The Medium Term Financial Strategy 2013 - 2017

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 economic downturn has also resulted in lower income, particularly from planning fees, building control, land charges and car parking. Also severely affected by the current economic climate are asset disposals; selling assets does not necessarily represent value for money to the taxpayer at this point in time and so the Council's ability to generate funds from releasing capital resources has been severely limited to the detriment of the Council's capital programme.

Local Government in general, and district councils specifically, are facing the toughest financial outlook for many decades. The Local Government Settlement announced in January 2011 resulted in unprecedented cuts in formula grant for 2011/12 and 2012/13. Thanet faced a cut of 5.3% in 2011/12 (after receipt of transitional grant) which increased to 16.9% in 2012/13. The provisional settlement for 2013/14 and 2014/15 was announced as part of the Local Government Finance Report in December 2012. This shows a further cut of 7.4% for 2013/14 and a cut of 16.6% for 2014/15. Cuts of 6% in 2015/16 and 5% in 2016/17 have been assumed for this Medium Term Financial Plan based on modelling undertaken by Government analysts.

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 new localised Council Tax Reduction Scheme will replace the existing Council Tax Benefit system from 1 April 2013. The Government is transferring 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. Originally the Government had announced a reduction in funding for this of 10% as part of the Comprehensive Spending Review, although subsequent estimates show that having allowed for the inflationary impact over time, the reduction is now approximately 14% which for Thanet District Council equates to a reduction of approximately £2.2m. The Council will be covering this reduction by reducing the support given to working age claimants by 5% and removing second homes and empty property discounts. Although the risk of increases in the number of claimants will be underwritten by Kent County Council, the Council may see a significant increase in the number of bad debts for Council Tax as some of those who will now be expected to pay a proportion of their Council Tax bill may not have the resources to do so.

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 (58%) and Council Tax (42%). With just over 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 2013 – 17

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Net Budget Requirement	**18,842**	**17,581**	**17,042**	**16,870**
Reduction in Requirement	6.09%	6.69%	3.06%	1.01%
Increase in Council Tax	0.0%	1.99%	1.99%	1.99%

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 under the 12% optimal level and there are no plans over the medium term to reduce these balances.

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 2013 – 17

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Expenditure	14,636	10,836	10,829	11,025
Income	(13,183)	(13,250)	(13,555)	(13,868)
Net Cost of Services	**1,453**	**(2,414)**	**(2,726)**	**(2,843)**
Other	1,274	540	1,268	358
Net Operating Expenditure	**2,727**	**(1,874)**	**(1,458)**	**(2,485)**
HRA Balance:				
Surplus at the start of the year	(10,845)	(8,118)	(9,992)	(11,450)
Surplus at the end of the year	(8,118)	(9,992)	(11,450)	(13,935)

Annex 1

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 provides the framework against which this process is managed to ensure that the best decisions are taken at the right time. In the current economic climate, selling assets does not necessarily represent value for money for the taxpayer and therefore the planned disposal of some assets has been put on hold until market conditions pick back up. This has inevitably resulted in reduced capital receipts which in turn means that the Council's resources for capital spend has been significantly reduced. It is important, therefore that only the most important schemes are selected against the limited resources. The proposed programme has been driven predominately in response to health and safety issues or to support those projects that will generate future revenue or can be funded from external grants.

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

Table 3

The Capital Programme 2013 – 17

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Statutory and Mandatory Schemes	1379	1379	1379	1379
Schemes continuing from prior years	6586	0	230	0
Annual Enhancement Schemes	100	100	100	100
Wholly/Part Externally Funded Schemes	1610	250	0	0
Replacements and Enhancements	4524	195	250	0
Area Improvement	827	827	559	0
Capitalised Salaries	75	75	75	75
Housing Revenue Account Schemes	5973	2468	2422	1578
Total Capital Programme Expenditure	**21074**	**5294**	**5015**	**3132**
Capital Resources Used:				
Capital Receipts and Reserves	4477	3013	2883	1800
Capital Grants and Contributions	7728	2083	1499	1079
Contributions from Revenue	3023	198	227	253
Prudential Borrowing	5846	0	406	0
Total Funding	**21074**	**5294**	**5015**	**3132**

Detailed Medium Term Financial Plan

The following pages provide more detail of the Council's financial plans over the medium term.

