

Medium Term Financial Strategy 2020-24

Cabinet	14 January 2020
Report Author	Tim Willis, Deputy Chief Executive and s151 Officer
Portfolio Holder	Cllr Rob Yates, Portfolio Holder for Financial Services and Estates
Status	For Decision
Classification:	Unrestricted
Key Decision	No
Ward:	All Wards

Executive summary:

This document sets out 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.

Recommendations:

1. To approve the Medium Term Financial Strategy 2020-24.

CORPORATE IMPLICATIONS

Financial and Value for Money	The financial implications have been reflected within the body of the report.
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.

	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.
	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.
	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.

CORPORATE PRIORITIES (tick those relevant)✓	
Growth	✓
Environment	✓
Communities	✓

1. 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, 2020-24. 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. Over the last four years, the council has been exposed to and had to manage a number of significant financial risks. Decisions made in the past meant the council had to "firefight" events rather than being able to focus on improving service delivery. Even this year, for example, an outstanding claim has only just been settled in relation to live animal exports, regarding the closure of Ramsgate port in 2012. As a result, reserves remain low and the council has been forced to adopt a risk-averse position. The financial management culture of the organisation still requires improvement, but some action has been taken to stabilise finances and be able to build for the future.
- 1.3 The council's 2018-19 accounts showed a satisfactory financial position and a modest restoration of reserves. The council secured an unqualified audit opinion from the auditors (although the value for money opinion is still outstanding,

pending resolution of objections to the accounts). In its Annual Audit Letter, Grant Thornton stated:

“The Council is continuing to face pressure on its financial budget in a number of areas, including the demand for temporary accommodation ... A budget gap of £1.8m was identified for 2019/20 in the MTFs 2019-23. Budget gaps exist in the following years covered by the MTFs. The Council needs to manage its resources carefully to ensure a sustainable future ahead of the 2020 Funding Settlement. Brexit potentially adds another unknown factor to this challenge”; And “The council needs to continue to look longer term to ensure that savings needed for later years are being considered in a timely manner to reduce the risk of reserves being put under even further pressure in later years”.

- 1.4 The council, like all local authorities, is in a challenging period, with a new Government elected in December 2019; Brexit creating macro-economic uncertainties; delayed central government announcements regarding the Spending Review and local government financial settlement for 2020-21; and ongoing reviews of Fair Funding and Business Rates.

2. Corporate Priorities 2019 - 2024

- 2.1 The council’s Corporate Statement for 2019-24 was approved by Council on 10 October 2019. The plan sets out the council’s programme of priorities and identifies three core aims that will help focus efforts towards achieving the vision:

Growth: We will continue to ensure we work to consider new ways to generate income and invest our current resources. Delivering a Council that is financially strong to discharge its services and invest in the growth of the District.

Environment: Having a clean and well-maintained environment remains important to us. We will be clear with our residents on what we will do and what our asks of residents are - cultivating a shared responsibility approach. Delivering a clean and accessible living environment, maintaining an emphasis on prevention but where necessary we will use an enforcement approach.

Communities: Through effective partnership working with both the public sector agencies and the community, we will provide leadership and direction across the district and the region to ensure everyone is working to the same goal. Delivering high-quality housing, safer communities and enhancing the health and wellbeing of our residents.

- 2.2 Co-existing alongside the Corporate Statement 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.
- 2.3 This MTFS provides 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.

3. General Fund - funding

- 3.1 The General Fund net budget requirement is in the order of £17million.
- 3.2 The Spending Review 2019 (now due in 2020), along with the aforementioned reviews of funding and business rates, could potentially have a significant impact on the council's financial position throughout the MTFS period. Table 1 outlines the projected funding for the Council.

