase which uses the September CPI figure of 1.2% + 1%. Future years' estimates in the MTFP will be based on calculations that include a CPI inflationary increase for the next 10 years of 1% + 1%. Garage rents have also been set using this methodology.

HRA 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 has remained low which in turn means that investment interest will be low. Current projections for future years have been increased. The budget for 2015-16 of £75k is based on achieving an average interest rate of 0.75%.

HRA Reserves

The Council keeps three HRA specific reserves: the HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties Reserve. These are explained in more detail below.

Housing Revenue Account Major Repairs Reserve – The annual Major Repairs Allowance (MRA) that was paid to the Council as part of the HRA Subsidy had to be placed in a Major Repairs Reserve, to be used to meet HRA capital expenditure on housing stock or debt repayment only. It is proposed to continue with the 5 year transitional arrangement and to continue to place the forecast MRA as per the determination schedules in the reserve. 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

Housing Revenue Account Balance Reserve – This reserve holds the balance on the HRA and is used to draw down to balance the revenue budget and smooth any peeks and troughs within the 30 year business plan. It is maintained by annual contributions from the HRA.

Housing Revenue Account New Properties Reserve – This reserve holds funds set aside to fund either new build properties or the acquisition of suitable properties for use within the HRA. Earmarked match funding for the Margate Intervention and Empty Property programme has been set aside in this reserve as agreed by Cabinet. Income generated from affordable rents will continue to be set aside in this reserve for re-investment in a new build programme.

The Medium Term HRA Budget Requirements

The changes that are outlined in the paragraphs above have been applied to the 2015-16 budget for the Housing Revenue Account and the resulting financial projections for the HRA over the next four years are summarised in Table 9:

Table 9

The Medium Term Housing Revenue Account Budget 2015 – 2019

	2015-6 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
EXPENDITURE				
Repairs and maintenance	3,368	3,587	3,644	3,616
Supervision and management – General	2,859	2,862	2,863	2,864
Supervision and management – Special	555	565	576	587
Rents, rates, taxes and other charges	366	380	395	409
Bad or doubtful debts provision	170	170	170	170
Depreciation/impairment of fixed assets	2,543	2,543	2,543	2,543
Debt Management Charges	99	9	9	9
Non-service specific expenditure	800	800	800	800
Capital expenditure funded from HRA	1,126	2,684	367	472
Gross Expenditure	**11,796**	**13,600**	**11,367**	**11,470**
INCOME				
Dwelling Rents (gross)	-13,094	-13,611	-14,134	-14,428
Non-dwelling Rents (gross)	-200	-203	-205	-207
Charges for services and facilities	-331	-331	-331	-331
Contributions towards expenditure	-290	-290	-290	-290
Other Charges for Services and Facilities	-11	-11	-11	-11
Income	**-13,926**	**-14,446**	**-14,971**	**-15,267**
Net Costs of Services	**-2,130**	**-846**	**-3604**	**-3,797**
HRA Investment Income	-76	-151	-201	-251
Debt Interest charges	988	1,170	1,170	1,170
Government Grants and Contributions	-1,362	-610		
Adjustments made between accounting basis and funding basis	2,359	779	169	997
(Surplus)/Deficit on HRA	**(221)**	**342**	**(2,466)**	**(1,881)**
Housing Revenue Account Balance:				
Surplus(-)/Deficit at Beginning of Year	-5,664	-5,885	-5,543	-8,009
Surplus(-)/Deficit For Year	-221	342	-2,466	-1,881
Surplus(-)/Deficit at End of Year	**-5,885**	**-5,543**	**-8,009**	**-9,890**

The Capital Programme

Overview

Maintaining and improving the Council's infrastructure requires considerable resources and typically it covers three types of investment:

- Premises;
- Information and communication systems; and
- Vehicles and equipment.

Investment in such infrastructure qualifies as capital expenditure when it results in an asset that costs over £10k and has a useful life of more than one year. It can be funded from loans, capital receipts, capital grants and contributions from revenue.

Assets bought in this way form part of the 'worth' of the organisation, appearing on its balance sheet for years to come until disposed of. Due to the longer term nature of capital projects and the different funding sources that are available, the capital budget is shown separately to the revenue budget.