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). The Spending Review 2010 responded to the impact of the world wide economic recession and the growth in public sector borrowing in the UK. It set out the Government's proposals to reduce public spending and the associated deficit. For Local Government in particular, that foretold of cuts totalling 28% over the 4-year period. The Spending Review was announced in October 2011 and the Financial Settlement that followed confirmed funding reductions for Thanet of 14.2% for 2011/12 and 12.7% for 2012/13. A transitional grant was then given to this Council to ensure our spending power didn't fall by more than 8.8%. Spending power is made up of formula grant, council tax receipts and other government grants. After the transitional grant, the reduction in funding was 5.3% in 2011/12 and 16.7% in 2012/13. The provisional settlement for 2013/14 and 2014/15 was announced in December 2012 as part of the Local Government Finance Report and showed further cuts for 2013/14 of 7.4% followed by 16.6% for 2014/15. This MTFS assumes further cuts of 5% in both 2015/16 and 2016/17 based on modelling undertaken by Government analysts.

Although the Council is also responsible for collecting business rates across the District, these are currently paid over to Government and the Council is not able to use any of this to fund its services directly (although an element of business rates does return back to the Council within the Formula Grant). The system currently does not provide any financial incentive to promote business growth. The Government is introducing a Business Rates Retention Scheme from 1 April 2013. The intention of this scheme is to provide an incentive to encourage business growth. Those authorities who see an increase in business rates above a baseline set by the Government will retain a proportion of these additional business rates (this will be subject to a levy and the first 50% of any such growth will go back to the Government), whilst those authorities who see a decline in business rates due to businesses failing or moving out of the area will see a reduction in business rates income (subject to the operation of a safety net mechanism). It is not expected that this will result in any growth in business rates income for this Council as only a small proportion of any such growth would be retained by the Council, however, the Council could potentially lose up to £330k of business rates income before the safety net would kick in. There is therefore an element of uncertainty as to what the impact of this scheme will be on this MTFS.

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 current Council Tax Benefit system is being replaced by a localised Council Tax Support system from 1 April 2013. As already outlined in this MTFS, the Council is implementing a scheme which will cover the reduction in Government funding towards Council Tax support of £2.2m by reducing the support given to working age claimants of 5% and removing second homes and empty property discounts. The risk of increases in claimants will be met by Kent County Council but the risk of increases in bad debts will need to be borne by this Council. This is yet another uncertainty that could impact on this MTFS.

Council Tax Referendum and Council Tax Freeze

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.

The Government made a commitment to support councils who froze their Council Tax in 2011/12. A specific grant is being paid to those who accepted this freeze. This grant is equivalent to a 2.5% increase on the 2010/11 Council Tax level and is being paid each year from 2011/12 to 2014/15. The Government also committed to a freeze for 2012/13 but the grant funding for this was for one year only. The Government has now announced a further Council Tax freeze grant for 2013/14. The funding will provide authorities with the equivalent of a 1% Council Tax increase for 2013/14 and 2014/15, if Council Tax is not increased in 2013/14.

As a result of these announcements, and to provide support to its residents in this difficult economic climate, Thanet District Council set a zero increase for both 2011/12 and 2012/13. This MTFS has been developed on the basis of a 0.00% increase for 2013/14 and 1.99% increase thereafter. This will ensure that it can take the Council Tax Freeze Grant for 2013/14 but should keep within the referendum limit moving forward whilst still be honouring the commitment to keep Council Tax increases to a minimum.

The taxbase upon which the current council tax is set was agreed as 47,005.65 Band D equivalents. This was an increase of 0.83% on the previous year. The proposed reductions given to claimants via the Local Council Tax Support Scheme will have the effect of lowering the Council Tax Base. The taxbase for 2013/14 has been determined at 37,990.00 Band D equivalents and no change to this is anticipated over this MTFS. The financial impact of the reduction in the taxbase will be offset by the Council Tax Support funding.

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. A service review programme will commence shortly to look at alternative service delivery methods, ensuring more automated processes and maximising efficiency savings whilst also trying to improve customer satisfaction. This programme is expected to deliver savings to ensure a balanced budget for the years 2014/15 through to 2016/17. 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

A new 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**

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 (86%) 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 2013/14 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 2012/13 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. A vacancy level of 2% of the employee budget has also been assumed.

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 reduced in 2013/14 to reflect a reduction in business rates and savings identified against current insurance budgets. The MTFS reflects an increase in insurance premiums of £200k per annum from 2014/15 following our insurers breaking the long-term agreement they hold with the Council due to poor claims history. Every effort is being made to improve the Council's claims history moving forward so as to try and mitigate the risk of future insurance increases.

