

# The Medium Term Financial Plan 2016 - 2020

Thanet District Council

# Introduction

The Medium Term Financial Plan (MTFP) 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 MTFP are to:

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

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

# Executive Summary

## The National and Local Economic Outlook

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

The council finds itself in an extremely challenging financial period as central Government continues with its drive to reduce the national deficit. Local government as a whole has continued to face larger reductions than other parts of the public sector. This Authority has, as a result, seen significant cuts in government funding over the last four years and further cuts are anticipated over the coming years. The council has already made savings of £7.1m between 2011-12 and 2015-16, primarily due to the reduction in government grant. These savings have been achieved through a variety of approaches including sharing services with our neighbouring councils, reviewing our staff structures and service efficiencies, however there remains pressure to deliver further savings of £1.7m to balance the 2016-17 budget and it is increasingly difficult to find these without impacting on frontline services.

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

The new localised Council Tax Reduction Scheme replaced the Council Tax Benefit system from 1 April 2013. The Government transferred the responsibility for the design of the scheme to local authorities (subject to certain nationally set criteria), together with the transfer of the financial risks. The funding associated with this scheme was reduced by 14% which for Thanet District Council equated to a reduction of approximately £2.2m. The Council introduced a scheme which reduced the support given to working age claimants by 5.5% and removed second homes and empty property discounts. The principles of the scheme have been rolled into 2016-17. The risk of increases in the number of claimants is being underwritten by the major preceptors to 2016-17. Although to date the Council is not experiencing a significant increase in arrears following the introduction of the scheme, there is a risk that the number of bad debts could increase once the impact of the other Welfare Reforms are felt by residents.

The Council has recently gone live with the first tranche of Universal Credit payments from 12<sup>th</sup> October 2015, it is anticipated that numbers in the first tranche will be low. However, the Council has engaged with delivery partners to provide budgeting and ICT support to applicants where required. It is still too early to ascertain any financial impact for the Council although delivery partners are assisting the Council in providing preventative delivery support to reduce the level of arrears and hardship incurred. Other welfare reforms regarding housing benefit may also lead to increased arrears in housing rents which in turn may lead to an increase in homelessness.

Recent announcements to reduce social and affordable housing rents have reduced the available funds for re-investment in the existing housing stock and the delivery of new affordable accommodation. Over the rental decrease period of 2016-2020 it is estimated the Housing Revenue Account will see a reduction to its rental income stream of at least

£4.56m. This has required the Housing Revenue Account 30 year Business Plan to be re-modelled with the revised assumptions to ensure a sustainable and robust plan.

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 Plan

The Council's finances are captured within three different plans. A separate plan 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 Funding (53.5%) and Council Tax (46.5%). With just over half of the Council's net budget being funded from Government, 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 2016–20

	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000
<b>Net Budget Requirement</b>	<b>19,086</b>	<b>18,424</b>	<b>18,243</b>	<b>18,151</b>
Increase in Council Tax	1.97%	1.99%	1.99%	1.99%

*This assumes that there will be further cuts of 13.1%, 8.1% and 9.8% in funding for future years.*

## 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 of at least 12% of the net 15-16 revenue budget, which is felt to be a sufficient level of contingency. There are no plans over the medium term to use any of the general reserves to support the base budget.

In addition to the general reserve, a number of earmarked reserves exist. These reserves have been drawn down substantially and are further proposed to be used in 2016-17, to accommodate one-off costs including the payment of claims related to live animal exports. The remaining reserves are 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 cannot 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 2016–20

	2016-17	2017-18	2018-19	2019-20
	£'000	£'000	£'000	£'000
Expenditure	13,042	11,952	11,906	11,950
Income	-13,775	-13,657	-13,546	-13,440
<b>Net Cost of Services</b>	<b>-733</b>	<b>-1,705</b>	<b>-1,640</b>	<b>-1,490</b>
Other	1,086	1,696	2,524	1,688
<b>Net Operating Expenditure</b>	<b>353</b>	<b>-9</b>	<b>884</b>	<b>198</b>
<b>HRA Balance:</b>				
Surplus at the start of the year	-3,449	-3,096	-3,105	-2,221
Surplus at the end of the year	-3,096	-3,105	-2,221	-2,023

