

Medium Term Financial Strategy 2019-23

Cabinet	18 September 2018
Report Author	Tim Willis, Deputy Chief Executive and s151 Officer
Portfolio Holder	Cllr Ian Gregory, Portfolio Holder for Financial Services and Estates
Status	For Decision
Classification:	Unrestricted
Key Decision	No
Ward:	All Wards

This document sets out the key issues arising from Thanet District Council's Medium Term Financial Strategy (MTFS) for the next four years. The MTFS provides an integrated view of the whole of the council's finances and sets out objectives to be met, risks to be managed and the policies to be applied over the period.

Recommendation(s):

- 1 To approve the Medium Term Financial Strategy 2019-23.
- 2 To approve the Capital Strategy and Non-Treasury Management Investment Report as attached in Annexes 2 and 3.

CORPORATE IMPLICATIONS

Financial and Value for Money	The financial implications have been reflected within the body of the report. Achieving value for money is critical to the Council's medium term financial plan and one of the three Corporate Values.
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, it is the Deputy Chief Executive and s151 Officer, and this report is helping to carry out that function.
Corporate	Corporate priorities can only be delivered with robust finances and this report gives Members the opportunity to review the Council's current position.
Equalities Act 2010 & Public Sector Equality Duty	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.

	<p>Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.</p> <table border="1"> <tr> <td>Please indicate which aim is relevant to the report.</td></tr> <tr> <td>Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,</td></tr> <tr> <td>Advance equality of opportunity between people who share a protected characteristic and people who do not share it</td></tr> <tr> <td>Foster good relations between people who share a protected characteristic and people who do not share it.</td></tr> </table> <p>There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.</p> <p>It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council.</p>	Please indicate which aim is relevant to the report.	Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,	Advance equality of opportunity between people who share a protected characteristic and people who do not share it	Foster good relations between people who share a protected characteristic and people who do not share it.
Please indicate which aim is relevant to the report.					
Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,					
Advance equality of opportunity between people who share a protected characteristic and people who do not share it					
Foster good relations between people who share a protected characteristic and people who do not share it.					

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	✓
Promoting inward investment and job creation	✓
Supporting neighbourhoods	✓

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	

1.0 Introduction

- 1.1 This document sets out the key issues arising from Thanet District Council's Medium Term Financial Strategy (MTFS) for the next four years. The MTFS provides an integrated view of the whole of the council's finances and sets out objectives to be met, risks to be managed and the policies to be applied over the period.
- 1.2 Whilst this document is focused on the council's future financial position, it is helpful to look back on past circumstances.
- 1.3 It isn't that long ago where this council was exposed to and having to manage a number of significant financial risks. Decisions made in the past meant the council was having to "firefight" events rather than being able to focus on improving service delivery. As a result, reserves diminished and the delivery of the council's corporate priorities was compromised. Action had to be taken to get the council at least on a stable footing, to be able to build for the future.
- 1.4 The council has just had its 2017-18 accounts audited, which showed a satisfactory financial position and a modest restoring to reserve levels. The council secured an

unqualified value for money conclusion and unqualified audit opinion from the auditors. In its Audit Findings Report, Grant Thornton stated “the Council’s current reserves position, despite the improvement during 2017-18, does not provide much room for manoeuvre should the full range of savings not be identified”. In short, the council has still some way to go on its road to recovery.

- 1.5 The council, like all local authorities, is in a challenging period whilst central Government pushes on with its drive to reduce the national deficit. The Government is currently undertaking a Fair Funding Review and a review of business rates. In addition the autumn budget and the 2019 Comprehensive Spending Review will also have a significant impact on the future direction of the MTFS. Therefore, this document must be considered within the context of these external uncertainties.

2.0 Thanet District Council

- 2.1 Thanet includes the towns of Margate, Ramsgate and Broadstairs, is situated on the most north-easterly edge of Kent with coast on three sides. It has usable land area of 10,330 hectares and has 19 miles of nationally recognised coastline with Blue Flag award winning beaches and bays.
- 2.2 Thanet has a resident population of 139,800 (2015) which is growing at roughly 1% per annum. As a council it has responsibility for a wide range of services including grounds maintenance, parking, waste collection, planning, housing and homelessness to name a few. Its General Fund budget requirement, after allowing for income from fees and charges and grants etc, for 2018-19 is £16.8m.