Service Delivery Pressures – Borrowing costs of £262k have been factored into the budget for 2013/14 to support the capital programme. In addition, new service pressures have been identified for 2013/14 in respect of individual electoral registration (£60k); canvas costs (£25k); the requirement for new Environmental Health posts following a recent Food Safety Audit (£120k); an additional Cabinet and Shadow member (£22k) and a new part-time post to support the Overview and Scrutiny process (£17k). The MTFS also assumes growth will be required in future years for as yet unidentified service pressures and therefore a sum of £250k has been built in for 2014/15 and for each of the remaining years of the MTFS. Any other growth identified during the course of this MTFS will be met by redirecting budgets from other areas through the approved virement process.

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. The fees for visiting leisure craft at Ramsgate Harbour have been increased by 10% in 2013/14 to reflect the improvements that have been made to the Harbour facilities. The fees for car parking will be the subject of a separate review and do not reflect an increase for this MTFS.

Adjustments to Income – Additional rental income is anticipated in respect of the Kent Innovation Centre of £50.3k per annum. This has been built into the budget from 2013/14. The target for licensing income has also been increased by £40k. However, income from planning fees has continued to fall and therefore this target has been reduced by £120k.

Annex 1

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 2013- 2017

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Employee costs	165.0	170.0	180.0	190.0
Unavoidable Prices	101.2	430.8	237.9	245.3
Service Delivery Pressures	506.0	250.0	250.0	250.0
Net Increase in Fees and Charges	(197.7)	(104.2)	(104.2)	(104.2)
Decreases in Income	120.0	0.0	0.0	0.0
Increases in Income	(90.3)	0.0	0.0	0.0
Total Budgetary Growth	**604.2**	**746.6**	**563.7**	**581.1**
Increase in Budget Requirement	2.96%	3.85%	2.99%	3.18%

Key Proposals for Budget Reductions

The above principles have been taken forward as part of the budget developments for 2013/14. Budget reductions of £1.36m, £1.27m, £1.12m and £0.77m for 2013/14 through to 2016/17 respectively have been identified in order to fund budgetary growth and to keep Council Tax increases to a minimum.

2012-2016 Medium Term Financial Plan Savings carried forward – A range of savings were put forward as part of the 2012-2016 MTFS. Officers have worked up detailed proposals, which have enabled a more realistic savings target to be estimated. The following table reflects the anticipated savings from these proposals:

Table 5

Base Savings Carried Forward from 2012-2016 MTFS

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Review of business hub	14.0	0.0	0.0	0.0
Reduce pension costs	28.0	0.0	0.0	0.0
Develop in-house design skills	0.0	10.0	0.0	0.0
Reduce audit costs	23.0	0.0	0.0	0.0
Building Control – working closer with neighbouring authorities	4.5	0.0	0.0	0.0
Restructure of Planning team	30.0	0.0	0.0	0.0
Reduce Theatre Royal grant	4.0	0.0	0.0	0.0

Review of Community Development contracts and service delivery	15.0	25.0	0.0	0.0
Income from using in-house managing agent	0.0	80.0	40.0	40.0
Integration of GIS into planning database	26.0	0.0	0.0	0.0
Remove £5 discount for green waste collections	15.0	0.0	0.0	0.0
Introduce loyalty scheme at the Harbour	90.0	0.0	0.0	0.0
Underachievement of 2012/13 base savings	-20.0	0.0	0.0	0.0
Total	**229.5**	**115.0**	**40.0**	**40.0**

Review of Base Budgets – Previous years' outturn have been compared to the budget over the last few years and where there have been consistent under-spends or over-achievement against income targets, this has been factored into the MTFS. A sum of £205.2k has been included as a saving as a result of this exercise.

Service Review Programme – The MTFS identifies a savings requirement of £3m over the years 2014/15 to 2016/17 to be met from a service review programme. This programme will look to see which services can be reduced whilst still meeting customer needs; which can be delivered in a different way to reduce costs; and will look to identify where there are further efficiencies to be made within service areas. This programme will begin in 2012/13 but it has been assumed there may be a time delay before any savings are realised and therefore no savings have been assumed for the purposes of this MTFS until 2014/15.

Other Savings – The following savings have also been identified during the development of this MTFS:

- Following the introduction of self-financing for the Housing Revenue Account from 1 April 2012, Members of this Council approved a two pool approach for the debt portfolio. This means that the portfolio is now apportioned between the debt relating to the General Fund and the debt relating to the Housing Revenue Account and both are now managed separately. As a result of this, there are savings in the cost of borrowing to the General Fund of £300k.