The Council's Asset Management Strategy outlines the principles, criteria and processes that form the cornerstone of the following draft Capital Programme. This requires a continual 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.

A total of 425 responses have been received in respect of the budget consultation. The responses have highlighted the top 5 priorities as being street cleansing; recycling and waste; community safety; environmental health and parks and open spaces. These areas have been protected from budget cuts wherever possible in recognition of their importance to Thanet's residents.

Consideration for the Environment

The Council is committed to reducing its carbon footprint, and acting responsibly in respect of its use of natural resources. Accordingly all future capital investments will be done to either assist in the delivery of the Climate Change Strategy, or with due regard for its aims.

Developing the Medium Term Capital Programme

The Capital Budget Strategy

The Capital Programme has been developed following the principles that are laid out in the Council's capital budget strategy, which is shown below.

The Capital Budget Strategy is:

- 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.

Due to the limited availability of capital receipts and the need to contain the level of borrowing the Council undertakes to lessen the revenue impact, it has been necessary to review the Capital Programme to ensure sufficient funding is available for existing schemes that have commenced and that any new projects are of the highest corporate priority..

Planned Investments

The Capital Programme has been very much driven by those capital schemes that are core priorities, have health and safety implication or deliver a revenue saving to the authority and sustain income streams. The public budget consultation exercise has also been used to identify where funding should be prioritised.

The main capital projects that are planned for in the medium term are outlined below:

Existing Programmes already agreed – Programmes already agreed from previous years within the four year programme are the Disabled Facilities Grant £1.407m, Dalby Square Townscape Heritage Scheme £559k, Margate Cemetery Extension £230k, Public Conveniences annual enhancement programme £50k, Swimming Pool/Sports Hall Essential capital repairs £50k, Grounds maintenance replacement mowers and vehicles £250k.

Service Led Capital Schemes

The running of a District Council requires an on-going investment in assets that are used to deliver the business. These include vehicles within the Grounds Maintenance Team that are nearing the end of their useful life and £250k has been factored in for 2015-16 for their replacement. A full review of the replacement programme for Waste and Cleansing vehicles, plant and equipment is being progressed and a continuing replacement programme has been factored into the programme at £500k each year. As part of the review the requirements for the Waste Transfer Station that is already budgeted for in 2013-14 at £216k is being evaluated resulting in a requirement for a greater level of investment. A further £500k has been identified as being required. Upgrading of the boat washing facilities at the Harbour £25k is required to include a new waste collection system for better disposal of solid waste.

A number of the Council's properties require investment and a base annual enhancement programme has been built in of £200k per year. This is to be funded from capital receipts in the first year, but it is expected that a greater rationalisation of assets in future years will generate revenue savings that can be re-invested in the remaining assets in future years. The programme of works against this budget will be determined by the newly formed Corporate Property Asset Management Group.

The Council's CCTV cameras are nearing the end of their useful life and due for replacement. Cabinet agreed on 13 November 2014 that the control room be retained in the medium term at its current location but with financial provision made to co-locate in the Cecil Street offices and a tender exercise undertaken for the replacement of the control system, cameras, and mobile CCTV equipment.

Grant Funded Projects - The Council has plans for a number of schemes that will be fully or part funded by grant. The most significant of these is the provision of Disabled Facility Grants (DFGs) which are provided to residents as a financial contribution for adaptations to their homes, such as to assist with mobility difficulties. Councils can claim 100% of Communities and Local Government funding for each DFG without a need to match fund up to the total value of Government grant awarded. Unfortunately the authority is anticipating a substantial reduction in the capital receipts budget which has reduced the available funds the authority has to allocate. However, the authority is still committed to providing a contribution towards the government funding. It is intended to provide an initial match funding of £300k per annum towards the programme, being the maximum that it can afford in light of the overall capital programme and the anticipated level of capital receipts. The way DFGs are delivered is likely to change moving forward with Kent County Council and the Clinical Commissioning Groups deciding final allocations to local authorities.

New Capital Projects –

Introduction of Columbaria at the Crematorium - This will enable multiple above-ground 'interments' of ashes along with associated memorialization and provide an income stream which will renew periodically. Such schemes are more widespread nowadays due to pressures on land-space and maintenance costs with more traditional methods. The introduction of such a scheme at Thanet is necessary as the Garden of Rest areas now have a capacity for possibly only five years, but would still require costly maintenance once full.

