



The Medium Term Financial Plan 2010 - 2015

Thanet District Council

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The Medium Term Financial Plan 2010 - 15

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Introduction

The Medium Term Financial Plan (MTFP) sets out the Council's strategic approach to the management of its finances and presents indicative budgets and Council Tax levels for the medium term. It covers the General Fund Revenue Account, the Housing Revenue Account and the Capital Programme, and includes grant funded projects. It also comments on the significant risks facing the Council in the forthcoming years and explains what the Council is doing to reduce those risks.

The Medium Term Financial Plan can not exist in isolation. The costs of the Council are driven by the broad range of services it provides and statutory activities that it undertakes and so linkage to the Council's business planning activity is fundamental to its development. The MTFP therefore represents a robust model of the financial requirements of the Council for its planned levels of service delivery in the medium term. As a result, the Council can look to the future in the knowledge that its Corporate Plan and individual Service Plans are able to be adequately resourced.

The previous Medium Term Financial Plan was approved for the period 2009/10 to 2011/12. The principles outlined within this Plan were used to develop the Council's budgets for 2009/10 and enabled financial projections to be made for the following two years. However, no environment remains static - in particular, the current economic climate has had considerable impact on the Council. While the whole of local government has been hit by the recession, district councils have arguably suffered more than other tiers because of their strong reliance on revenue from interest on reserves and fees and charges. The Council has seen reduced investment receipts following a reduction in the Bank of England base rate to an historic low of 0.5%. A number of income streams have also been affected by the recession, particularly planning fees, building control and land charge income, Port income, car parking and green waste income. In the current economic climate, selling assets does not necessarily represent value for money for the taxpayer and so the Council's ability to generate savings from releasing capital resources has been severely limited to the detriment of the Council's capital programme. The Council's MTFP has therefore been reviewed and updated to reflect these pressures, as well as to reflect new developments and changes to internal policies and practices.

The Five-Year Financial Strategy

In order to be able to deliver the Council's aspirations as set out in its Corporate Plan, meet its statutory responsibilities, and at the same time be attentive to the needs of its communities, the Council must take a very proactive approach to managing its resources effectively so that it can adequately fund its business plans yet keep Council Tax increases as low as possible. The Medium Term Financial Plan is seen as a key tool for proactive financial management. It is used as the basis of the annual budget setting process to ensure that the Council's resource needs for the forthcoming year are sufficient and aligned to the correct services; but also allows for future projected funding requirements to be identified far enough ahead so as to be able to take appropriate action to deal with any anticipated funding shortfalls.

Separate five-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 that will deliver the aspirations of the Council over the medium term.

Executive Summary

The National Economic Outlook

National debt has increased significantly in the last couple of years due to the financial bailout of Northern Rock and the Royal Bank of Scotland, the nationalisation of Bradford and Bingley and the Government purchase of shares in major banks like HBOS. The Government intervened in the banking system to reinforce the stability of the financial system, with particular reference to enabling banks to increase their capacity to lend and in turn support the growth of the economy. The Pre-Budget Report confirms the intention of the Government to secure the long term stability of the national economy. It also reaffirms the Government plans to reduce borrowing to 5.5% of GDP in 2013/14, consistent with debt falling in 2015/16. These plans will inevitably result in cuts in public spending.

The Local Government Finance Environment

Local Government in general, and district councils specifically, are facing the toughest financial outlook for many years. The Government is committed to existing 2010/11 spending plans, however, there remains uncertainty about funding for most areas of local government beyond 2011. The Government has stated its commitment to protect funding for education, police and health. It follows that this will result in reductions in funding to other areas and therefore local authorities will need to plan on the basis of significant cuts from 2011 onwards. Further, given that both main opposition political parties have stated that the plans to reduce public sector debt are not sufficiently ambitious, it is reasonable to assume that if there is a change in government, the level of required savings will be even higher.

For the purposes of the MTFP, a cut of 3% in Government funding has been assumed each year for 2011/12 to 2014/15. This assumption has been based on the views expressed by a number of commentators, whose views can range from an optimistic 0% growth to a pessimistic -8% reduction. A settlement that remains at its current level (i.e. 0% reduction) would change the bottom line by providing an additional £1.53m more than currently predicted over the 5 years (i.e. a 3% cut); whereas a reduction of 8% would require additional savings of £2.24m over that currently targeted over the full 5 years of the MTFP.

Meeting the Community's Needs

In 2007 the Council approved the Corporate Plan 2007 – 2011, which set out our aims and ambitions for Thanet across six key themes: Thanet's Economy, Safe Neighbourhoods, Beautiful Thanet, Quality Housing, Healthy Communities and Modern Council. Building on previous plans, this latest offering was shaped by numerous consultations with our communities and partners from both the public and private sectors. In response to the economic environment, the Corporate Plan is being refreshed and a number of projects are being removed or re-phased. However, we are confident that in following this revised plan our actions will still meet the needs of the many communities within the District and will contribute to making Thanet a better place to live, work and visit.

