The Medium Term Financial Strategy 2018 - 2022

Thanet District Council

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.

The National and Local Economic Outlook

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 council has, as a result, seen significant cuts in funding over the last five years and as a result of the 4-year settlement funding, further cuts are known for years 2018-19 and 2019-20, with uncertainty remaining for 2020-21 onwards. The council has already made substantial savings, primarily resulting from the reduction in government grant. These savings have been achieved through a variety of approaches including sharing services with our neighbouring councils, reviewing staff structures and service efficiencies. However there remains pressure to deliver further savings to balance the 2018-19 budget and it is increasingly difficult to find these without impacting on services.

The Business Rates Retention Scheme (which is detailed further within this MTFS) provides further uncertainty. The financial risk associated with businesses leaving the district will sit with the council (subject to a safety net) whilst any incentive from encouraging new business growth is likely to be minimal. To mitigate risk, among other things, the council is a partner to the successful bid for the Kent region to be a pilot for 100% business rates retention for 2018-19.

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, excluding Housing Revenue Account, 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 (42%) and Council Tax (58%). 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 and Impact 2018–22

	2018-19 £’000	2019-20 £’000	2020-21 £’000	2021-22 £’000
Net Budget Requirement	16,800	16,118	15,489	15,750
Increase in Council Tax %	2.99%	2.2%	2.1%	2.1%
Increase in Council Tax £	£6.56	£4.99	£4.91	£4.95

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 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 recently but it is planned to replenish them over the medium term. These remaining reserves are set aside for specific purposes and generally 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 has to be budgeted and accounted 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 2018–22

	2018-19 £'000	**2019-20 £'000**	**2020-21 £'000**	**2021-22 £'000**
Expenditure	13,206	13,216	13,308	13,403
Income	-13,754	-13,699	-14,034	-14,502
Net Cost of Services	**-549**	**-483**	**-725**	**-1,098**
Other	835	-73	-88	-97
Net Operating Expenditure	**286**	**-556**	**-813**	**-1,195**
HRA Balance:				
Surplus at the start of the year	-6,381	-6,095	-6,651	-7,464
Surplus at the end of the year	-6,095	-6,651	-7,464	-8,659

The Capital Programme

The council's Capital Programme 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 optimal investment in assets. 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 liabilities and to generate capital receipts for investment.

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 table overleaf.

Table 3

The Capital Programme 2018–22

	2018-19 £'000	**2019-20 £'000**	**2020-21 £'000**	**2021-22 £'000**
Statutory and Mandatory Schemes	2,342	2,342	2,342	2,342
Schemes continuing from prior years	-	-	-	-
Annual Enhancement Schemes	378	703	2,620	700
Wholly/Part Externally Funded Schemes	695	693	3,335	780
Construction, Replacements and Enhancements	811	175	3,310	-
Capitalised Salaries	75	75	75	75
Housing Revenue Account Schemes	4,484	3,695	3,188	3,347
Total Capital Programme Expenditure	**8,785**	**7,683**	**14,870**	**7,244**
Capital Resources Used:				
Capital Receipts and Reserves	5,198	3,848	3,718	3,322
Capital Grants and Contributions	3,037	3,010	5,597	3,122
Contributions from Revenue	300	325	350	300
Prudential Borrowing	250	500	5,205	500
Total Funding	**8,785**	**7,683**	**14,870**	**7,244**

Council is being asked to agree to an additional capital item that wasn't considered as part of the draft Capital Programme included within the Budget Strategy (and therefore not within the above table). This is towards addressing some of the homelessness pressures and will cost £1.63m in 2018-19, to be funded from prudential borrowing.

Detailed Medium Term Financial Strategy

The following pages provide more detail of the council's financial plans over the medium term. The 2018-19 budget is balanced, and general reserves are forecast to remain above £2m. The net budget requirement, for the council's own purposes, is £16.8m.

The Local Government Finance Environment

The cost of local authority services are funded primarily from council tax, business rates, fees and charges, Government 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 it through a variety of different legislation.