Upgrade of the Public Chapel of Remembrance – Refurbishment of the public chapel of remembrance with the provision of an 'Electronic Book of Remembrance'. This should include the replacement of the bespoke cabinet to accommodate three physical Books of Remembrance and provision of an electronic facility to enable greater public access to individual memorials. This may also necessitate rearrangement to lighting and other fittings, as well as the extension of internet access to the Chapel. This will enhance the facility to provide the modern aspect of the electronic system which many crematoria now use, as well as providing continued accessibility to the traditional Books of Remembrance which have been at Thanet since 1966 and which are still regularly visited by many people.

Sea Wall Re-facing Works West of Westgate Bay - Grant funded study work has been completed and a scheme has been designed in detail consisting of the renewal of the coping with new precast units. The seaward berm slab will also be renewed as part of the scheme. Some sea wall toe improvement work will also be included. The scheme features on the Environment Agency's Medium Term plan for funding in 2017-18 subject to Project Appraisal Report Approval and should it be agreed it is anticipated it would be fully funded by the Environment Agency.

Ramsgate Port and Harbour – Low Carbon Plan - The Low Carbon Plan project is currently at feasibility stage and is being progressed as part of the LOPINOD (Interreg funded) project. The project seeks to reduce the carbon footprint and running costs of the Port and Harbour through the use of a number of renewable energy technologies and the introduction of modern apparatus to reduce energy consumption. Work streams currently being investigated include:

Hydroelectric power generation (using water held in Inner Harbour Marina)

- Solar Panels (Photo Voltaic and Solar Thermal)
- Marine Source Heat Recovery – Premises heating
- Introduction of LED lighting technology
- Wind turbine technology

The feasibility element of the project will be completed in January 2015, with detailed design to follow subject to conclusions and funding availability. It is anticipated that any borrowing required for the scheme would be self-funding from the savings generated. Further information will be reported to Cabinet once available

Ramsgate Main Beach Timber Groyne - The Ramsgate Main Beach area attracts the deposition of sand due to the artificial influence of the East Pier of Ramsgate Royal Harbour which retards the natural long shore drift process. The provision of groynes would stabilise the beach which could reduce beach recycling costs and dredging costs. A more stable beach particularly towards the north of the area could also enhance amenity value. A project of this nature cannot progress without detailed study work to assess environmental impact including that on coastal process, current beach usage and visual amenity. An application to fund a study of this nature has been made to the Environment Agency through the flood and coastal erosion risk management grant process.

Council Housing – The Housing Revenue Account Capital Programme has been set to ensure that the authority's social housing stock meets Decent Homes Standard Plus and provides a continuing maintenance scheme to the Council's housing stock.

The Margate Intervention programme sets out to transform the housing market in two of Britain's most deprived wards: Cliftonville West and Margate Central. The Empty Homes programme is proposed to continue to refurbish long term empty properties into affordable housing.

With the flexibilities now available as part of the self-financing changes, the Council is currently developing the HRA Asset Management Strategy to review land and buildings within the HRA, including garage sites, to ensure they are being put to best use and obtaining value for money for the tenants This has been the driving factor towards the first tranche of a new development programme for the HRA consisting of 58 new units. Further works are continuing to identify surplus land and properties for on-going new build developments. The Council has recently made an application to Government to extend the borrowing headroom by a further £1.11m to facilitate the building of a further 20 new units of affordable accommodation and has recently received notification that the application has been successful.

Details of the planned capital projects for the next four years are summarised later in Table 10.

Capital Funding Sources

The capital investment proposals contained within this MTFS rely upon an overall funding envelope made up of a number of sources, including borrowing, capital receipts, capital grant and revenue contributions.

Borrowing

The local Government Act 2003 gave local authorities the ability to borrow for capital expenditure provided that such borrowing was affordable, prudent and sustainable over the medium term. The Council has to complete a range of calculations (Prudential Indicators) as part of its annual budget setting process to evidence this. These make sure that the cost of paying for interest charges and repayment of principal by a minimum revenue contribution (MRP) each year is taken into account when drafting the Budget and Medium Term Financial Strategy. Over the course of this MTFS, prudential borrowing of £9.5m has been assumed for the General Fund Capital Programme in 2014-15. A housing debt cap of £27.792m has been set for the Council's HRA, being the maximum amount the HRA can borrow.