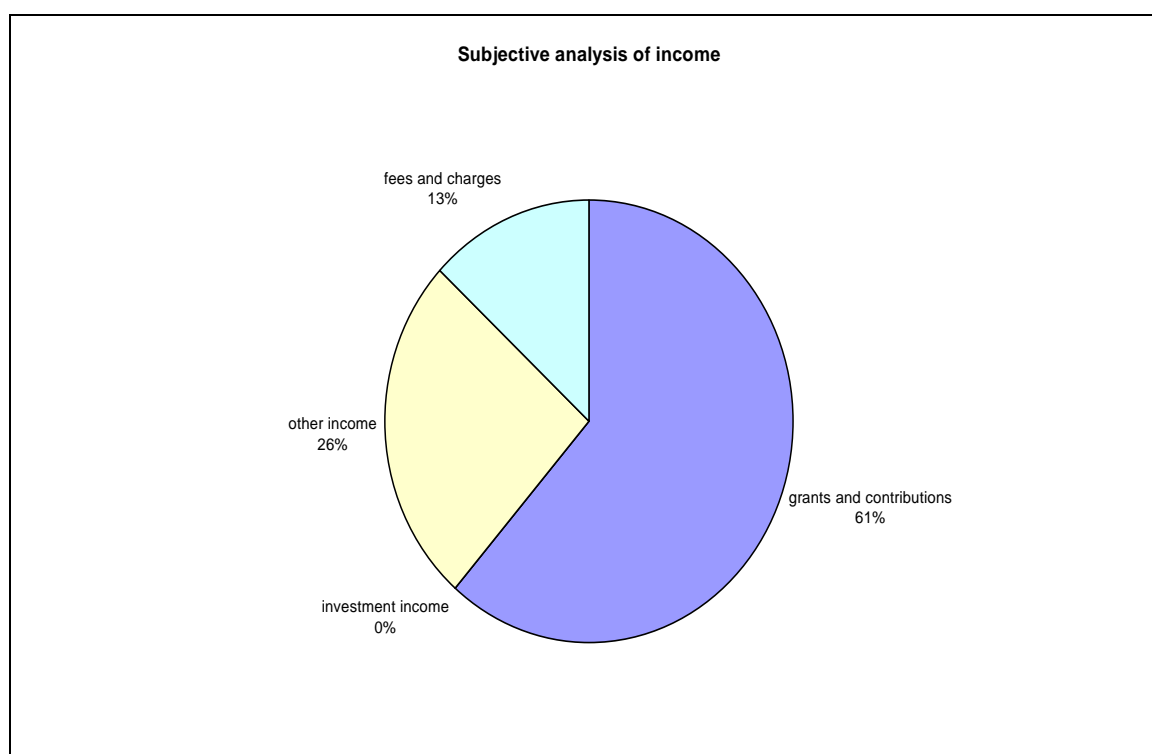
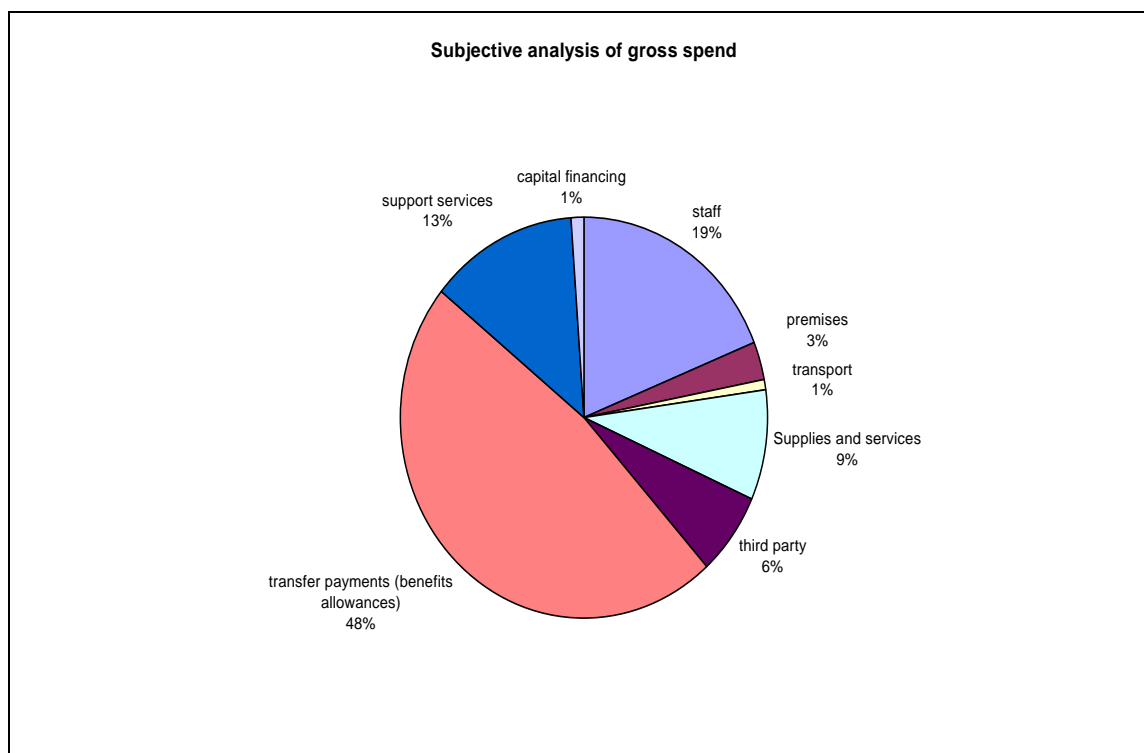
The Medium Term Financial Plans