## The Capital Programme

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

Although the Council can borrow to fund its capital expenditure, the cost of the repayments often makes this option unaffordable and so its future capital requirements in the medium term will depend upon a well managed programme of asset disposals; using assets that are no longer suitable or cost effective to fund the acquisition and development of assets for improved service delivery. The Council's Asset Management Strategy outlines the principles, criteria and processes that form the cornerstone of the Capital Programme. This requires a continual assessment of the relative value of an asset (both financial and non-financial) in order to ensure that the Council's investment in its assets is working to optimum effect. This is especially important in the current financial climate, where assets that are no longer viable or surplus to requirements need to be disposed of in order to reduce the Council's

liabilities and to generate capital receipts to fund new assets. Due to the limited availability of capital receipts and the need to contain the level of borrowing undertaken to minimise the revenue impact, it has been necessary to review the Capital Programme. This is to ensure sufficient funding is available for existing schemes that have commenced and that any new projects meet the corporate priority and/or reduce the pressure on the revenue account. Bids have been assessed, scored and reviewed to ensure they focus on the core priorities of the Council. It is important therefore, that only the most important schemes are selected against the limited resources.

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

**Table 3**

**The Capital Programme 2016–20**

	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000
Statutory and Mandatory Schemes	1,277	1,277	1,277	1,277
Schemes continuing from prior years	927	703		
Annual Enhancement Schemes	780	580	330	580
Wholly/Part Externally Funded Schemes	168	851		
Replacements and Enhancements	1,000	100		
Capitalised Salaries	75	75	75	75
Housing Revenue Account Schemes	11,450	3,615	3,495	3,195
<b>Total Capital Programme Expenditure</b>	<b>15,677</b>	<b>7,201</b>	<b>5,177</b>	<b>5,127</b>
<b>Capital Resources Used:</b>				
Capital Receipts and Reserves	6,734	3,682	3,125	2,825
Capital Grants and Contributions	2,012	2,268	1,277	1,277
Contributions from Revenue	1,522	525	525	525
Prudential Borrowing	5,409	726	250	500
<b>Total Funding</b>	<b>15,677</b>	<b>7,201</b>	<b>5,177</b>	<b>5,127</b>

# Detailed Medium Term Financial Plan

The following pages provide more detail of the Council's financial plans over the medium term. The 2016-17 budget is balanced, and reserves are forecast to remain above £2.01m. The net budget requirement, for the Council's own purposes, is £19.086m.

## 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, Council Tax and other grants.

The Council is able to generate 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 sections of legislation.

The General Government Grant is allocated by a complex model which amongst other things takes account of the relative need of an area and the ability to raise taxes locally (based on an area's council tax base). It is made up of two elements: the baseline funding level (in respect of business rates) and the Revenue Support Grant (to support council services). The Council has faced significant cuts in funding over a number of years, this has seen the net revenue budget reduced by around 27% from 2010-11 to 2015-16. The Financial Settlement issued on 17 December 2015 announced further reductions in funding for 2016-17 of 14.8% as well as those of future years, however it did give some assurance around future settlement figures. For the purpose of MTFP assumptions these reductions have been factored in for future years as follows: 13.1% 2017-18, 8.1% 2018-19 and 9.8% 2019-20.

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

## Council Tax Referendum and Council Tax Freeze

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

The Government has determined that any Council Tax increases above 2% will be considered excessive and therefore any authority proposing an increase above this level will therefore be subject to consultation with the public via a referendum. The cost of such a referendum for this Council would be in the region of £80k.

Council Tax was held at the same level as 2010-11 through to 2015-16 however, the 2016-2020 MTFP assumes increase of 1.99% year on year and the 2016-17 increase is proposed to be 1.97%.

The tax base upon which the Council Tax is set has been agreed as 40,691 Band D equivalents for 2016-17. This reflects a proposed collection rate of 97.25% which is considered reasonable in light of recent payment trends.

## The Local Context

### Quality Services Directed Towards Community Priorities

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

Each local area or district will have its own particular needs and so, in addition to its statutory services, most authorities 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 MTFP, 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. The Council previously adopted new ways of working, including shared services, to enable it to concentrate on the core council aims whilst still delivering basic council services well. The Council will develop its future budget plans to protect its key priority services, such as Street Cleansing, Refuse Collection and Recycling; and Community Safety and Crime Reduction from budget reductions that will threaten service delivery, as far as possible. The Council remains committed to promoting a culture of continuous improvement to ensure that it delivers good value for money for its residents.