Capital Receipts

Capital receipts are generated when a fixed asset is sold and the receipt is more than £10k. Capital receipts can only be used to fund capital expenditure. All of the receipts from the disposal of an asset on the Council's General Fund (i.e. for its main services) can be kept by the Council. On 2 April 2012 Ministers raised the cap on Right to Buy discounts to £75k and confirmed that receipts from the additional sales this would generate would be used to fund replacement stock on a one for one basis. At the same time Ministers confirmed that their favoured option of delivering these new homes would be through local authorities retaining receipts to spend in their areas. In order to keep these additional receipts it was necessary to enter into an agreement with the Secretary of State for Communities and Local Government. On 26 July 2012 Cabinet gave approval to enter into this agreement. This allows the Council to retain additional Right to Buy receipts over and above that budgeted by Treasury. Under this regime Treasury receive 75% of income on sales for approximately the first four Right to Buy properties and the Council is able to keep all of the sales income over and above.

The Asset Management Strategy (AMS) – The Council's planned level of capital expenditure means that significant levels of asset sales are required. The AMS provides a framework for determining which of the Council's assets are suitable for disposal in order to fund new investments that will ensure that its property portfolio is fit for purpose. Over the course of this Medium Term Financial Strategy the AMS has enabled the identification of a number of assets that can be disposed of without any detriment to service delivery, and yet improve the overall value for money represented by the Council's assets. The affordability of the Capital Programme has been based on the assumption of a certain level of capital receipts being generated, as these can be subject to change following public consultation and the Capital Programme will therefore continue to be reviewed and monitored.

Capital Grant

The Council receives additional grant funding for a variety of purposes and from a range of sources. These include Communities and Local Government funding for Disabled Facility Grants, Lottery funding and European grants.

Revenue Contributions

General Fund Contributions - Although the Council can use its General Fund revenue funds to pay for capital expenditure, as it has in the past, the current financial constraints that are on the Revenue Budget means that this option is limited in the medium term.

HRA Contributions – Funding for capital expenditure on houses can be met from within the HRA. The future funding requirements will be informed by the revised 30 year HRA business plan.

Capital Reserves

HRA Capital Reserves – Although the HRA subsidy system has ceased to exist, transitional arrangements allow the Council to continue to place the Major Repairs Allowance, as detailed in the settlement determination, in the Major Repairs Reserve. This is exclusively available for use on HRA capital expenditure.

Capital Projects Reserve – It is anticipated that this reserve will be fully utilised to help fund the 2014-15 Capital Programme.

The investment plans and the use of the different funding streams produce the budget for the General Fund Capital Budget that is shown in Table 10.

Table 10

The Medium Term General Fund Capital Budget

	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Statutory and Mandatory Schemes	1,408	1,408	1,408	1,408
Schemes continuing from prior years	1,309		300	
Annual Enhancement Schemes	800	800	800	800
Wholly Externally Funded Schemes	40	607	244	
Replacements and Enhancements	812	813	570	
Area Improvement				
Capitalised Salaries	75	75	75	75
Total Capital Programme Expenditure	**4,174**	**3,703**	**3,397**	**2,283**
Capital Resources Used:				
Capital Receipts and Reserves	1,501	918	535	475
Capital Grants and Contributions	1,568	1,555	1,652	1,108
Contributions from Revenue		200	200	200
Prudential Borrowing	1,105	1,030	1,010	500
Total Funding	**4,174**	**3,703**	**3,397**	**2,283**

The plans that exist for capital investment into the Council's housing stock are reflected in Table 11. Together the information in Table 10 and Table 11 comprises the Medium Term Capital Programme for the Council.