The Council's finances are captured within three different plans. A separate one exists for the General Fund Revenue Account; the Housing Revenue Account; and the Capital Programme, which contains financial projections for both General Fund and Housing Revenue Account capital expenditure.

The General Fund Revenue Account

The General Fund Revenue Account is where all of the expenditure and income that relates to the day-to-day running costs of the core services of the Council is recorded.

The pie charts below show the subjective analysis of the Council's gross spend and income.



The net budget requirement (after taking into account income from fees and charges and other specific grants) is met by a combination of Central Government Grant (59%) and Council Tax (41%). With more than half of the Council's net budget being funded from Government Grant, a reduction in this funding as

predicted from 2011/12 makes the task of continuing to improve and evolve whilst honouring the commitment to keep Council Taxes as low as possible very difficult to achieve.

Identifying value for money efficiencies is therefore fundamental to the decision making processes of the Council. The Council has a good history of having achieved efficiencies through smarter procurement, collaboration with others and through improvements to business processes. However, with the financial outlook over the medium term not improving, more savings are needed in order to balance the Council's budget. A sum of £6.3m is required to be saved over the period of this plan. The Value for Money and Improvement Programme will continue to be a key vehicle in delivering these savings and will include a range of service reviews, which will look for greater efficiencies and policy direction to determine its non-priority services.

The budget estimates for the General Fund Revenue Account over the next five years are summarised in Table 1.

Table 1

Summary General Fund Revenue Proposals 2010 – 15

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Net Budget Requirement	23,056	22,997	22,913	22,853	22,807
Increase in Requirement	1.62%	-0.25%	-0.36%	-0.26%	-0.20%
Increase in Council Tax	2.46%	2.49%	2.47%	2.53%	2.47%

Reserves

Councils must have regard to the level of reserves needed for estimated future expenditure when calculating the budget requirement. The Council has reviewed its level of reserves, taking account of the financial risks that could pose a threat to the Authority over the medium term. As a result of this exercise, the Council has set its optimal level of general reserves at 10% of the net revenue budget, which is felt to be a sufficient level of contingency. The budget proposals will result in a balance on general reserves at 31 March 2011 of £1,883k which is only 8.16% of the 2010/11 net revenue budget requirement. Every effort will be made to replenish the General Reserve to the recommended level at the earliest opportunity from in-year underspends.

In addition to the general reserve, a number of earmarked reserves exist. These are sums set aside for specific purposes and essentially allow funds to be saved over a number of years for large and often one-off items of expenditure, thereby smoothing the impact on Council Tax. The need for these reserves has also been considered over the medium term.

The Housing Revenue Account

The Housing Revenue Account is used by the Council to record expenditure and income that relates to the operation of its council houses. These include costs of maintaining the houses, expenses for running communal areas and the overheads associated with council house services.

The Housing Revenue Account sits outside of the Council's own accounts and has to be budgeted for separately. Strict rules govern what can be charged to this account. Any money remaining in the budget at the end of the financial year is carried forward in a special reserve for future housing needs and can not be used by the Council for other purposes.

The budget projections for the Housing Revenue Account for the medium term are shown in the table below.