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 substantially, although the original four year settlement did give some assurance regarding future funding. For the purpose of the MTFS these reductions have been factored in as follows: 8.0% 2018-19 and 9.3% 2019-20.

The impact of other welfare reforms associated with reducing housing benefit entitlement has led to an increase in homelessness and rent arrears. This is yet another uncertainty that could significantly impact on MTFS assumptions and the effect of this will continue to be monitored.

Council Tax Referendum and Council Tax Increases

The council tax system requires local householders to contribute directly to the cost of local service provision. The collection of council tax is administered by the council on behalf of itself, parish and town councils, Kent County Council, the Kent and Medway Fire and Rescue Service and the Kent Police and Crime Commissioner. The element of council tax that relates specifically to Thanet is calculated after having taken into account expenditure needs and ability to fund these from all other income sources. For 2018-19 the Government has determined that any council tax increases at 3% and above and £5 and over 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 would fall on the council to be met. Thanet's higher limit of Council Tax increase is 2.99%.

This MTFS assumes an increase of £6.57 to the 2018-19 Council Tax, equivalent to 2.99%, with subsequent increases of around £5 per annum thereafter. The tax base upon which the council tax is set has been agreed as 42,905 Band D equivalents for 2018-19. This reflects a proposed collection rate of 97.75% 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 much of these 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, there is a legal responsibility to collect refuse, however there is a choice as to frequency and method of collection.

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 service are worth the inputs in terms of resources needed.

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

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. There remains a commitment to promoting a culture of continuous improvement to ensure the delivery of good value for money.

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 efforts towards achieving the vision:

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

This will involve us:

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

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

This will involve us:

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

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

This will involve us:

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

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 individual service plans, and capital and asset management strategies.

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 from the council's assets.

The General Fund Revenue Account

Overview

The General Fund revenue account is charged with any expenditure incurred on delivering services or meeting day to day expenses that are not covered by legislation relating to the

Housing Revenue Account, or cannot be treated as capital expenditure. The majority of Thanet's expenditure is charged here.

Expenditure is funded from income raised through charging for goods and services (except if it relates to council houses or is of a capital nature) plus grants, business rates and council tax.

Fees and Charges

The fees and charges policy establishes the corporate principles for charging for services. The three key principles are:

- Compliance with all legal requirements for setting charges and income generation. Where appropriate, this will override other factors to ensure the risk of legal challenge is minimised.

- 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 following guidelines are used 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;
- 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 guiding principles aims to ensure that 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 aims and objectives. The external funding and grants protocol standardises 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 was approved by Cabinet on 16 November 2017 and 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 2018-19 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 2018-19 is created.

Budgetary Pressures

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

Employee Costs – A large proportion of 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, a vacancy level of 1.96% 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, there is no provision for price increases on goods and services, so increased costs need to be contained within existing budgets or a better price needs to be negotiated with 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.

Service Delivery Pressures –Given the economic context, 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 for enabling the delivery of income generation and cost savings and to deliver corporate priorities.

Increase in Fees and Charges – Fees and charges have been increased in line with benchmarked data for other service providers, there are also a number of new schemes. 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.

Themes for delivering the Medium Term Financial Strategy

Projecting funding for 2018-19 onwards is difficult in light of the localisation of business rates and New Homes Bonus changes, but there is more certainty for 2018-19 and 2019-20 from the original four year settlement. What is clear is an overall reduction in Government funding over the medium term. In light of this, some broad themes are being pursued which will enable a balanced budget and a robust MTFS:

- **Income Generation:** A range of reviews are under way to generate new and additional income. These reviews are: creation of a housing company; fundamental review of car parking; power generation on Council owned sites; commercial charging for minor works and workshop; and a review of Planning.
- **Making the most of the assets we own:** A revised Asset Management Strategy will be key to working with partners to maximise the benefits of the buildings and land we own. We will seek commercial opportunities for key assets including changing use, sharing facilities and disposal as well as investing in assets to earn a return.
- **Alternative Delivery Vehicles:** All services will be reviewed and considered for alternative models, including outsourcing, shared services or partnerships. Action will be targeted towards those services that are the most expensive relative to peers. By drawing in wider investment and market opportunities it is possible to reduce the cost of mainstream council services. Working with partners would give access to new skills and experience and help ensure an appropriate share of risk between parties.
- **Digitalisation:** The Implementation of a digital strategy will help achieve efficiencies by streamlining back-office processes and improve front line services by providing them in a modern form more relevant to today's digital age. Work is under way with various partners to review in real terms the benefits of this moving forward.