## The Corporate Plan Framework

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

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

This will involve us:

- Continuing to improve waste and recycling services, reducing waste and increasing recycling.



- Keeping streets, parks and open spaces clean for residents and visitors
- Maintain zero tolerance to encourage positive behaviour to help improve our environment

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

This will involve us:

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

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

This will involve us:

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

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

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

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

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

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

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 Plan 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 (circa 84%) is charged here.

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

## Fees and Charges

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

- The Council must comply with all legal requirements for setting charges and income generation. Where appropriate, this will override other factors to ensure the Council is not exposed to the risk of legal challenge.
- The charging arrangements for any service should meet the full cost of providing the service where possible and include sound arrangements for income collection. The full cost of provision includes a share of central costs and a forecast for the effects of inflation.
- The appropriateness of charges set may be dependent on the wider aims and context of the service and as a result other aspects, such as the impact on service users, must be considered rather than just financial gain when setting fees and charges.

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

- Charging decisions will be taken in the context of the Council's Priorities as set out in its Corporate Plan;
- Access, affordability and elasticity of demand will be considered;
- Charges will be consistent with the Council's policies 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 Plan 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 2016-17 and the three years that follow is developed by building in anticipated inflationary increases and budgetary growth 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 to a minimum the resulting increase in Council Tax.

## The Budget Build Process

The paragraphs that follow show how the base budget for 2016-17 is built upon.

### Budgetary Pressures

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 MTFP, a vacancy level of 3.33% of the employee budget has been assumed along with a provision for Pay for Contribution and cost of living.

**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 built into the budget is where it is unavoidable, such as where it is part of the terms of an existing contract or for supplies such as energy and fuel. Where provided for, contractual increases are derived from that specified in the contract. The inflationary growth has been

increased in 2016-17 to reflect the increase in insurance costs due to changes in the Insurance Premium Tax.

**Service Delivery Pressures** – Given the economic context in which the Council finds itself, the overarching approach to developing the budget is to keep budgetary growth to a minimum to reduce the need to find compensating savings to deliver a balanced budget. Some budgetary growth is inevitable and therefore an allowance has been made to deliver Corporate Priorities, review of salary budgets and a review of prior year decisions including savings.

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

**Adjustments to Income** – The budget for Housing has been reduced by £40k to reflect the anticipated loss of income from the in-house managing agent proposal in the MTFP 2012-18, further work is under way to review this option moving forward.

## Key Proposals for Budget Reductions

Reductions proposals in respect of 2016-17 can be found in the main report, however there are some general categories of savings that are identified for the purposes of the MTFP planning period in order to fund budgetary pressures and to keep Council Tax increases within referendum limits:

- **Organisational efficiencies:** the redesign/merger of services and changing business processes
- **Digitalisation:** by changing the way in which services interact with customers, new technology can be utilised to reduce transaction costs as well as delivering an improved customer experience
- **Cost control:** by exercising strict control over procurement, budget monitoring, internal regulation and staffing costs
- **Shared services and outsourcing:** TDC already has partnerships with EKS, EKH and EKAP to deliver shared services and there may be greater scope to extend these arrangements if efficiencies can be delivered
- **Fundamental reviews:** alternative approaches to how the council manages its assets, and whether or not it should manage certain assets, can be considered as a result of implementing a revised asset management strategy.

**Table 4**

### The Medium Term General Fund Revenue Budget 2016 – 2020

	2016-17	2017-18	2018-19	2019-20
	£'000	£'000	£'000	£'000
Opening Base Budget	19,631	19,126	18,464	18,283
Budget Pressures including Inflation	775	806	593	594
Savings	-1,036	-900	-400	-150
Fees and Charges	-244	-204	-204	-204
Future year reviews	0	-364	-170	-332
<b>Net Service Revenue Budget</b>	<b>19,126</b>	<b>18,464</b>	<b>18,283</b>	<b>18,191</b>
Use of Earmarked Reserves	-40	-40	-40	-40
<b>Net Revenue Budget Requirement</b>	<b>19,086</b>	<b>18,424</b>	<b>18,243</b>	<b>18,151</b>

## 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. Reserves of 12% of the net revenue budget are considered to be the minimum required for the planning period.