Table 2

Summary Housing Revenue Account Revenue Proposals 2010 – 15

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Expenditure	9,628	9,480	9,507	9,893	10,209
Income	(11,181)	(11,365)	(11,626)	(11,893)	(12,387)
Net Cost of Services	(1,553)	(1,885)	(2,119)	(2,000)	(2,178)
Asset Interest Charge	1,077	1,131	1,167	1,139	1,139
HRA Investment Income	(49)	(141)	(188)	(188)	(188)
Net Operating Expenditure	(525)	(895)	(1,140)	(1,049)	(1,227)
Housing Revenue Account Balance:					
Surplus(-)/Deficit at the start of the year	(8,254)	(8,779)	(9,674)	(10,814)	(11,863)
Surplus(-)/Deficit at the end of the year	(8,779)	(9,674)	(10,814)	(11,863)	(13,090)

The Capital Programme

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

Although the Council can borrow to fund its capital expenditure, the cost of the repayments often makes this option unaffordable and so its future capital requirements in the medium term will depend upon a well managed programme of asset disposals; using assets that are no longer suitable or cost effective to fund the acquisition and development of assets for improved service delivery. The Council's Asset Management Strategy provides the framework against which this process is managed to ensure that the best decisions are taken at the right time. In the current economic climate, selling assets does not necessarily represent value for money for the taxpayer and therefore the planned disposal of some assets has been put on hold until market conditions pick back up. This has inevitably resulted in reduced capital receipts which in turn means that the Council's resources for capital spend has been significantly reduced. It is important, therefore that only the most important schemes are selected against the limited resources. The proposed programme has been driven predominately in response to health and safety issues. It also addresses those priorities as identified in the public consultation carried out as part of the 2009/10 budget process.

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

Table 3

The Capital Programme 2010 – 15

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Statutory and Mandatory Schemes	1297	1297	1297	1297	1297
Schemes continuing from prior years	200	400			
Annual Enhancement Schemes	50	50	50	50	50
Wholly Externally Funded Schemes	1774	2650	600	0	0
Corporate Plan Schemes	133	194	19	19	19
Replacements and Enhancements	2454	2000	50	0	50
Area Improvement	5650	0	0	0	0
Housing Revenue Account Schemes	4773	2865	2259	2259	2259
Total Capital Programme Expenditure	16331	9456	4275	3625	3675
Capital Resources Used:					
Capital Receipts and Reserves	1806	1825	500	450	500
Capital Grants and Contributions	10615	6531	3675	3075	3075
Contributions from Revenue	100	600	100	100	100
Supported Borrowing	1703	0	0	0	0
Prudential Borrowing	2107	500	0	0	0
Total Funding	16331	9456	4275	3625	3675

Detailed Medium Term Financial Plan

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

The Local Government Finance Environment

The cost of local authority services such as those provided by Thanet District Council are funded primarily from fees and charges for services, General Government Grant, the Council Tax and other grants.

The Council is able to generate a substantial amount of income from charging for a range of discretionary services, however the ability to raise revenues through this route is limited, due to the constraints that are placed on the Council through a variety of different pieces of legislation.

The General Government Grant is allocated by a complex model which amongst other things takes account of the relative need of an area and the ability to raise taxes locally (based on an area's council tax base). Typically district council services have not fared well in the allocation of the General Government Grant, with services such as Education and Health having received the lion's share in recent years. To give some degree of consistency from year to year, the Government sets a minimum level of grant increase, known as 'a floor', for different types of service which guarantees all local authorities will at least receive some grant. The floor for District Councils has been set at only 0.5% for 2010/11. However, there are no additional funds to pay for this guaranteed minimum and so those authorities that receive more than this minimum have their grants reduced in proportion to how much over the minimum they are to cover it, known as 'scaling back'. Thanet District Council falls into this category and therefore the grant has been reduced by £111.3k in 2010/11. This means that the increase in the Formula Grant for 2010/11 after the scaling back is only 1.1%. For the purposes of this MTFP, it has been assumed that the Formula Grant will be cut by 3% in each year from 2011/12 to 2014/15. This assumption is based on views expressed by commentators, whose predictions range from an optimistic 0% increase to a pessimistic cut of 8%.

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

Capping – for some years Local Authorities have had to operate within what is referred to as a 'capping regime'. Capping powers are used by the Secretary of State to enforce local authorities to set Council Tax increases which don't exceed Government expectations. Each year, as part of the finance settlement, the Government announces its limits for Council Tax increases. The Parliamentary Under Secretary of State has stated, in her written statement:

"I am pleased that the average band D council tax increase this year was 3.0% - the Government expects to see it fall further next year while authorities protect and improve front line services. We expect the average Band D council tax increase in England to fall to a 16 year low in 2010-11. We remain prepared to take capping action against excessive increases set by individual authorities and requiring them to rebill for a lower council tax if necessary."

It is reasonable therefore to expect that the actual 2010/11 Council Tax capping criteria, for individual authorities, will be reduced from the 5% absolute limit used in previous years, possibly to even below 3%, although this has not yet been confirmed. The Medium Term Financial Strategy has been developed to give Council Tax rises of 2.5% so as to accord with this.