Table 4

The Medium Term General Fund Revenue Budget 2018 – 2022

	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000
Opening Base Budget	18,079	16,800	16,118	15,489
Budget Pressures including Inflation	1,868	564	713	551
Savings and efficiencies	(2,757)	-	-	-
Fees and Charges	(390)	(200)	(200)	(200)
Future year reviews	-	(1,046)	(1,142)	(90)
Net Revenue Budget Requirement	**16,800**	**16,118**	**15,489**	**15,750**

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 £2m are considered to be the minimum required for the planning period.

Earmarked Reserves

In addition to the General Reserve, a number of earmarked reserves are 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.

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 all reserves and the projects they have been set aside to deliver. General Fund earmarked reserves were re-aligned at year end 2016-17 to more effectively support the council's corporate priorities. It is intended, as part of the MTFS, to replenish earmarked reserves following their application during 2017-18.

Table 5

The Earmarked Reserves over the medium term are listed below:

Reserve	Description
Local Taxation Funding Reserve	Used for operational risks including loss of housing benefit subsidy, business rates appeals and other service movements.
Investment and Growth Reserve	Used to encourage inward investment and promote growth in the district changing the way the council operates in support of these activities.
Risk and Insurance Reserve	Held to fund excess costs, self-insurance and TUPE obligations.
Repairs and Renewals Reserve	Used to fund planned maintenance in respect of buildings, coastal sites, information technology and other equipment, including a mechanism to avoid peaks and troughs in service budgets.

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 2018 – 2022 which are presented in summary in Table 4.

Funding the Medium Term General Fund Revenue Budget

Local Government Finance Settlement

The provisional Local Government Finance Settlement indicates figures for 2018-19 regarding NDR baseline funding, RSG and NHB. Together, the proposed 2018-19 sum for these funding streams is 17% less than the equivalent 2017-18 figure. The Settlement also included the indicative NDR baseline and RSG figures for 2019-20.

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 scheme which was previously paid for the following six years will now be paid for four years. Additionally, there is a threshold applied, below which no NHB is paid. This threshold has been set at 0.4% of total dwellings, i.e. the first 0.4% of growth will not attract NHB. The council has for some time treated NHB as part of its core government funding. The MTFS does not anticipate any new awards after 2018-19 at this stage.

Council Tax and Business Rates

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 grants and part from council tax. The total amount that is needed to be raised by council tax 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 0.5% for future years.

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 6 below.

Table 6

The Medium Term Revenue Funding Summary 2018 - 2022

	2018-19 £'000	**2019-20 £'000**	**2020-21 £'000**	**2021-22 £'000**
Net Budget Requirement	**16,800**	**16,118**	**15,488**	**15,750**
Funded From:				
RSG	-	97	-	-
NDR Baseline	5,670	5,045	5,044	5,045
New Homes Bonus	1,011	587	102	97
Collection Fund Surplus	100	100	100	100
Business Rate Retention	200	200	-	-
New burdens-homeless reduction	104	110	-	-
Council tax	9,715	9,979	10,242	10,508
Council Tax Base	42,905	43,120	43,335	43,552
Band D Council Tax	**£226.44**	**£231.43**	**£236.34**	**£241.29**
£ Increase in Band D Council Tax	£6.57	£4.99	£4.91	£4.95
% Increase in Band D Council Tax	2.99%	2.2%	2.1%	2.1%

The NDR baseline and RSG for 2018-19 reflects the impact of the council being within the Kent and Medway pool for 100% business rates retention. No change has been made to the forecast of growth as a result of being in the pool.