## 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 MTFP.

The Council has faced a number of one off costs over the past year and in order to meet its liabilities has had to undertake a review of the Earmarked Reserves and the projects they have been set aside to deliver. It is intended as part of the MTFP to generate sufficient savings/surplus over the next few years to be able re-instate the reserves utilised.

### The Earmarked Reserves over the medium term are:

- **Insurance and Risk Management** – This is to meet potential increases in insurance premiums and to cover the cost of large excesses relating to insurance claims as well as unforeseen one-off risk related expenditure.
- **Local Plan Reserve** – This reserve is held to cover the future cost in relation to consultation and inspection on the Local Plan.
- **General Fund Repairs** – This reserve is held as a contingency for necessary essential repairs and maintenance works to Council assets.
- **Information Technology Reserve** – This reserve was created to control and enhance the development of new information technology initiatives with the objective of improving efficiency throughout the Council's activities. Monies are also held in this reserve to support the replacement of ICT equipment.
- **Cremator and Cemeteries Reserve** – This reserve was created to hold the surcharge element of the cremator fee. This was set aside to meet the cost of the cremator project undertaken in 2012-13 to meet the Council's environmental obligations. The surcharge on both cremations and burials will continue to be set aside in this reserve to support future burner replacement and works required at the cemeteries.
- **Decriminalisation Reserve** – The Council administers the on-road parking service but has to account for the income and expenditure separately. This reserve holds any unutilised revenues from parking charges. These are used to fund future parking, transport or environmental improvement related schemes. A sum of £40k per annum is drawn down from this reserve to meet base budget transport related costs. The funds within this reserve are not available for general Council use.
- **Priority Improvement Reserve** – This holds money set aside to fund initiatives that require one-off funding that will deliver service improvements or act as an invest to save reserve, providing initial start-up funds for projects that will ultimately save money.
- **Council Elections Reserve** – This is a saving account for the elections which occur every four years.
- **Renewal Fund** - This is a saving account for specific purposes based on the average annual amount required e.g. for the cost of CRB checks.
- **NDR Equalisation Reserve** – This reserve is to offset significant variations in benefit subsidy. Due to the volatility of this activity and the tight financial constraints



which preclude the budgets being set at a level that would be sufficient for upper activity levels, it is prudent to set aside under spends that arise in this area as a contingency for future years. This reserve will also support any potential shortfall in business rates, under the new business rates retention scheme.

- **Unringfenced Grants** – Any underspend against un-ringfenced grant funding is set aside in this earmarked reserve to be utilised in future years.
- **Waste Reserve** - This reserve holds service under-spends to support future service enhancements and the costs of replacing the waste fleet.
- **Homelessness Reserve** – Service under-spends have been set aside in this reserve to meet future homelessness needs.
- **Maritime Reserve** – This is to be used to support improvement works at the Port and Harbour and for income protection/maximisation works.
- **Pensions Reserve** – Due to the uncertainty around pensions, a reserve has been set up from pension savings in order to mitigate future risks around pensions.
- **VAT Reserve** – The receipt of monies in relation to the Council's Fleming claim have been set aside in an earmarked reserve to offset the risk of the Council breaching its partial exemption VAT limit.
- **East Kent Services** – The Council holds this budget as accountable body. It holds year end surpluses in respect to the operation of East Kent Services and the delegated responsibility for spend against the reserve is with the Director of East Kent Services.
- **Housing Intervention** – This reserve is held to support the one-off costs associated with the Housing Intervention project.
- **Economic Development and Regeneration Reserve** – This reserve is to support one-off service improvements and initiatives encouraging economic growth.
- **Pay and Reward Reserve** – This is to support the new pay and reward scheme.
- **Vehicle, Plant and Equipment Replacement** – The Council has identified that there are a number of vehicles, plant and equipment that will be coming to the end of their useful lives over the next few years. Any service in-year underspends in relation to waste, street cleansing, maritime, parks and grounds will be set aside in this reserve to support a replacement programme.
- **Dreamland Reserve** – Monies have been set aside to bolster the contingency for the Dreamland project.
- **Destination Management** – Funds have been set aside to support the objectives of the Destination Management Plan by enhancing council assets that help to support and encourage tourism.
- **HRA Properties Reserve** – This is held to support the purchase and refurbishment of HRA properties. Its usage is ring-fenced for the HRA.