Although the Council is also responsible for collecting business rates across the District, these are paid over to Government and the Council is not able to use any of this to fund its services directly (although an element of business rates does form part of the Formula Grant).

As a result of the dependence upon Central Government funding and the raising of revenues from its communities, the development of the Council's budget and Medium Term Financial Plans can not be undertaken in isolation. They must take into account the national economic context as it affects the Local Government Settlement and the ability to increase revenues locally.

The Efficiency Agenda and Value for Money

With an ever increasing demand for council services and the tight financial environment of recent years, efficiency and value for money are fundamental to the decision making processes of the Council, particularly where they relate to contracting and service provision.

Simplistically, efficiency can be defined as getting the same output for a reduced input, or achieving greater outputs for the same input. Efficiency is one of three strands that comprise value for money; the others being 'economy' which measures whether the total cost is reasonable and 'effectiveness' which considers whether the outputs are appropriate.

The CSR value for money target across central and local government was originally £30 billion of savings by 2010/11, subsequently increased to £35 billion. Of this, £5.5 billion cash-releasing efficiencies are required by 2010/11 for local authorities. This is expected to be delivered by ongoing business improvements, such as using collaborative initiatives and smarter procurement as well as better asset management. The Pre-Budget Report sets out a number of efficiency savings identified by the Government's Public Value Programme and the Smarter Government report published on 7 December 2009. Smarter Government is expected to deliver £11bn savings a year by 2012/13, of which £550m specifically relates to local government. Further to this, the Public Value Programme has identified efficiency savings of £5bn across the public sector by 2012/13. A number of these efficiencies have been identified to come from local government, including more efficient waste collection and disposal; reducing duplication and inefficiency between different tiers of government; reducing the burdens of inspection, assessment and reporting requirements across government; improvements to the administration of concessionary fares; reducing regeneration spending; and clamping down on fraudulent access to social housing tenancies.

The Council has a good history of having achieved efficiencies through smarter procurement, collaboration with others and through improvements to business processes and will continue to strive for continual improvement in these areas. The Council's commitment to managing its resources efficiently and effectively will be reflected in its Budget and this MTFP through the realisation of savings which will be used to fund growth requirements arising from emerging service pressure, as well as enable Council Tax increases to be kept to a minimum.

How the Council intends to approach the delivery of efficiencies in the future is captured in the 2010 - 2015 Value for Money (Efficiency) Strategy, which outlines the steps that will be taken over the medium term to maximise the gains realisable from efficiency measures, and to provide evidence of the Council's performance in achieving value for money. In line with this strategy, the Council has a Value for Money Review Programme, progress against which is reported to Members.

The 2010 – 2015 Value for Money Strategy

The Council continues to be committed to delivering its services efficiently, effectively and economically. In order to make improvements in this area it will:

- Put in place management arrangements to deliver continuous Value for Money (Efficiency) improvements.
- Assign clear lines of ownership of all efficiency targets; and ensure that adequate resources are made available to enable delivery of the action plans that are designed to achieve efficiency savings.
- Undertake a series of data analysis and benchmarking exercises to identify target priority areas for efficiency gains across the whole organisation.
- Foster a culture where employees and Members are open to the possibilities presented by new ways of working through innovation and the use of technology.
- Take a strategic approach to asset management to ensure that value for money is obtained from all council assets, taking into account an equivalent revenue rate of return where appropriate.
- Take a medium term view of business improvements, to include consideration of the whole-life costing where appropriate and the use of invest to save funds to pump-prime projects for which future returns are expected.
- Operate appropriate arrangements to monitor the delivery of planned efficiencies.

The Local Context

Quality Services Directed Towards Community Priorities

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

But each local area or district will have its own particular needs and so, in addition to its statutory services, most councils also provide a range of services that are discretionary, where it believes the outcomes of providing a particular discretionary service are worth the inputs in terms of resources needed.

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

Members and Officers alike have high aspirations for the Council but the constraints on the budget mean that services and future developments need to be prioritised. In some cases, planned service enhancements have had to be scaled back and future investments re-phased. The Council will develop its future budget plans to protect its key priority services, such as Street Cleansing, Refuse Collection and Recycling; and Community Safety and Crime Reduction from budget reductions that will threaten service delivery, as far as possible.

The Corporate Plan Framework

The Council's overarching aims and objectives are set out in its Corporate Plan against six key themes, or strategic improvement areas. Co-existing alongside the Corporate Plan are a number of other service related plans, such as the HRA Business Plan, the Waste Management Strategy and individual Service

Plans; as well as capital and asset related strategies, which include the Asset Management Strategy, the Information and the Computer Technology (ICT) Strategy, the Procurement Strategy and the Accommodation Strategy.