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 current HRA Business Plan is forecast to fall into deficit post 2024 and further work is required to identify sufficient efficiencies to allow for a sustainable 30 year HRA Business Plan. Finance and the Head of Housing will continue to work together to remodel a sustainable plan. This will include a review of charges and costs from the General Fund, maximising income generation opportunities, contract efficiencies through East Kent Housing by procuring with neighbouring councils and asset management.

In April 2015 the government announced a proposal to require that local authorities sell high value stock to fund the extension of Right to Buy to housing association tenants. As detailed in the Housing and Planning Act 2016, the Secretary of State has the power to make a council sell a proportion of their vacant stock to pay a 'high value asset levy' which will reflect the high value homes they are expected to sell. To finance the payment, an authority must consider selling its interest in any higher value housing that has become vacant. In November 2015 councils had to provide detailed stock data. However, the determination defining higher value and the method for calculating the amount of payment due to the Secretary of State has yet to be determined. Until further information is available it is has not been possible to understand the financial impact on the HRA Business Plan.

A stock condition survey was commissioned re-evaluate the council's housing stock to ensure that we continue to meet Decent Homes Plus standard. The survey results are informing the development of the Asset Management Strategy and Stock Options Appraisal. The financial impact of this will be modelled as part of the HRA 30 Year Business Plan review.

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 Strategy 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

Contract and Price Inflation - For direct expenditure budgets, price increases have been included at 2.5%. 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.

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. 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 MTFS after 2020 assume a 1% inflationary increase. Garage rents have been kept the same while a programme of repairs is drafted.

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.

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 2018-19 of £35k is based on achieving an average interest rate of 0.25%.

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 – An amount equivalent of the actual depreciation charge for dwellings is transferred to the Major Repairs Reserve to fund capital works to the existing stock. The estimated transfer to the Major Repairs Reserve for 2018-19 is £3.63m.

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. As at 1 April 2017 this reserve balance was £8.4m.

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. As at 1 April 2017 this reserve balance was £6.7m.

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 New Build Programme has been set aside in this reserve as agreed by Cabinet. As at 1 April 2017 this reserve balance was £5.4m and is due to be drawn down during the 2018-19 and 2019-20 programmes. Income generated from affordable rents will continue to be set aside in this reserve for re-investment in a new build programme.

The Medium Term HRA Budget Requirements

The changes that are outlined in the aforementioned paragraphs have been applied to the 2018-19 budget for the Housing Revenue Account and the resulting financial projections for the HRA over the next four years are summarised in Table 7:

Table 7

The Medium Term Housing Revenue Account Budget 2018 – 2022

	2018-19	**2019-20**	**2020-21**	**2021-22**
	£'000	**£'000**	**£'000**	**£'000**
Gross Expenditure	**13,205**	**13,216**	**13,308**	**13,403**
Income	**-13,754**	**-13,699**	**-14,034**	**-14,502**
Net Costs of Services	**-549**	**-483**	**-726**	**-1,099**
HRA Investment Income	-35	-70	-105	-140
Debt Interest charges	1,007	962	982	1,008
Government grants and contributions	-1,034	-345	-	-
Adjustments made between accounting basis and funding basis	897	-620	-965	-965
(Surplus)/Deficit on HRA	**286**	**-556**	**-813**	**-1,195**
Housing Revenue Account Balance:				
Surplus(-)/Deficit at Beginning of Year	-6,381	-6,095	-6,651	-7,464
Surplus(-)/Deficit For Year	286	-556	-813	-1,195
Surplus(-)/Deficit at End of Year	**-6,095**	**-6,651**	**-7,464**	**-8,659**

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 investment in 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 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 Capital Programme was reviewed 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 predominantly core priorities, have health and safety implications or deliver a revenue saving to the authority and sustainable income streams. The main capital projects that are planned 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, Property Enhancement Programme, Operational Services Vehicle Replacement Programme, Leopold Street multi storey car park, Louisa Bay to Dumpton Gap sea wall work, Westbrook to St Mildred's sea wall work, Viking Bay flood defence scheme, Stone Bay sea wall work, Ramsgate Harbour water supply upgrade and Thanet groyne re-construction.