Table 1 - Projected Funding

	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Business Rates	-5,910	-5,474	-5,573	-5,673
Revenue Support Grant	-100	0	0	0
New Homes Bonus	-118	-109	-13	-0
Other Grants	-210	-110	-110	-110
Collection Fund surplus	-120	-120	-120	-120
Council Tax income	-10,610	-10,990	-11,380	-11,780
Net Financing	-17,068	-16,803	-17,196	-17,683

- 3.3 **Council Tax:** It is anticipated that the Council Tax base will increase by 1.5% at Band D from 2020-21. The figures above also assume an increase in Council Tax of 2% in future years.
- 3.4 **Revenue Support Grant (RSG)** is due to be phased out at the same time as the outcome of the Fair Funding Review and Business Rates reform, planned to be 2021-22. The MTFS assumes RSG of zero from 2021-22.
- 3.5 **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 was previously paid for the following six years and was then reduced to four years from 2018-19. Additionally, there is a threshold applied, below which no NHB is paid. This threshold was 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 2020-21 provisional settlement allowed for a one-year-only payment of NHB in 2020-21, but none is due to TDC. The MTFS does not anticipate any new NHB apart from a small amount related to affordable housing growth (which is not subject to a threshold).

3.6 **Business Rates** - The MTFS assumes the council's existing baseline position for now. From 2021-22, 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 next year.

4. Pressures and Anticipated Savings

4.1 The current pressures and anticipated savings are outlined in Table 2 below.

Table 2 - General Fund - Current Pressures and Anticipated Savings

	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000
Base budget 2019-20	16,643	16,643	16,643	16,643
External Pressures				
Contractual Inflation	371	635	907	1,187
Pay and Inflation	483	924	1,369	1,816
Ongoing 2019-20 pressures	290	100	100	100
2020-21 Savings assumed 19-20 not deliverable	225	225	225	225
Income Generation				
Fees and Charges	-208	-416	-624	-832
Total Pressures/Savings Required	1,161	1,468	1,977	2,496
Contribution to/from reserve	86	0	0	0
Efficiencies				
2020-21 MTFS Savings	-522	-411	-394	-434
External Funding	-300	0	0	0
Future Year MTFS Reviews		-897	-1,030	-1,022
Projected Budget	17,068	16,803	17,196	17,683

4.2 **Contractual Inflation:** For financial planning purposes a provision has been included for inflationary pressures including such items as utilities, fuel, etc.

4.3 **Pay and Inflation:** For financial planning purposes a provision has been included for pay related items including inflation and incremental progression.

4.4 **Ongoing 2019-20 pressures:** Pressures from 2019-20 expected to continue into 2020-21 and beyond.

4.5 **2020-21 Savings assumed as part of the 2019-23 MTFS not deliverable:** This represents savings that have been revisited as part of the revised MTFS that can no longer be delivered.

4.6 **Fees and Charges:** An increase of income by £208k per year is reflected.

5. Reserves

5.1 **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. The general reserve, or contingency, of £2m is considered to be the minimum required for the planning period.

5.2 **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 the annual budget. 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 recent years 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. The earmarked reserves as at 31 March 2019 are listed in Annex 1.

6. General Fund Financial Strategy and Corporate Priorities

6.1 Investment and Growth

6.1.1 In order to create a platform for investment and growth, the council's primary objective has been, and continues to be to stabilise its financial position. This is being achieved by de-risking where possible and gradually building its reserves from a precipitous position four years ago, to a more stable and sustainable level. Although the council still holds a relatively low level of reserves, it will nonetheless use available capital and revenue funds to invest in services and assets in order to facilitate growth.

6.1.2 We will review the asset management strategy, ensuring that community assets are maintained and brought back into use where possible. This will be achieved in part by disposal or transferring ownership to community groups, including town and parish councils. Assets held for investment will be maintained in order to earn a return, with rent reviews being brought up to date. Where the return is considered insufficient, disposal will be considered. The creation of new investment assets, such as housing for market rent (through a housing company) or new beach huts, will be explored to create additional income.

6.1.3 Operational assets including offices and depots will be made fit for purpose and rationalised where necessary. This will include the Cecil Street offices, where the future needs of the council after consideration of digital and IT infrastructure investment and new ways of working, coupled with the potential regeneration benefits of the office site, will lead to a long term plan of relocation. We will continue

to look for a viable future for the Port of Ramsgate and the Royal Harbour for the benefit of the town and the wider district.