This Medium Term Financial Plan and the Annual Budget Report provide a key link between all of these plans. They underpin all of these other strategic documents, by translating the plans, actions and non-financial resources into financial terms so as to evidence their affordability and sustainability. In addition to presenting the budget projections of the Council's plans, these financial strategy documents cover the planned approach to the financial management arrangements needed to obtain the maximum value out of the Council's assets, which is captured within the Value for Money Strategy, the Treasury Management Strategy and the Prudential Indicators.

The Corporate Plan sets out its ambitions for Thanet for 2007 to 2011 across six key themes:

- Improving Thanet's Economic Prosperity
- Safe Neighbourhoods
- Keeping Thanet Beautiful
- Decent Quality Housing
- Supporting Healthy and Cohesive Communities
- Modern Council

In response to the economic environment, the Corporate Plan is in the process of being refreshed. The budget proposals have been worked up with the revised Corporate Plan in mind,

It is essential that each of the commitments as set out in the revised Corporate Plan are adequately planned for and resourced. Costs have therefore been provided for in this MTFP based on the spending projections for each initiative.

Developing the Council's Financial Plans

This part of this MTFP sets out the resource considerations surrounding the achievement of the aims of the Council given the changing environment in which it operates. It covers the development of the budgets for the General Fund and Housing Revenue Accounts over the medium term outlining the financial resources needed to support the day to day activities of the Council as well as planned investment in its assets.

Medium Term Financial Planning

Councils are required by law to set their budgets in advance of a financial year so to enable the Council Tax to be set. A budget is simply a plan expressed in financial terms, whereas medium term financial plans recognise the need to plan for longer timeframes and present indicative budgets for a number of years.

Given the relatively long time between when the MTFP is drafted and the final year that it covers (year 5) the budget projections within it are provisional and will need to be reviewed as part of subsequent years' budget setting processes. The main reasons why more firm estimates are not able to be produced are:

- **Timescales for implementation** – all plans are drawn up based on the best available information at the time of drafting and as time passes these plans need to be reviewed and at times revised. Where a budget is associated with a change in policy or process, any delay can have significant implications for the budget.
- **Government targets and policies** – instructions can come from a number of external government agencies which the Council has little choice but to respond to, for which there can often be cost implications of doing so.
- **Market forces** – The Council sources many of its supplies and services through competitive processes which enable us to keep our price increases to a minimum. But even so, there are times when it can not avoid high price increases, especially for essential services and utility charges (such as electricity and gas). Often these can not be anticipated with any accuracy very far in advance.

The figures that follow in this Plan represent best estimates using available cost information, uplifted for inflation (where appropriate) and planned implementation timeframes. Where assumptions have been used the basis of these has been explained.

The General Fund Revenue Account

Overview

The General Fund Revenue Account is charged with any expenditure incurred on delivering the Council's services or meeting its day to day expenses that are not covered by legislation relating to the Housing Revenue Account, or can not be treated as capital expenditure. The majority of Thanet's expenditure (86%) is charged here.

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

Fees and Charges

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

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

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

- Charging decisions will be taken in the context of the Council's goals and values as set out in its Community Strategy;
- Access, affordability and elasticity of demand will be considered;
- Charges will be consistent with the Council's policies for Value for Money, Equalities and Customer Access, e.g. consideration will be given to any disproportionate impact on vulnerable groups and those least able to pay;
- Where services are provided on a trading basis, charges will be set at the maximum level the market can bare without eroding demand such that the overall financial position of the service offering is weakened;
- Charges will be benchmarked with comparable local authorities and where they are identified as being significantly lower than in other comparable authorities, increases will be fast tracked in order to bring them in line;
- Charges will not be set at a level above other comparable authorities simply to meet efficiency targets or in response to comparatively higher costs for providing services in Thanet;
- The impact of uptake will be considered so that charges are set at a level that would confer a more favourable financial position;
- Any exemptions and concessions on standard charges will be clearly justified. They will only be provided for services where benefits to the recipient groups are clearly evidenced and are consistent with the Community Strategy. The Council will consider the adoption of a concessions

policy as part of the review of fees and charges to help address inequalities within the district. Any approved policy will be included on the Council's website; and

- Enforcement charges will be set at a level proportionate to the nature of the offence and comparable charges in comparable authorities.

Application of these principles and associated guidelines aims to ensure that the Council's fees and charges are set within a framework of value for money management; whereby financial, performance, access and equity are considered fully and appropriately and decisions taken represent a transparent and balanced approach.