- Although a recent actuarial valuation suggested that the pension contribution rate could be reduced assuming existing staffing levels and age profiles remained the same, the budget was held at the same level due to uncertainties about the impact on the pension contributions of the corporate restructure being proposed at the time. Under-spends against the pension contributions in recent years have been set-aside in an earmarked reserve specifically to offset any detrimental impact of future actuarial valuations. There is now a sum of £661k in this reserve which is considered sufficient to mitigate this risk. As a result, the pension budgets have been reduced by £450k, which will bring the budgets in line with the actual contributions currently required.

- Savings of £22.7k have been identified in respect of Central Finance and Treasury costs. These relate to interest payable, interest receivable and the minimum revenue provision (repayment of debt).
- Additional efficiency savings of £150k are expected to be delivered by East Kent Services.

Presented below in Table 6 are the budget reductions that have been estimated for the medium term.

Table 6

Budgetary Reductions 2013 - 2017

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
MTFS 2012-2016 c/fwd	229.5	115.0	40.0	40.0
Review of Base Budgets	205.2	0.0	0.0	0.0
Service Review Programme	0.0	1157.3	1081.4	731.2
Other Savings	922.7	0.0	0.0	0.0
Total Budgetary Reductions	**1357.4**	**1272.3**	**1121.4**	**771.2**
As a percentage of opening net budget	6.66%	6.56%	5.96%	4.22%

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 2013/14 will be slipped to 2014/15.

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 2012 was £2.177m, which equates to 11.7% of the 2013/14 Net Revenue Budget and 12% of the 2014/15 budget. Every effort will be made to keep the General Reserve at the 12% level.

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:

- **Insurance 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 Development Framework** – Due to the variable profile of spend on this activity and the variable cost in relation to consultation and inspection, any underspend in relation to LDF is set aside in this reserve to be drawn against as required.
- **General Repairs** – This reserve is held as a contingency for necessary essential repairs and maintenance works to Council assets.
- **Revenue Projects (Slippage) Reserve** – To enable all planned costs to be contained within budget, this reserve has been established to carry forward budget that remains unutilised as a result of slippage of a significant value.
- **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** – This reserve holds monies to support the replacement of the sound and recording equipment within the Council Chamber.
- **Housing and Planning Delivery Grant** – This was set up to receive the Housing and Planning Delivery grant monies (this grant source has now stopped). The funding has been used to support the planning service.
- **Cremator Works Reserve** – The Council had an obligation to be environmentally compliant by the year 2012. Major works to the crematorium facilities were needed in order to meet this requirement and a reserve was established to ensure that sufficient monies were put aside so that the required works could be carried out. A surcharge was raised on all cremation fees and this surcharge was transferred to the reserve. The current balance on this reserve will be fully utilised to fund this project. The surcharge will continue to support future burner replacement.
- **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 Fund** – 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.
- **Area Based 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. The full balance on this reserve will be required to support the borrowing costs associated with the replacement of the waste fleet.
- **Homelessness Reserve** – Service under-spends have been set aside in this reserve to meet future homelessness needs.
- **Performance Reward Grant Reserve** – Unspent Performance Reward Grant monies were put into this reserve with the intention of being utilised on future East Kent working. The monies held will now be used to minimise the demands on the General Fund, while remaining in line with the original aims of the grant.
- **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 may be required 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.
- **HRA Properties Reserve** – This is held to support the purchase and refurbishment of HRA properties. Its usage is ring-fenced for the HRA.

Annex 1

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 2013 – 2017 which are presented in summary in Table 7.

Table 7

The Medium Term General Fund Revenue Budget 2013 - 2017

	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000
Opening Revenue Budget	20379.7	19372.2	18826.9	18269.1
Inflationary Increases	266.2	600.8	417.9	435.3
Increases in Fees and Charges	(197.7)	(104.2)	(104.2)	(104.2)
Increase/Decrease in Income	29.6	0.0	0.0	0.0
Service Growth	506.0	250.0	250.0	250.0
Savings	(1357.4)	(1272.3)	(1121.5)	(771.2)
Phasing of Savings	(254.3)	(19.6)	0.0	0.0
Net Service Revenue Budget	**19372.1**	**18826.9**	**18269.1**	**18079.0**
Use of Earmarked Reserves	(129.6)	(40.0)	(40.0)	(40.0)
Weekly Collection Support Scheme	(214.9)	(283.6)	0.0	0.0
New Homes Bonus	(185.0)	(921.6)	(1187.1)	(1169.0)
Net Revenue Budget Requirement	**18842.6**	**17581.7**	**17042.0**	**16870.0**
Reduction in Budget Requirement	6.09%	6.69%	3.07%	1.01%