## The General Fund Revenue Budget Requirements

All of the stages in developing the General Fund Revenue Budget that have been described above have been used to calculate the estimated budget requirement for 2016 – 2020 which are presented in summary in Table 5.

# Funding the Medium Term General Fund Revenue Budget

## Local Government Finance Settlement

The Local Government Finance Settlement has announced the provisional figures for 2016-17 which reflect a cut of 14.8%. The Settlement also included indicative figures for 2017-18, 2018-19 and 2019-20. The Council Tax Reduction Scheme (CTRS) is under three year agreement with KCC and 2015-16 was the last of the three years. However, in view of the significant time constraints in devising and implementing a new scheme for the financial year 2016-17, as well as the impact on claimants of national welfare changes, major preceptors and districts it has recently been agreed to extend the existing scheme for one year.

Specific Grants are received for administering the housing benefit and council tax payment and collection systems on behalf of Government. A reduction in this funding of £241k has been proposed for 2016-17.

## New Homes Bonus

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

The provisional New Homes Bonus allocation for 2016-17 is £2.9m. Under the current scheme the Council will receive this for each of the following five years and will also receive additional sums for any further new homes built. However, the Government has indicated that there is to be a review of NHB and already mooted the prospect of reducing the period of payment of the annual NHB from six years to four years.

## 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 2%.

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 5.

Table 5

## The Medium Term Revenue Funding Summary 2016 - 2020

	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000
<b>Net Budget Requirement</b>	<b>19,086</b>	<b>18,424</b>	<b>18,243</b>	<b>18,151</b>
<b>Funded From:</b>				
RSG	2,460	1,446	809	98
NDR Baseline	4,630	4,716	4,855	5,010
New Homes Bonus	2,921	2,899	2,850	2,934
Collection Fund Surplus	163	100	100	100
Business Rate Retention	200	200	200	200
Council tax	8,712	9,063	9,429	9,809
Council Tax Base	40,691	41,504	42,334	43,181
<b>Band D Council Tax</b>	<b>214.11</b>	<b>218.37</b>	<b>222.72</b>	<b>227.15</b>
Increase in Band D Council Tax	£4.14	£4.26	£4.35	4.43
% Increase in Band D Council Tax	1.97%	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 2046).

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

- Delivering excellent customer service – aiming for 3 stars;
- Realising greater efficiencies and savings for reinvestment;

- Encouraging stronger and more prosperous communities;
- Improving procurement capacity;
- Providing additional investment for council housing estates;
- Ensuring longer term resilience for the council's individual Housing Revenue Accounts;
- Establishing a stronger housing role for the councils;
- Developing a stronger role for tenants in shaping housing services;
- Improving career opportunities for staff.

## Developing the Housing Revenue Account

### The Housing Revenue Account Budget Strategy

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

#### The Council's Housing Revenue Account Strategy is:

- To maintain a Housing Revenue Account that is self-financing and reflects both the requirements of residents and the strategic visions and priorities of the Council.
- To maintain current Housing Stock at Decent Homes Plus standard
- To increase or improve the Council's housing stock through new build and bringing empty properties back into use.
- To consider the disposal of stock that is not viable to generate capital receipts for re-investment in new or existing stock.
- To maximise the recovery of rental incomes by moving void properties to "target rent", reducing the number of void properties and minimising the level of rent arrears and debt write offs.
- To maintain a minimum level of HRA reserves of £800k but with a target level of reserves of £1m.

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

### Budgetary Growth

**Inflationary Increases** - For direct expenditure budgets, price increases have been included at 2%. Where there is a known inflate within a specific contract, this has been used.

## Increased Income

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

**Service Charges** – A review of the service charges within the HRA has been undertaken to take into consideration Welfare Reform changes, Department of work and Pensions requirements and feedback from the Tenant board. Service charges are recovered at actual cost.