External Funding

Historically the Council has been very successful at attracting external funding and this success continues. External funding is potentially a very important source of income to the Council, but funding conditions need to be carefully considered to ensure that they are compatible with the aims and objectives of the Council. The Council therefore has an external funding protocol to standardise the process relating to external funding to ensure consistency and clarity and to protect the Council from unidentified risks. The protocol has improved processes over external funding streams by:

- Identifying and publicising the terms and conditions relating to external funding;
- Ensuring risks associated with external funding are identified, considered and managed;
- Ensuring exit strategies are considered where appropriate;
- Ensuring that all financial implications are identified e.g. match funding requirements and ongoing unsupported revenue costs;
- Ensuring that legal and VAT issues are identified and considered;
- Ensuring capacity issues are considered i.e. do we have the resources to deliver the project?
- Ensuring that the external funding being sought is considered within the context of the Corporate Plan and Council priorities;
- Ensuring that projects are monitored and that evidence and output data required by funders is collected, and any issues around these areas are highlighted in a timely manner;
- Increasing robustness particularly when there are staffing changes;
- Clarifying roles and responsibilities.

Developing the Three-Year General Fund Revenue Budget

The General Fund Budget Strategy

Fundamental to the development of the budget and three year Medium Term Financial Plan is an overarching Budget Strategy, the objective of which is a safe and sustainable budget that will deliver the policies and aspirations of the Council over the medium term. The strategy, which underpins the General Fund financial plan, is as follows:

The Council's Revenue Budget Strategy is:

- To adequately resource the Council's statutory services and the corporate priorities as set out within the 2007-11 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 the Government's capping regime, 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 2010/11 and the four years that follow is developed by building onto the existing budget provision the anticipated increases for inflationary increases and budgetary growth that is needed for service developments plus Corporate Plan commitments; after which planned savings, growth in income and the use of reserves are reflected. This all has to be done so as to keep the resulting increase in income from Council Tax to a minimum.

The key budget assumptions used in the budget for 2010/11 and the following four years are shown in Table 4 below:

Table 4

Budget Assumptions

Budget Type	Assumption
Inflation on expenditure	With CPI at a low of 1.1% as at September 2009 and the 'all items retail price index' at negative 1.4%, growth for price increases has been based on a projected 1% inflate. A projected slow recovery of the inflation index has been factored in at a rate of 1%, 2%, 2% and 3% for the following years 2011/12 through to 2014/15.
Contractual inflation	Contracts have been inflated based on the specified inflation indices in the contract.
Property rental income	These estimates have been based on projections from the property portfolio, reflecting actual scheduled rent reviews.
Fees and charges	The majority of the fees and charges have been increased by 2%. There are some exceptions: some fees and charges are governed by statute e.g. planning fees; the land charge service is required to break even over a three year period and the fees are set to achieve this; car parking charges have been kept at the 2008/09 level until

2012/13 after which they have been increased at an average of 20%..

Employee budgets

These have been budgeted to increase by 1% for the first three years (but with the award date set at 1 October in the first two years, rather than the traditional April), followed by 2% for each year afterwards, reflecting the view that the rate of inflation will have begun to return to pre-recession levels in around 4 to 5 years.

An increase of 1% on the national insurance rate has been factored in from April 2011.

A vacancy level of 3% of the employee budget has been assumed based on historically achieved levels after offsetting the cost of incremental progression.

Pensions

The next actuarial valuation is due in 2010. The latest budget monitoring position for 2009/10 reflects an underspend against the existing budget provision for pensions. It is therefore proposed to set this aside in 2009/10 and future underspends in 2010/11 to meet any increase in the first instance, pending the outcome of the valuation in 2010. No growth has therefore been built in for pensions at this time, as this will be reviewed for the 2011/12 budget.

Interest rate

Interest on investments has been estimated at 1% for all years. Although interest rates are expected to increase significantly from 2012/13, as this is so volatile, it has been considered prudent to keep them at the lower level for 2010/11 and review this again for the 2011/12 budget in the light of what happens in over the course of the year.

Tax base

An increase year-on-year of 0.50% has been assumed based on increases in recent years

The Budget Build Process

The paragraphs that follow show how the base budget for 2009/10 is built upon.

Making the Most of Existing Resources

Realign and Recycle – The Council's net budget requirement is developed largely using an incremental approach, starting with a review of the current year's budget allocations. This may result in adjustments being made to transfer budget between headings to reflect changes to priorities. Such changes are all contained within the existing base budget and have no impact on the setting of Council Tax.

Budgetary Growth

Despite the aim to keep budgetary growth to a minimum, there is always a need for growth for predicted increases in the cost of services as a result of inflationary increases, unavoidable commitments, new policy decisions and external pressures. Reductions in the budget for income receipts are also included within this category. Each of the different types of base budget pressure are discussed in turn below:

Employee Costs – A large proportion of the Council's expenditure is on staff related costs (including salaries, national insurance and pension contributions), the majority of which relates directly to service delivery. For the purposes of presenting an illustrative model of the impact of the budget strategy contained within this MTFP, pay has been included at an average of 1% for the first three years (but with the award date set at 1 October in the first two years, rather than the traditional April), followed by 2% for each year thereafter, reflecting the view that the rate of inflation will have begun to return to pre-recession levels in around 4 to 5 years. The budget and MTFP also provides for other increases in employee related headings which have been estimated for including the impact of the 1% increase in employers' National Insurance Contributions from April 2011.