Funding the Medium Term General Fund Revenue Budget

Local Government Finance Settlement

Formula Grant – The Provisional Settlement for 2013/14 and 2014/15 was announced on 19 December 2012. The Council saw cuts of 5.3% in 2011/12 and 16.9% in 2012/13 in Formula Grant after receipt of transitional grant funding. The Provisional Settlement for 2013/14 and 2014/15 shows a further cut of 7.4% for 2013/14, followed by 16.6% in 2014/15. It is anticipated that further cuts are to come and for the purposes of this MTFS, cuts of 5% in both 2015/16 and 2016/17 have been assumed. Also rolled into this funding from 2013/14 will be the homelessness grant, the Council Tax freeze grant and the Council Tax Support grant:

- The Council receives annual funding of £127k to support homelessness initiatives.
- The Council is in receipt of a grant of £246k in respect of freezing its Council Tax for 2011/12 which it will receive in each of the years to 2014/15. Although it froze its Council Tax in 2012/13, the grant funding for this year was for one year only. The Council is intending to freeze its Council Tax for a third year. This will entitle the Council to further grant funding of £99.6k in both 2013/14 and 2014/15.
- Following the introduction of the new Localised Council Tax Reduction Scheme, the Council will receive a reduction in the associated Government funding of approximately 14% (£2.2m). The impact of this will be negated by reducing the Council Tax discount for claimants by 5% and removing second homes and empty property discounts. Council Tax Support funding of £2m will be received to negate the impact on the Taxbase of this scheme.

Area Based Grants – In addition to the Formula Grant, the Council has been in receipt of Area Based Grants. These include the Working Neighbourhood Fund and other minor grants. The balance of the unallocated funding is being used as a contribution towards the cost of posts within Economic Development and Community Development. No further allocations of Area Based Grants are anticipated for this MTFP.

Specific Grants – Specific Grants are received for administering the housing benefit and council tax payment and collection systems on behalf of Government.

Transitional Grant Scheme – Additional funding will be available for those authorities that have adopted Council Tax Reduction Schemes that minimise the impact on low-income households. To apply for this funding, billing authorities will have to demonstrate that their adopted scheme ensures that those who would be entitled to 100% support under current council tax benefit arrangements pay between zero and no more than 8.5% of their net council tax liability. This Council will be applying for funding of £56k for 2013/14 and also will be negotiating with its major preceptors for a proportion of the funding they will receive.

Weekly Collection Support Scheme – The Council has been successful in its bid for funding through the weekly collection support scheme. It will receive revenue funding of £214.9k in 2013/14 and £283.6k in 2014/15 and capital funding of £500.8k in 2013/14.

Grant Funded Revenue Projects

Aside from the grants from Central Government the Council receives grant funding from other sources for a range of projects and initiatives. Some of the grants are ring-fenced, others are provided without limitation, although the Council always aims to ensure that the grant is used in the spirit in which it is provided. Each of the main grant funding streams which are expected to be received in the medium term are discussed below:

Big Lottery Fund – Funding of £24.6k is anticipated in 2013/14 towards the 'Footprints in the Sand' scheme for beach awareness.

Dalby Square – In April 2011 the Council was awarded by the Heritage Lottery Fund a 'Stage 1' pass for a Townscape Heritage Initiative Scheme in Dalby Square, Dalby Road and Arthur Road. As a result, the Lottery ring-fenced £1.8m, subject to agreement of the details of the scheme. A sum of £35k will be used for revenue expenditure in 2013/14, with a further £37k in 2014/15. The balance will be spent on capital.

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.

Thanet District Council expects to receive £1.447m of New Homes Bonus in 2013/14 and 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 may need to use some of this funding to offset this top-slice in future years. Table 8 assumes that the budget gap from 2014/15 will be met from the New Homes Bonus but every effort will be made to find alternative ways of bridging this gap.

It is also proposed to use £185k per annum to fund the events and floral grants budgets. However, for 2013/14 only, a sum of £50k of this funding will be transferred from events to support one-off tourism and regeneration projects.

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.

Annex 1

This shows that with the Council's planned efforts to keep expenditure levels down, and optimise revenue receipts, despite the low level of financial support from Central Government, Council Tax increases are to be frozen for a third year in a row with minimal increases of 1.99% per annum planned thereafter.