3.0 Corporate Priorities and Values 2015 - 2019

- 3.1 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

Priority 2: Supporting neighbourhoods

Priority 3: Promoting inward investment and job creation

- 3.2 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

Value 2: Supporting the workforce

Value 3: Promoting open communications

- 3.3 Co-existing alongside the Corporate Plan are a number of other service-related plans, such as the Housing Revenue Account (HRA) Business Plan, individual service plans and capital and asset management strategies.
- 3.4 This Strategy provide a key link between all of these plans. It underpins these other strategic documents by translating the plans, actions and non-financial resources into financial terms so as to evidence their affordability and sustainability.

4.0 The Budget Strategy

- 4.1 Fundamental to the development of the budget and MTFS 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 next financial year. These principles are detailed below:
 - (i) To adequately resource the council's statutory services and the corporate priorities as set out within the Corporate Plan.
 - (ii) 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.
 - (iii) To maintain council tax increases as low as possible to avoid a local referendum.
 - (iv) To maintain the General Fund reserve at a level that is sufficient to cover financial risks and provide an adequate working capital.
 - (v) To maximise the council's income by promptly raising all monies due and minimise the level of arrears and debt write offs, so as to optimise treasury management potential.
 - (vi) To actively engage local residents in the financial choices facing the council.

- 4.2 The Budget Strategy for 2019-20 and its principles contained therein will be received by Cabinet in November 2018.

5 General Fund

- 5.1 The General Fund net budget requirement as approved at the Council meeting on 8 February 2018 was £16.8million.

Issues, Options and Analysis of Options

- 5.2 The Spending Review 2019 could potentially have a significant impact on the council's financial position moving into 2020-21. Planned Government Departmental reviews, future business rates retention proposals and the Government's Fair Funding Review means that projections can only be based on what is known currently.

Projected Funding

- 5.3 Table 1 outlines the projected funding for the Council.

Table 1 - Projected Funding

	2019-20 Indicative £'000	2020-21 Indicative £'000	2021-22 Indicative £'000	2022-23 Indicative £'000
Council Tax	10,205	10,630	11,056	11,507
Revenue Support Grant	97	0	0	0
New Homes Bonus	586	101	96	0
Business Rates	5,245	5,067	5,067	5,067
Other Grants	110	0	0	0
Collection Fund Surplus	100	100	100	100
Total Projected Funding	16,343	15,898	16,319	16,674
Cumulative Funding Reduction	457	902	481	126

- 5.4 **Council Tax:** It is anticipated that the Council Tax base will increase by 2% at Band D. The figures above also assume an increase in Council Tax of 3% in 2019-20 and £5 in future years.
- 5.5 **Revenue Support Grant (RSG)** will be phased out entirely by 2020-21. However, due to the complex formula the Government uses and subject to the Fair Funding Review and Business Rates reform, Thanet could be faced with a tariff/top adjustment which it is presumed will be top sliced from Business Rates income.
- 5.6 **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 has been changed to being paid for four years from 2018-19. 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 with the the Government considering a potential increase in the threshold in future. The council has for some time treated NHB as part of its core government funding. The MTFS does not anticipate any new NHB at this stage.
- 5.7 **Business Rates** - The MTFS assumes the council's existing baseline position for now. From 2020-21, there is going to be a re-set of the business rates system. The nature and impact of the reset will not be confirmed until during 2019.
- Pressures and Anticipated Savings**
- 5.8 The current pressures and anticipated savings are outlined in Table 2.

Table 2 - General Fund - Current Pressures and Anticipated Savings

	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000

Base budget 2018-19	16,800	16,800	16,800	16,800
Pressures/Savings				
Inflation	400	900	1,500	2,100
Your Leisure	190	190	190	190
Pension Fund Revaluation	0	0	200	200
Port	500	500	500	500
Net Cost of Borrowing	155	402	488	553
Loss of Housing Benefit Administration Grant	800	800	800	800
Fees and Charges	(200)	(400)	(600)	(800)
Homelessness withdrawal of growth	(250)	(500)	(575)	(575)
Net Transfers From Reserves	(220)	0	(150)	(150)
Total Pressures/Savings Required	1,375	1,892	2,353	2,818
Projected Budget	18,175	18,692	19,153	19,618

- 5.9 **Inflation:** For financial planning purposes a provision has been included for inflationary pressures.
- 5.10 **Your Leisure:** Shortfall in the 2018-19 savings target of £190k.
- 5.11 **Pension Fund Revaluations:** An allowance has been made for an increase in employer contributions following the next actuarial valuation.
- 5.12 **Port:** The Port is forecast to overspend this year, as it did last year. Some £500k growth has been included from 2019-20.
- 5.13 **Net cost of Borrowing:** This reflects the financing costs such as interest & Minimum Revenue Provision (MRP) for the Council's General Fund Capital Programme.
- 5.14 **Loss of Housing Benefit Administration Grant:** The housing benefits administration grant has been gradually reduced in previous years. Provision has been made in the MTFS to arrive at a more appropriate level of loss.
- 5.15 **Fees and Charges:** An increase of income by £200k per year is reflected.
- 5.16 **Homelessness:** The Housing Needs budget has been experiencing significant pressure due to increased demand for temporary accommodation and additional

statutory obligations. The 2018-19 budget was increased by to allow mitigating actions to be put in place. As these actions are implemented it is anticipated that this budget pressure will ease.