New Capital Projects – email system replacement, end user computing refresh of devices, TDC computing infrastructure, Ellington Park, Northdown Road townscape heritage, Botany Bay car park, Broadstairs flood and coast protection scheme, Ramsgate Harbour sluice gate, replacement of lead lights at Port and a number of Port of Ramsgate improvements and refurbishments.

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 51 new units.

However, given the recent changes with regard to rent setting reductions and the proposed sale of higher value council homes to generate a levy payable to Government, 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. The financial impact of the changes 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 8.

Capital Funding Sources

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

Borrowing

The Local Government Act 2003 gave local authorities the ability to borrow for capital expenditure provided that such borrowing was affordable, prudent and sustainable over the medium term. The council has to complete a range of calculations (Prudential Indicators) as part of its annual budget setting process to evidence this. These make sure that the cost of paying for interest charges and repayment of principal by a minimum revenue contribution (MRP) each year is taken into account when drafting the Budget and Medium Term Financial Strategy. Over the course of this MTFS, prudential borrowing of £0.25m has been assumed for the General Fund Capital Programme in 2018-19. 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 General Fund (i.e. for its main services) can be retained. In 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. This allows the council to retain additional Right to Buy receipts over and above that budgeted by Treasury.

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. The absence of a new Asset Management Plan and comprehensive disposals programme has made it difficult to project the estimated capital receipt income anticipated over the next four years. Over the course of this MTFS the new AMS will enable the identification of a number of assets that can be disposed of with minimal detriment to service delivery, and yet improve the overall value for money derived from the asset portfolio. The affordability of the Capital Programme has been based on the assumption of a certain level of capital receipts being generated. As the value of receipts can be subject to change, the Capital Programme will be continuously 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 on the revenue budget mean that this is no longer a common funding source.

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 –An amount equivalent of the actual depreciation charge for dwellings is transferred to the Major Repairs Reserve to fund capital works to the existing stock This is exclusively available for use on HRA capital expenditure.

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 8.

Table 8

The Medium Term General Fund Capital Budget

	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000
Statutory and Mandatory Schemes	2,342	2,342	2,342	2,342
Annual Enhancement Schemes	378	703	2,620	700
Wholly Externally Funded Schemes	695	693	3,335	780
Replacements and Enhancements	811	175	3,310	-
Capitalised Salaries	75	75	75	75
Total Capital Programme Expenditure	**4,301**	**3,988**	**11,682**	**3,897**
Capital Resources Used:				
Capital Receipts and Reserves	1,014	453	830	275
Capital Grants and Contributions	3,037	3,010	5,597	3,122
Contributions from Revenue	-	25	50	-
Prudential Borrowing	250	500	5,205	500
Total Funding	**4,301**	**3,988**	**11,682**	**3,897**

The plans that exist for capital investment into the council's housing stock are reflected in Table 9. The information in Table 8 and Table 9 comprise the Medium Term Capital Programme for the Council.

Further to Cabinet agreeing to the draft capital programme in its Budget Strategy, an item has come forward subsequently for inclusion within next year's programme, that Council is asked to support. New capital investment of £1.63m is proposed, to be funded by prudential borrowing, that aims to effectively address some of the homelessness pressures being faced within the district and will contribute towards reducing the council's expenditure on homelessness. This sum is currently not included within the table above.

Table 9

The Medium Term Housing Revenue Account Capital Budget

	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000
Total HRA Capital Programme Expenditure	**4,484**	**3,695**	**3,188**	**3,347**
HRA Capital Resources Used:				
HRA Major Repairs Reserve	3,793	2,798	2,400	2,400
HRA Revenue Contributions	300	300	300	300
New Properties Reserve	391	417	488	647
Total Resources	**4,484**	**3,695**	**3,188**	**3,347**

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 investments and cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Its activities are strictly regulated by statutory requirements, the CLG's Investment Guidance and the CIPFA Treasury Management Code.