Table 8

The Medium Term Revenue Funding Summary 2013 - 2017

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Net Service Budget	**19372.2**	**18826.8**	**18269.1**	**18079.0**
Transfer from Earmarked Reserves	129.7	40.0	40.0	40.0
Weekly Collection Support Scheme	214.9	283.6	0.0	0.0
New Homes Bonus	185.0	921.6	1187.1	1169.0
Net Budget Requirement	**18842.6**	**17581.6**	**17042.0**	**16870**
Funded From:				
Formula Grant (RSG & NNDR)	8530.0	7111.0	6755.0	6418.0
Section 31 Grant	345.6	345.6	0.0	0.0
Council Tax Support Funding	1990.0	1990.0	1990.0	1990.0
Precept	7977.0	8135.0	8297.0	8462.0
Council Tax Base	37990	37990	37990	37990
Band D Council Tax	**£209.97**	**£214.14**	**£218.40**	**£222.74**
Increase in Band D Council Tax	£0.00	£4.17	£4.26	£4.34
% 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 will continue to determine its own HRA Business Plan and its stock investment priorities. The annual planned maintenance budgets will 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.

Changes to Relevant Legislation

From 1 April 2012 the Council's Housing Revenue Account became self-financing as part of the Localism Act. This means that the Council will no longer pay over any notional surplus of income over expenditure to the Treasury but instead, in return for a one-off debt settlement, will be able to retain the rental income within the Housing

Revenue Account. As part of the changes to self-financing, the Council opted to split the one loan pool and move to a two loan pool approach, where loans are charged directly to the Housing Revenue Account or General Fund and where each fund is charged their costs of borrowing directly determined by their loan portfolio.

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 achieve the Government's "target" rent level by the rent convergence date of 2016.
- To maintain current housing stock at Decent Homes Plus standard.
- To maximise the recovery of rental incomes by 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 3%, 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. An RPI inflation increase of 3% has been applied to repairs and maintenance.

Budget Reductions

Efficiency Savings – Negotiations are ongoing with regard to the Management Fee with East Kent Housing. Based on the assumption that after year two of the agreement greater savings are expected to be achieved as East Kent Housing secure greater value for money, a saving of £136k is anticipated on the Management Fee over the next three years.

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 is currently being undertaken to take into consideration Welfare Reform changes. It is proposed to apply no inflationary increase to "unpooled" service charges to try to alleviate the increase sustained by tenants. Heating service charges have been based on recovering actual costs.

Rents – In 2002/03, the first year of rent restructuring, a uniform rent increase of 2.5% was applied to all properties, which was acceptable under Government guidance. Subsequently rents have been increased each year in line with inflationary rates determined by the Government. The rent increase has therefore been established according to RPI inflations at September 2012 which was 2.6% + 0.5%, combined with a factor for convergence to not exceed £2, assuming a convergence timeframe of 2015/16. The MTFP also includes an increase of 2.6% for garage rents.

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. The budget for 2013/14 is based on an 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 – Within the old HRA Subsidy system, the Major Repairs Allowance (MRA) had to be placed in a Major Repairs Reserve until required to fund HRA capital expenditure. Under the new arrangements, it is proposed to continue with the five year transitional arrangement and 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.

Annex 1

The Medium Term HRA Budget Requirements

The changes that are outlined in the paragraphs above have been applied to the 2013/14 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 2013 – 2017

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
EXPENDITURE				
Repairs and maintenance	3,191	3,344	3,298	3,453
Supervision and management – General	2,808	2,775	2,741	2,742
Supervision and management – Special	509	517	525	534
Rents, rates, taxes and other charges	253	262	271	281
Bad or doubtful debts provision	220	220	220	220
Depreciation/impairment of fixed assets	3,438	3,433	3,428	3,423
Debt Management Charges	8	8	8	8
Non-service specific expenditure	1,200	150	150	150
Capital expenditure funded from HRA	3,023	198	227	253
Gross Expenditure	**14,650**	**10,907**	**10,868**	**11,064**
INCOME				
Dwelling Rents (gross)	-12,426	-12,600	-12,927	-13,257
Non-dwelling Rents (gross)	-220	-222	-225	-228
Charges for services and facilities	-315	-320	-324	-329
Contributions towards expenditure	-294	-295	-296	-297
Other Charges for Services and Facilities	-11	-11	-11	-11
Income	**-13,266**	**-13,448**	**-13,783**	**-14,122**
Net Costs of Services	**1,384**	**-2,541**	**-2,915**	**-3,058**
HRA Investment Income	-81	-81	-159	-239
Debt Interest charges	960	831	810	808
Government Grants and Contributions	-1,050	0	0	0
Adjustments made between accounting basis and funding basis	1,438	-218	610	-217
(Surplus)/Deficit on HRA	**2,651**	**-2,009**	**-1,654**	**-2,706**
Housing Revenue Account Balance:				
Surplus(-)/Deficit at Beginning of Year	-10,845	-8,194	-10,203	-11,857
Surplus(-)/Deficit For Year	2,651	-2,009	-1,654	-2,706
Surplus(-)/Deficit at End of Year	**-8,194**	**-10,203**	**-11,857**	**-14,563**

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.