Table 11

The Medium Term Housing Revenue Account Capital Budget

	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Total HRA Capital Programme Expenditure	**10,449**	**10,072**	**3,392**	**3,697**
HRA Capital Resources Used:				
HRA Major Repairs Reserve	2,630	3,035	3,025	3,225
HRA Revenue Contributions	1,126	2,684	367	472
New Build Reserve	1,770	68		
Grant Funding	1,362	610		
Housing Capital Receipts				
Prudential Borrowing	3,561	3,675		
Total Resources	**10,449**	**10,072**	**3,392**	**3,697**

Treasury Management

The treasury management service is an important part of the overall financial management of the Council's affairs. Treasury management can be defined as the management of the Local Authority's cash flow, its banking, money market and capital market transactions the effective management of the risks associated with those activities; and the optimum performance consistent with those risks. Its activities are strictly regulated by statutory requirements and the CLG's Guidance on Local Government Investments and the revised CIPFA Treasury Management in Public Services Code of Practice and cross Sectoral Guidance Notes.

Prudential Code – The Local Government Act 2003 requires the Council to have regard to the CIPFA Prudential Code and the production of Prudential Indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the Council's underlying capital appraisal systems. As part of the budget process, Full Council approves a series of Prudential Indicators that demonstrate that its activities are affordable, prudent and sustainable.

Investment Strategy - The Council's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. This strategy will ensure that:

- The Council has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

- The Council maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

The Bank of England base rate has remained at an historic low of 0.5% and therefore investment returns have been very low. Investments are regularly reviewed and new accounts opened with a view to try and take advantage of the best rates available whilst minimising the Council's exposure to counterparty risk. Returns are expected to slightly increase during 2015-16.

The Audit Commission's report ''Risk and Return' reminded councils that they should invest prudently and should primarily seek to safeguard public funds rather than maximise returns. Security and liquidity should therefore still take priority over yield. This Council is diligent in ensuring that monies are only placed in secure and liquid investments and also uses a wide range of information, including, but not limited to, credit ratings, to ensure it is making informed investment decisions.

Borrowing – Active management of the Council's debt portfolio is an important part of the treasury management function. The Council will take a cautious approach to its borrowing strategy. The Section 151 Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecasts.. The Council will need to undertake additional borrowing over the next few years as old debts are due to mature and will need to be repaid. The Council will opt to take out borrowing or will consider rescheduling or repaying in due course in line with market conditions.

There are a number of factors that could impact on the interest payable/investment income of the Council, including but not limited to

- Bank of England interest rate
- PWLB borrowing rate
- Cash flow – any variation on anticipated cash flows for major items of income and expenditure can have a significant affect on forecast investment income
- Sums lost due to imprudent investment

These risks have been mitigated by seeking professional advice on interest rate forecasts, carefully modelling the cash flow against anticipated financial forecasts and restricting investments only with those that have high credit ratings as set out in the Council's Treasury Investment Strategy.

Managing the Financial Risks

With budgeted expenditure of over £70m and income targets of over £50m, just for the General Fund alone, it is fundamental to the financial standing of the Council that its budgets are realistic, affordable and meet its service requirements.

A number of different techniques have been employed to ensure that this Medium Term Financial Strategy represents an affordable needs-based budget that is robust and able to be sustained over the medium term. Each of these are discussed in turn below:

Longer Planning Timeframes – The latest formula grant announcements have only provided figures for a two year time period. There therefore remains considerable uncertainty about the period from 2016-17 onwards. For the purposes of this MTFS, there has been an assumption that there will be further cuts in this funding of 10% in both 2016-17 and 2017-18.

The Planning Cycle: Develop, Review and Revise – The Budget and this Medium Term Financial Strategy set out the expected levels of expenditure and income for the future. The estimates are arrived at through careful consideration of historic trends and actual expenditure levels and any factors which may have an impact in the future, such as known changes in legislation. It also requires a degree of estimation and assumption, such as to calculate the impact of a perceived increase or decrease in future demand as a result of demographic changes or patterns of behaviour that have a socio-economic impact. As time progresses the accuracy of the assumptions behind these figures will become clearer and in many cases will require the budgets within this MTFS to change if they are to continue to reflect the financial implications of delivering the Council's aims and aspirations. Through the financial year the Council regularly monitors its financial performance against its budgets and will revise them where necessary, subject to remaining within the overall available funding envelope. By monitoring the actual expenditure against budget in this way, the budgets can be amended to best meet the actual needs of the Council, and provide a more suitable starting point for the next Medium Term Financial Strategy.