6.1.4 In-sourcing and the expansion or redesign of existing services will be investigated with a view to generating income. These will include:

- The creation of a housing company to develop accommodation for market rent and possibly sale.
- Consideration of using the Minor Works team to generate income from selling handyperson services.
- A review of printing services income and expenditure including scope to in-source more printing.
- Growth in income generated from fees and charges.
- Investigation of the appetite with our partners for more shared services including leadership teams.
- Seek to expand the CCTV service to sell to other external organisations.
- Drive to increase the use of direct debits to improve income collection across all chargeable services.

6.2 Environment

6.2.1 Following the declaration of a climate emergency, the council plans to implement recommendations arising from the climate change strategy, including a tree planting programme. We will review the recycling service and engage with the community to increase recycling rates; and maximise the use of smart bins to further improve the efficiency of emptying schedules. We will review energy spending in order to reduce energy usage. We will explore an in-house grounds maintenance service for housing works and halt the use of pesticides. Finally, a climate change manager will be established to implement the above and other initiatives.

6.2.2 In keeping with resident priorities, we will deliver a clean and accessible living environment, maintaining an emphasis on prevention but where necessary we will use an enforcement approach. This will include an examination of fairer ways of charging for refuse and recycling bin replacements; extending the use of mechanical street sweeping equipment; and a full and thorough review of our public toilet facilities including providing incentives for businesses to make good quality facilities available to the public.

6.3 Communities

6.3.1 The council will continue to play an active part in the Kent and Medway Economic Partnership, South East Local Enterprise Partnership, East Kent Opportunities and other regional bodies to maximise growth and development within the policies set out in the Local Plan. One example of this is the commitment to Parkway station, where £2m has been set aside in the capital programme as TDC's contribution to the £34m scheme, which will help enable inward investment and economic development. We will encourage the rejuvenation of our high streets by supporting the growth of our creative industries and with partners, bid for funding to support that growth.

6.3.2 The council's partnership with Dreamland's operator, SHL, the Dreamland Trust, and funders is planned to deliver a solution to the long term, sustainable future for Dreamland. This follows the decision to dispose of the council's interest to SHL, who hold a lease in respect of the park. The receipt from the sale will enable the repayment of debt related to TDC's past investment in the site and the ongoing savings in debt repayments can be used to offset the lost car park income, and may allow some additional provision for costs associated with the CPO compensation. Strategically, the disposal will remove liabilities from TDC's balance sheet and create the conditions for the regeneration of that part of Margate.

6.3.3 The council is currently consulting on the transfer of responsibility for the management of housing from East Kent Housing to direct control by TDC. This follows an Improvement Plan in January 2019 which has yet to be delivered; and a series of audits and reviews into EKH's management of tenant health and safety. The anticipated consequences of the changes and improvements have been factored in to the council's HRA. This includes the need to fund the costs of transition and the long term revenue and capital investment in the housing stock, especially in light of a range of health and safety works that have come to light over the last year.

6.3.4 In addition to these strategic plans, the council is planning:

- The development of Enterprising Thanet, a "buy local" strategy based on the Preston Model. It is designed to maximise the benefit of council spending on local businesses, employment and the environment. We plan to work more closely with businesses and public sector partners to encourage local spending and increase the capacity of local businesses to respond to the initiative.
- Investigate the possibility of contactless donations in public areas to help fund good causes such as help for the homeless or other local services. It would not be the intention to use any donations to replace TDC funding.
- To review the council's governance structure. This will consider alternatives to the current Cabinet model, including a committee structure; it will investigate the best way in which councillors can support any changes; and consider any changes needed to the council's constitution.

7. Housing Revenue Account (HRA)

7.1 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.

7.2 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. It is proposed in the budget report to increase rents by CPI+1% in 2020-21, following a period of

enforced rent reductions in accordance with Government rules. This increase will help recover the long term HRA financial position and help bring social housing rents into a more comparable position with the affordable and private rented sector.

7.3 The HRA Business Plan is currently being reviewed in light of the potential to bring the council's housing stock under direct managerial control and the additional investment needed to fund a raft of health and safety issues.

7.4 The four-year revenue budget for the HRA is set out in Annex 2.

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Annex List

Annex 1	Earmarked Reserves as at 31 March 2019
Annex 2	HRA Revenue budget 2020-21 to 2023-24

Background Papers

Title	Held in Financial Services
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Corporate Consultation

Finance	N/A
Legal	Tim Howes, Director of Corporate Governance