Impact of the Current Economic Climate

Since the development of the Asset Management Strategy, the deterioration in the national economic position has had a serious impact on the Council's capital plan. The plan relies upon significant levels of capital receipts being generated from the sale of surplus Council assets. However, with the downturn in the property market, many of the proposed disposals have been delayed. As a result the planned capital investments have had to be scaled back accordingly. The capital programme thus presented in this MTFS is therefore a realistic one which recognises the current market conditions.

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. All projects have been scored and ranked in order of priority so that should the capital receipts exceed that budgeted, the projects on the priority list will be progressed in ranking order.

Planned Investments

The Capital Programme has been very much driven by those capital schemes that have a health and safety implication or deliver a revenue saving to the authority. 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:

Service Led Capital Schemes – The running of a district council requires an ongoing investment in assets that are used to deliver the business, such as fixed assets, plant and equipment and infrastructure. The need for expenditure on these has to be weighed up against other competing demands and priorities in order that the costs are able to be contained within the available resources. A review of the waste vehicles has been undertaken and expenditure of £4m factored in.

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 Council has been successful in securing £4.1m from the Homes and Communities agency for the ‘Bringing clusters of empty Homes into Use’ programme. This will bring 160 empty homes back into use across Margate Central and Cliftonville West wards.

The Council has had £1.9m of Heritage Lottery funding approved towards a townscape initiative scheme in Dalby Square, Dalby Road and Arthur Road. The expenditure has been profiled over the first three years of the scheme 2013/14 to 2015/16. During the scheme, New Homes Bonus and Regional Housing Board monies, already held by the Council, will be used as match funding.

In three separate locations on the North Thanet coastline the existing 1950s sea walls share a common design and have developed similar defects requiring extensive and costly repair work. The combination of the structures’ age and the common defect means that work is required in the near future to maintain the structures’ integrity and protect from sea erosion. The Council has had an initial allocation made from the Environment Agency to undertake the works with the main capital works being proposed for 2013/14 and 2014/15.

Most of the Council’s in-house waste collection vehicles have reached the end of their useful lives and require replacement. As part of the funding package to replace the vehicles, KCC have made £645k available towards the replacement of containers and the Council were successful in a bid for £500k of DCLG funding under the Weekly Collection Support Scheme.

Re-phased Projects – Due to a shortfall of capital receipts achieved in 2012/13, a number of capital projects have been re-phased to 2013/14. These include East Kent Services led information technology projects totalling £86k, works to the waste transfer station of £216k, Margate cemetery extension £140k, regeneration projects and the annual enhancement capital works to public conveniences.

New Capital Projects – A review has recently been undertaken with regard to anticipated capital receipts from the disposal of assets. Until this review was completed, it was not possible to proceed with the scoring of any new projects as the Council needed to understand the capital receipts available to fund new projects. A number of new capital bids have been received and have now been reviewed and scored by the Capital Asset Management Group. The successful projects include the Dalby Square Town Heritage Project, North Thanet coastline and replacement waste fleet mentioned in the grants funded projects paragraph above; an upgrade to the water supply at Ramsgate Harbour; replacement of the grounds maintenance mowers and vehicles; replacement of the floating pontoons at the Ramsgate Harbour Eastern Outer Marina; and works to the car park and other residual works associated with the crematorium project.

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 plans to increase the Council’s Housing stock by 40 units of affordable housing by the end of 2014 and the Ramsgate Empty Homes programme plans to increase the Council owned housing stock by a further 30 units by the end of 2014.

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 has been assumed for the waste vehicle replacement programme and Dreamland. 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. In the past only 25% of capital receipts from the sale of HRA assets (council houses) were available for capital investment. The remaining 75% had to be paid to Central Government. These 'pooled capital receipts' were then allocated back to councils by the Government according to need. Under the new regime Treasury will still receive 75% of income on sales for approximately the first four Right to Buy properties and those sales over and above that budgeted will form part of the new agreement. The Council has set a capital allowance of £750k which can be used to reduce the value of capital receipts arising from the sale of HRA land and shops which are required to be pooled, providing the resources are invested in affordable housing and regeneration.

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, however, the current economic climate has resulted in falling sales values and consequently some of the planned asset disposals have had to be put on hold until the property market picks up. The Capital Programme will therefore be reviewed once future capital receipt projections are more certain.