**Rents** – As part of the Summer Budget 2015 the Government announced that both Social and Affordable Rents would be reduced by 1% a year for four years resulting in a 12% reduction in average rents by 2020-2021. The financial impact of the 1% baseline reduction in 2016-17 is approx. £129k on the base budget. However, the impact on the HRA Business Plan for 2016-17 is estimated at £448k as a 2% increase on base had been assumed each year. Over the rental decrease period of 2016-17 to 2019-20 it is estimated that the impact on the HRA Business Plan will be a loss in rental income of £4.56m. Future years' estimates in the MTFP after 2020 assume a 1% inflationary increase. Garage rents will be increased in line with market 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. Current projections for future years have been increased. The budget for 2016-17 of £75k is based on achieving an average interest rate of 0.60%.

## HRA Reserves

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

**Housing Revenue Account Major Repairs Reserve** – The annual Major Repairs Allowance (MRA) that was paid to the Council as part of the HRA Subsidy had to be placed in a Major Repairs Reserve, to be used to meet HRA capital expenditure on housing stock or debt repayment only. This has been replaced with the equivalent of the actual depreciation charge for dwellings being transferred to the Major Repairs 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 peaks and troughs within the 30 year business plan. It is maintained by annual contributions from the HRA.

**Housing Revenue Account New Properties Reserve** – This reserve holds funds set aside to fund either new build properties or the acquisition of suitable properties for use within the HRA. Earmarked match funding for the Margate Intervention and Empty Property programme has been set aside in this reserve as agreed by Cabinet.

Income generated from affordable rents will continue to be set aside in this reserve for re-investment in a new build programme.

## The Medium Term HRA Budget Requirements

The changes that are outlined in the paragraphs above have been applied to the 2016-17 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 6**

### The Medium Term Housing Revenue Account Budget 2016 – 2020

	2016-17	2017-18	2018-19	2019-20
	£'000	£'000	£'000	£'000
<b>EXPENDITURE</b>				
Repairs and maintenance	3,762	3,720	3,666	3,701
Supervision and management – General	3,042	2,983	2,984	2,986
Supervision and management – Special	553	560	566	573
Rents, rates, taxes and other charges	368	369	370	370
Bad or doubtful debts provision	170	170	170	170
Depreciation/impairment of fixed assets	2,816	2,816	2,816	2,816
Debt Management Charges	9	9	9	9
Non-service specific expenditure	800	800	800	800
Capital expenditure funded from HRA	1,522	525	525	525
<b>Gross Expenditure</b>	<b>13042</b>	<b>11,952</b>	<b>11,906</b>	<b>11,950</b>
<b>INCOME</b>				
Dwelling Rents (gross)	-12,900	-12,773	-12,652	-12,537
Non-dwelling Rents (gross)	-227	-228	-230	-231
Charges for services and facilities	-382	-390	-398	-406
Contributions towards expenditure	-266	-266	-266	-266
<b>Income</b>	<b>-13,775</b>	<b>-13,657</b>	<b>-13,546</b>	<b>-13,440</b>
<b>Net Costs of Services</b>	<b>-733</b>	<b>-1,705</b>	<b>-1,640</b>	<b>-1,490</b>
HRA Investment Income	-76	-76	-76	-76
Debt Interest charges	1,170	1,170	1,170	1,162
Government Grants and Contributions	-610	0	0	0
Adjustments made between accounting basis and funding basis	602	602	1,430	602
<b>(Surplus)/Deficit on HRA</b>	<b>353</b>	<b>-9</b>	<b>884</b>	<b>198</b>
<b>Housing Revenue Account Balance:</b>				
Surplus(-)/Deficit at Beginning of Year	-3,449	-3,096	-3,105	-2,221
Surplus(-)/Deficit For Year	353	-9	884	198
<b>Surplus(-)/Deficit at End of Year</b>	<b>-3,096</b>	<b>-3,105</b>	<b>-2,221</b>	<b>-2,023</b>

# The Capital Programme

## Overview

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

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

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

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

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

## Consideration for the Environment

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

# Developing the Medium Term Capital Programme

## The Capital Budget Strategy

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

### **The Capital Budget Strategy is:**

- To maintain an affordable four-year rolling capital programme.
- To ensure capital resources are aligned with the Council's strategic vision and corporate priorities.

- To undertake Prudential Borrowing only where there are sufficient monies to meet in full the implications of capital expenditure, both borrowing and running costs.
- To maximise available resources by actively seeking external funding and disposal of surplus assets.
- To engage local residents in the allocation of capital resources where appropriate.