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 underlying capital appraisal systems. As part of the budget process, the council approves a series of Prudential Indicators that demonstrate that its activities are affordable, prudent and sustainable.

Investment Strategy – The primary principle governing the investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It 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; and
- It 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 prudential indicators covering the maximum principal sums invested.

Even with the Bank Rate increase from 0.25% to 0.50% in November 2017 investment returns of course remain low. Investments are regularly reviewed with a view to try and take advantage of the best rates available whilst minimising exposure to counterparty risk.

Councils should invest prudently and primarily seek to safeguard public funds rather than maximise returns. Security and liquidity should therefore take priority over yield. Thanet is diligent in ensuring that monies are only placed in secure and liquid investments and also uses a wide range of information to ensure it is making informed investment decisions.

Borrowing – Active management of the debt portfolio is an important part of the treasury management function. The council takes 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. There will need to be additional borrowing over the next few years to refinance maturing debt and for capital programme purposes. Decisions regarding options to take out borrowing or rescheduling or repaying debt will be taken in light of market conditions.

There are a number of factors that could impact on the interest payable/investment income:

- Bank Rate set by the Bank of England
- PWLB borrowing rate
- Cash flow variations
- Sums lost due to imprudent investment

These risks have been mitigated by seeking professional advice on interest rate forecasts, carefully modelling cash flow against anticipated financial forecasts and only investing with counterparties that meet the credit criteria set out in the Treasury Investment Strategy.

Managing the Financial Risks

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

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

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

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. There is regular monitoring through the financial year of performance against budgets and will revisions and reallocations will be made where necessary, subject to remaining within the overall available funding envelope. By monitoring the actual expenditure against budget in this way, resources can be allocated to best meet the needs of the council and provide a sustainable 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. 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 MTFS 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 10

Sensitivity Analysis

Area under consideration	**Sensitivity of Estimates 2018-19**
The opening base budget	The opening position of the 2018-19 budget is firm, as it is based on the budget approved in February 2017. The base for future years may change, however this would be identified as part of budget preparation work.
The pay estimates	A large discrepancy would be unlikely as the pay budget is built 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 difficult to predict.
The vacancy savings and post reduction estimates	For 2018-19 the vacancy abatement saving has been budgeted at approximately £300k which is equivalent to approximately 10 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 c2.5%. For every 1% change in inflation it equates to a difference of approximately £107k.
Pension Increases	Approximately £340k has been added since 2017-18 following the latest actuarial valuation results. The next valuation is due in 2020 and at this stage no allowance has been made for its impact, owing to it being subject to a number of complex and different factors.
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. Some £390k has been added into the budget for 2018-19 for increased income targets; however, service managers have included within that figure an assessment of the achievability of collecting the additional income.
Other savings estimates	The budget and Medium Term Financial Strategy reflects a £250k savings expectation from EKS. A 10% change to this figure would equate to £25k, regular monthly meetings are held with the Director of EKS to regularly monitor on performance.
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 minimum 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	The collection rate on the Council Tax base has been increased to 97.75% to reflect

Area under consideration	**Sensitivity of Estimates 2018-19**
Reduction Scheme	the collection trend experienced within 2017-18. This will need to be carefully monitored during the year.
Welfare Reforms	The impact of welfare reform changes is being felt in 2017-18 with significant pressure anticipated in subsequent years. Changes 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. With the impact being subject to so many factors it is not possible to attribute a % change equalling a certain cost. However, the MTFS has allowed for an additional £1m cost pressures in 2018-19 onwards as a result of the changes.
Settlement Funding	Government provides strong indicative settlement figures for 2018-19 and 2019-20. Revenue support grant is anticipated to end after 2019-20. The risk remains with the business rates baseline thereafter. A 10% change in baseline equates to £500k approximately.