Reserves

- 5.17 **General Fund Reserves:** 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.
- 5.18 **Earmarked Reserves:** In addition to the General Reserve, a number of earmarked reserves are set aside for specific purposes. Essentially these allow income and expenditure to be smoothed and 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. 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. The earmarked reserves as at 31 March 2018 are listed in Annex 1.

Summary of General Fund

- 5.19 Table 3 shows the impact of all the above on the council's budget position if no action is taken.

Table 3 - Council's Budget Position with no action taken.

	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Net Forecast Spend	18,175	18,692	19,153	19,618
Total Forecast Funding	(16,343)	(15,898)	(16,319)	(16,674)
Funding gap if no action is taken	1,832	2,794	2,834	2,944
Working Balance b/f	2,011	179	(2,615)	(5,449)
Less: Funding Gap	1,832	2,794	2,834	2,944
Working Balance c/f	179	(2,615)	(5,449)	(8,393)

5.20 Table 3 identifies a potential funding gap of over £10.4m over the next 4 years if no action is taken. This is clearly not financially sustainable and the council is currently considering a plan to reduce costs and generate significant income to the council in order to bridge the funding gap. Some of the themes to be adopted are:

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

6 Housing Revenue Account (HRA)

- 6.1 The Housing Revenue Account is used by the Council to record the income and expenditure relating to the provision of its council dwellings and related services. The Housing Revenue Account has to be budgeted and accounted for separately and strict rules govern what can be charged to this account.
- 6.2 The main source of income into the HRA is the rental income from the properties let by the Council. Rents are calculated in line with government guidance. Both social and affordable rents will continue to be reduced by 1% in 2019-20, in accordance with the Welfare Reform and Work Act 2016. From 2020-21 to 2024-25, rents can be increased by CPI +1%. Further guidance will be issued for the period 2025-26.
- 6.3 The HRA Business Plan is currently being reviewed following the completion of the stock condition survey and the announcement regarding the rent increase period. The business plan will inform future HRA capital programme funding.
- 6.4 Government have recently announced a new bidding programme, where selected Local Authorities can bid for additional borrowing to increase the supply of new affordable council homes. The reviewed business plan will inform affordability and funding.

7 Capital Strategy

- 7.1 A revision to the CIPFA Prudential Code for Capital Finance in Local Authorities was issued in December 2017, with a new requirement being that local authorities produce a Capital Strategy for consideration and approval by Members.
- 7.2 The Capital Strategy forms part of this council's integrated revenue, capital and balance sheet planning. Capital expenditure and associated investment decisions are

taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. Due consideration is given to both risk and reward, and impact on the achievement of priority outcomes.

7.3 Recent budget monitoring and the 2017-18 out-turn have brought to the forefront the significant level of in-year under spending and carry forward of capital budgets. In response to this issue, the Capital Strategy makes provision for changes in the way that the Capital Programme can be monitored and managed from now on.

7.4 The Capital Strategy is attached at Annex 2.

8 Non-Treasury Investments

8.1 A revision to the CIPFA Treasury Management in the Public Services Code of Practice was issued in December 2017, with a new requirement being that local authorities produce a Non-Treasury Investments Report for consideration and approval by Members. It is appropriate to include this new requirement within the MTFS.

8.2 'Treasury management investments' activity covers those investments which arise from the council's cash flows and debt management activity, and ultimately represents balances which need to be invested until the cash is required for use in the course of business.

8.3 'Non-treasury investments' are investments in financial assets and property primarily for service purposes and/or financial return that are not part of treasury management activity.

8.4 The Non-Treasury Investments Report is attached at Annex 3.

Contact Officer:	Ramesh Prashar, Head of Financial and Procurement Services and Deputy s151 Officer
Reporting to:	Tim Willis, Deputy Chief Executive and s151 Officer

Annex List

Annex 1	Earmarked Reserves as at 31 March 2018
Annex 2	Capital Strategy
Annex 3	Non-Treasury Investments Report 2018-19

Background Papers

Title	Held in Financial Services
--------------	----------------------------

Corporate Consultation

Finance	N/A
Legal	Sophia Nartey Head of Legal Services