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

## Planned Investments

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

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

**Existing Programmes already agreed** – Programmes already agreed from previous years within the four year programme are the Disabled Facilities Grant, Swimming Pool/Sports Hall Essential Capital Repairs, Property Enhancement Programme, CCTV, Dreamland, Sea Wall Re-facing Works West of Westgate Bay and East of Epple to Westgate Bay, Operational Services Vehicle Replacement Programme, Thanet Crematorium Columbaria Provision, Thanet Crematorium Memorial Chapel Area, Ramsgate Port & Harbour Low Carbon Plan and Ramsgate Main Beach Timber Groyne Installation.

## New Capital Projects

**Ramsgate Port – Berth 4/5 Replacement** – This project is necessary to retain an aggregate berth facility at Ramsgate. It will protect/enhance income from Ramsgate Port and reduce maintenance costs.

**Ramsgate Harbour – Smart Metering** – This project is for further implementation of smart metering within the inner and outer marinas where it is currently not in place. This system will enable the Council to advance-charge customers for electricity usage, which will provide administration benefits and reduce the risk of non-payment. Security will also benefit from improved access controls

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

The Margate Intervention programme sets out to transform the housing market in two of Britain's most deprived wards: Cliftonville West and Margate Central.

With the flexibilities now available as part of the self-financing changes, the Council is currently developing the HRA Asset Management Strategy to review land and buildings within the HRA, including garage sites, to ensure they are being put to best use and obtaining value for money for the tenants This has been the driving factor towards the first tranche of a new development programme for the HRA consisting of 58 new units. Further works are continuing to identify surplus land and properties for



on-going new build developments. The Council has recently made an application to Government to extend the borrowing headroom by a further £1.11m to facilitate the building of a further 20 new units of affordable accommodation and has recently received notification that the application has been successful.

However, given the recent changes with regard to rent setting reductions the Council will need to undertake regular project delivery reviews with regard to the new and affordable homes programmes to ensure affordability and sustainability within the set budget. It is estimated that over the next 4 years' the financial implications on the Housing Revenue Business plan with regard to a loss in rental income is anticipated to be in the region of £4.56m. This has put the housing account under considerable pressure to deliver schemes that have already been agreed and reduces the anticipated level of HRA balances available to contain any overspends or slippage.

Details of the planned capital projects for the next four years are summarised later in Table 7.

## Capital Funding Sources

The capital investment proposals contained within this MTFP 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 Plan. Over the course of this MTFP, prudential borrowing of £1.7m has been assumed for the General Fund Capital Programme in 2016-17. A housing debt cap of £27.792m has been set for the Council's HRA, being the maximum amount the HRA can borrow.

### Capital Receipts

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

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

## Capital Grant

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

## Revenue Contributions

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

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

## Capital Reserves

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

**Capital Projects Reserve** – It is anticipated that this reserve will be fully utilised to help fund the 2015-16 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 7.

Table 7

## The Medium Term General Fund Capital Budget

	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000
Statutory and Mandatory Schemes	1,277	1,277	1,277	1,277
Schemes continuing from prior years	927	703		
Annual Enhancement Schemes	708	580	330	580
Wholly Externally Funded Schemes	168	851		
Replacements and Enhancements Area Improvement	1,000	100		
Capitalised Salaries	75	75	75	75
<b>Total Capital Programme Expenditure</b>	<b>4,227</b>	<b>3,586</b>	<b>1,682</b>	<b>1,932</b>
<b><i>Capital Resources Used:</i></b>				
Capital Receipts and Reserves	1,091	592	155	155
Capital Grants and Contributions	1,402	2,268	1,277	1,277
Contributions from Revenue				
Prudential Borrowing	1,734	726	250	500
<b>Total Funding</b>	<b>4,227</b>	<b>3,586</b>	<b>1,682</b>	<b>1,932</b>

The plans that exist for capital investment into the Council's housing stock are reflected in Table 8. Together the information in Table 7 and Table 8 comprises the Medium Term Capital Programme for the Council.