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 and small amounts of such funding are anticipated in this Medium Term plan. 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 2012/13 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.

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Table 10

The Medium Term General Fund Capital Budget

	Est. Slippage 2012/13	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Statutory and Mandatory Schemes	0	1379	1379	1379	1379
Schemes continuing from prior years	542	5952	0	230	0
Annual Enhancement Schemes	92	100	100	100	100
Wholly Externally Funded Schemes	0	1610	250	0	0
Replacements and Enhancements	0	4524	195	250	0
Area Improvement	0	827	827	559	0
Capitalised Salaries	0	75	75	75	75
Total Capital Programme Expenditure	**634**	**14467**	**2826**	**2593**	**1554**
Capital Resources Used:					
Capital Receipts and Reserves	634	1943	743	688	475
Capital Grants and Contributions	0	6678	2083	1499	1079
Contributions from Revenue	0	0	0	0	0
Prudential Borrowing	0	5846	0	406	0
Total Funding	**634**	**14467**	**2826**	**2593**	**1554**

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

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Total HRA Capital Programme Expenditure	5973	2468	2422	1578
HRA Capital Resources Used:				
HRA Major Repairs Reserve	1900	2150	2075	1205
HRA Revenue Contributions	3023	198	227	253
Capital Grant	1050	0	0	0
RTB Receipts	0	120	120	120
Total Resources	**5973**	**2468**	**2422**	**1578**

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 organisation's cash flow, its banking, money market and capital market transactions and the effective management of the risks associated with those activities. Its activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management).

Prudential Code – The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce 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, however, returns are expected to remain low.

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 uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury 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 forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term. 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:

- 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 – With the advent of three-year financial settlements it was expected for it to be possible at last to draw together the impact of known future settlements and anticipated future budget pressures to enable the Medium Term Financial Strategy to be modelled so as to identify the level of savings needed for a safe and sustainable budget requirement, thereby reducing the risk that future years' aspirations will not be deliverable. However, the latest formula grant announcements have only provided figures for 2013/14 and 2014/15. There therefore remains considerable uncertainty about the period from 2015/16 onwards. For the purposes of this MTFS, there has been an assumption that there will be further cuts in this funding of 5% in both 2015/16 and 2016/17.

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
The opening base budget	The opening base budget for both 2012/13 and 2013/14 is firm, as it is based on the budgets approved in February 2011 and 2012. 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 £1.5million. 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 2013/14 the vacancy abatement saving has been budgeted at approximately £420k which is equivalent to approximately 14 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 3%. A 2% variance on this would equate to an increase in budget requirement of approximately £160k.
Pension Increases	No provision has been made for an increase in pension contributions. The position will be reviewed again in a year's time to ensure that adequate provision has been made.
Service Delivery Pressures	Very little growth has been allowed for service delivery pressures. Any pressures that arise in year will require realigning of budgets.
Reduced Fees Income	The Council has suffered from reductions in income streams due to the recession. The budget assumes that these reductions will continue over the medium term. The position could worsen though this has been considered when arriving at the growth figures included within the draft budget.
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 £197.7k having been added into the budget for 2013/14 for increased income targets, a 10% reduction in achieving this

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Area under consideration	Sensitivity of Estimates
	would result in £20k. However, the impact of a reduction in demand isn't necessarily limited to the achievement of the increase in income factored in; rather it can affect the achievement of the total income budget for any particular service. The increases proposed within the budget have been carefully calculated to match demand and to remain competitive where appropriate, but customer preference can't always be anticipated, as a result the achievement of income targets will be monitored closely during the year.
Other savings estimates	The budget and Medium Term Financial Strategy reflects the savings as a result of a number of efficiency measures and service reductions, which in some cases have been calculated based on indicative plans and in others on the conclusions of more firm contract negotiations. In order to maintain a balanced budget any under achievement of savings will be offset against emerging underspends in the first instance, but will require compensating savings otherwise. Service managers and the Council's Management Team are aware of this and will review the achievement of them carefully over the year.
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 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 reduced from 97% to 95.5% to reflect the likely reduction in collection following the introduction of the Council Tax Reduction Scheme. 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.
Welfare Reforms	The full impact of the proposed welfare reforms are not known at this stage and have not been fully reflected in these budget proposals. This 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
The Government Grant	The Formula Grant settlement figures for 2013/14 and 2014/15 are provisional at this stage and could therefore change. A 1% cut in formula grant would equate to a loss of income in future years of approximately £70k. The baseline for business rates quoted within the settlement is also indicative. 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 £330k before the safety net

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Area under consideration	Sensitivity of Estimates
	mechanism would kick in.