Financial Risk Assessment

Even with the most sophisticated approaches to budget modelling there is always the chance that events happen which could not be foreseen and plans need to be revisited. The Council holds reserves as a contingency to meet unanticipated expenditure that arises from such an unexpected change in circumstances. In order to be able to gauge the appropriate level of reserves a detailed financial risk assessment is carried out and presented as part of the annual Budget Report and this document is available if required. All of the main risks that face the Council are considered, to assess the likelihood of the risk happening and the possible financial implications.

Sensitivity Analysis

As explained above, many of the figures contained within this Plan are based on estimates, which could prove to be inaccurate. In order to assess the impact of the use of poor estimates a top level sensitivity analysis has been carried out, using a 10% variance to indicate the impact of that level of error in the estimate. The outcome of this is shown in the table below.

Table 12

Sensitivity Analysis

Area under consideration	Sensitivity of Estimates 2015-16
The opening base budget	The opening position of the 2015-16 budget is firm, as it is based on the budget approved in February 2014. The base for future years may change, however this would be picked up as part of budget preparation work.
The pay estimates	A 10% change to the figure for pay increases that result from the pay award and increments would equate to £1.5m. However, such a large discrepancy would be unlikely as the pay budget is developed at a very detailed level (on a per post basis). The main impact on the accuracy of the budgets for pay headings results from vacancy estimates which are impossible to predict.
The vacancy savings and post reduction estimates	For 2015-16 the vacancy abatement saving has been budgeted at approximately £580k which is equivalent to approximately 19 posts. A variance of 2 posts equates to £60k. This will require a robust proactive approach to ensure that the savings that naturally arise due to staff turnover are retained. Based on experience in recent years, and considering the current staff turnover rate, this target is felt to be challenging but achievable.
Price Increases	In the main these are based on the terms of the contract. Inflation has been assumed at 2%. A 2% variance on this would equate to an increase in budget requirement of approximately £192k.
Pension Increases	As part of last year's MTFS assumptions it was noted that the latest actuarial figures showed an increase required for pensions of approximately £220k. This will be drawn down from the pension reserve which was set up specifically for this purpose.
Service Delivery Pressures	A realignment of budgets has taken place to facilitate the current pressures in Housing and Parking
	The MTFS projection of £40k for the in-house management agency is looking for a new mechanism to deliver the saving
The increased income targets	There is always a risk that increases in fees and charges reduce demand, which can have a detrimental impact on the budget. With £224.1k having been added into the budget for 2015-16 for increased income targets
Other savings estimates	The budget and Medium Term Financial Strategy reflects A £100k savings expectation from EKS.
The level of reserves	The level of general reserves which has been budgeted has been determined based on a financial risk assessment which considers the likelihood of the main risks facing the Council, and the possible financial implication should the risk happen. The estimated position on general reserves at year end is that they will stand at 12% of the net revenue budget which is the target level. Earmarked reserves are being used to enable funds provided for a specific purpose to be held until needed, and allows budgets that are needed on an irregular or periodic basis to be funded by setting aside an annual base budget at a fraction of the total cost. The funds held within earmarked reserves represent a one-off source of funding to meet planned expenditure. Their use is managed on a cash limited basis, and a

Area under consideration	**Sensitivity of Estimates 2015-16**
	shortage of reserved funds in year may be dealt with by re-phasing the expenditure, or by making use of emerging underspends.
Council Tax Reduction Scheme	The collection rate on the Council Tax base has been amended to 97.25% to reflect the collection trend within 2014-15. This will need to be carefully monitored during the year. Our major preceptors have agreed to underwrite our scheme which means they will take on the risk of an increase in caseload but this will also need to be carefully monitored moving forward. This underwriting ceases in 2015-16 although this decision is being reviewed.
Welfare Reforms	To date there has been minimal impact from the proposed welfare reforms. Any change will impact on both the Housing Revenue Account and General Fund and will include likely increases in bad debts as a result of claimants being paid direct, being capped on the amount of benefits that they will be paid and also seeing reductions in benefit due to under-occupying accommodation (‘the bedroom tax’); an increase in demand for smaller or cheaper accommodation; an increase in demand for debt management advice; possible increases in homelessness, as a result this will need to remain under review in terms of overall impact
The Government Grant	A 1% cut in formula grant would equate to a loss of income in future years of approximately £80k. If a large business were to move out of the area or to go into liquidation, the Council would face a loss in business rates income of up to £338k before the safety net mechanism would kick in.