Table 8

**The Medium Term Housing Revenue Account Capital Budget**

	2016-17	2017-18	2018-19	2019-20
	£'000	£'000	£'000	£'000
<b>Total HRA Capital Programme Expenditure</b>	<b>11,450</b>	<b>3,615</b>	<b>3,495</b>	<b>3,195</b>
<i>HRA Capital Resources Used:</i>				
HRA Major Repairs Reserve	3,260	3,090	2,970	2,670
HRA Revenue Contributions	1,522	525	525	525
New Build Reserve	1,479			
Grant Funding	610			
Housing Capital Receipts	904			
Prudential Borrowing	3,675			
<b>Total Resources</b>	<b>11,450</b>	<b>3,615</b>	<b>3,495</b>	<b>3,195</b>

## Treasury Management

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

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

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

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

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

The Bank of England base rate has remained at an historic low of 0.5% and therefore investment returns have been very low. Investments are regularly reviewed and new accounts opened with a view to try and take advantage of the best rates available whilst minimising the Council's exposure to counterparty risk. Returns are expected to slightly increase during 2016-17.

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

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

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

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

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

## Managing the Financial Risks

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

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

**Longer Planning Timeframes** – The latest government grant announcements provide a longer time period than in the past, which improves the ability to project resources over the life of the MTFP. However, there are still significant unknowns, e.g. the future of the NHB and the transition towards local government self-financing by 2020.

**The Planning Cycle: Develop, Review and Revise** – The Budget and this Medium Term Financial Plan 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 MTFP 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 Plan.

## 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 9

## Sensitivity Analysis

Area under consideration	Sensitivity of Estimates 2016-17
The opening base budget	<p>The opening position of the 2016-17 budget is based on the adjusted budget approved in February 2015.</p> <p>The base for future years may change, however this would be identified as part of budget preparation work.</p>
The pay estimates	<p>A 10% change to the figure for pay increases that result from the pay award and increments would equate to c£1.5m. However, such a large discrepancy would be unlikely as the pay budget is developed at a very detailed level (on a per post basis).</p> <p>The main impact on the accuracy of the budgets for pay headings results from vacancy estimates which are impossible to predict.</p>
The vacancy savings and post reduction estimates	<p>For 2016-17 the vacancy abatement saving has been budgeted at approximately £500k which is equivalent to approximately 17 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.</p>
Price Increases	<p>In the main these are based on the terms of the contract. Inflation has been assumed at 2%. A 2% variance on this would equate to an increase in budget requirement of approximately £190k.</p>
Pension Increases	<p>As part of last year's MTFP assumptions it was noted that the latest actuarial figures showed an increase required for pensions of approximately £220k. This will be drawn down from the pension reserve which was set up specifically for this purpose. Growth has been factored into future assumptions.</p>
The increased income targets	<p>There is always a risk that increases in fees and charges reduce demand, which can have a detrimental impact on the budget. Some £244k has been added into the budget for 2016-17 for increased income targets; however, service managers have included within that figure an assessment of the achievability of collecting the additional income.</p>
Other savings estimates	<p>The budget and Medium Term Financial Plan reflects a £150k savings expectation from EKS. A 10% change to this figure would equate to £15k, regular monthly meetings are held with the Director of EKS to regularly monitor on performance.</p>
The level of reserves	<p>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 minimum level.</p> <p>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.</p>

Area under consideration	Sensitivity of Estimates 2016-17
Council Tax Reduction Scheme	The collection rate on the Council Tax base has been retained at 97.25% to reflect the collection trend within 2015-16. This will need to be carefully monitored during the year.
Welfare Reforms	<p>To date there has been minimal impact from the proposed welfare reforms. Any change will impact on both the Housing Revenue Account and General Fund and will include potential 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; an increase in demand for smaller or cheaper accommodation; an increase in demand for debt management advice; possible increases in homelessness, as a result this will need to remain under review in terms of overall impact.</p> <p>Thanet District Council went live with the first tranche of Universal Credit on 12<sup>th</sup> October 2015 to date projections in relation to the number of applications provided by the Department of Work and Pensions (DWP) have been correct. As part of the implementation of Universal Credit the Council was required to enter into a Delivery Partnership Agreement, as part of this partners have been identified to assist with providing budgetary support to applicants to enable them to manage their income to reduce the possibility of them falling into arrears.</p> <p>Budgetary growth of £50k has been set aside within the Housing Revenue Account to fund any schemes that take a pro-active approach to support Welfare Reform changes.</p>
Settlement Funding	<p>A 1% cut in government grant would equate to a loss of income in future years of approximately £100k.</p> <p>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 circa £340k before the safety net mechanism would apply.</p>