Pensions – The decline in the global markets has had a material effect on the value of the Local Government Pension Fund assets, which in turn is expected to have a significant cost implication. This will be quantified at the next actuarial valuation due in 2010 (which will calculate employer contribution rates for 2011/12, 2012/13 and 2013/14). Based on the latest monitoring information, an underspend in existing budget provision for pensions has been identified. It is proposed to set this aside in 2009/10, with any future underspends in 2010/11, to meet any increase in the first instance, pending the outcome of the valuation in 2010.

Other Inflationary Increases – As a general rule the Council does not provide for price increases on goods and services, having instead to find ways to contain the increasing costs within existing budgets or negotiate a better price with its suppliers. Although it does reflect these in its growth figures, it later removes growth on discretionary price increases as part of its efficiency savings figure. The only budgetary growth for price increases that ends up being built into the budget is where it is unavoidable, such as where it is part of the terms of an existing contract or for supplies such as energy and fuel. Where provided for, contractual increases are derived from that specified in the contract.

Income Reductions – The recession has impacted on a number of income generating services for the Council, for example, planning fees, land charges, property rentals, green waste collection income and car parking. In the main part, these are self-financing services, where the charges are set based on full cost recovery. However, due to the downturn in demand, it is necessary to reduce these income budgets; however, wherever possible, they will be matched by an equivalent reduction in expenditure.

Service Improvements and New Demands – Despite the Council's best endeavours to minimise budgetary growth, due to the demands of Government policies, new statute and other external influences, some growth is inevitable. Specific growth pressures have been identified where known.

Increase in Fees and Charges – The majority of fees and charges are increased in line with inflation (2%). 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. A considerable increase in parking fees was applied in 2008/09 and a decision was taken at this stage not to increase them further over the following three years. However, it is proposed to increase the charges from 2012/13 by an average of 20%. This has been reflected in this MTFP.

Other Growth – Given the pace of change it is likely that there will be pressures that arise between now and the next four years which can not currently be foreseen. As a result this MTFP assumes a figure of approximately £1m for as yet unidentified growth over the years 2011/12 to 2014/15. Any growth requirement above this level will need to be matched by savings in order to stay within the Council's planned Council Tax increases.

Corporate Plan Growth

The Corporate Plan represents the Council's aims and aspirations for the continual improvement of its services and its commitments to community priorities. Ensuring that sufficient resources are available to deliver the Corporate Plan is a fundamental requirement of this Medium Term Financial Plan. Costs have been provided for future years based on draft plans and spending projections for a range of services and initiatives. These include extending CCTV coverage, developing activities for young people across the district and achieving improvements in cleaning standards.

All of the different sources of budgetary growth that are anticipated over the course of this medium term plan are summarised in Table 5.

Table 5

Budgetary Growth 2010 - 2015

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Employee costs	90.0	252.0	342.0	522.0	522.0
Unavoidable Prices	242.1	246.6	257.1	262.0	263.1
Discretionary Prices	243.4	248.3	253.3	258.3	263.5
Pension Increases	0.0	0.0	0.0	0.0	0.0
Service Delivery Pressures	2508.4	535.6	393.3	108.5	139.9
Increase in Fees and Charges	(61.0)	(62.2)	(269.4)	(68.8)	(70.2)
Corporate Plan Growth	230.0	0.0	0.0	0.0	0.0
Total Budgetary Growth	3252.9	1220.3	976.3	1082.0	1118.3
Increase in Budget Requirement	14.08%	5.15%	4.15%	4.69%	4.87%

Budget Reductions

With the credit crunch continuing to form the backdrop to the Council's financial planning processes and the fact that many of the easier to achieve savings have already been taken in recent years, it is clear that the Council must review the services it delivers and the way that it delivers them. Substantial savings can be found in the following areas:

- **Efficiency, Effectiveness and Economy** – As outlined in the Value for Money (Efficiency) Strategy, officers are already doing much to improve value for money for the Council. Budgets and procurement options are continuously being scrutinised in order to keep costs to a minimum,

whilst maintaining or improving service standards. Every year the Council manages to deliver a significant level of efficiency savings by careful re-negotiation of contracts and purchasing assets, rather than using more expensive leasing options. This category of savings also includes those that are able to be made through revising business processes, improving the rate of return on assets and looking at staffing levels in fee-funded areas.

- **Staff and Staffing Related Costs** – With staffing costs making up approximately 60% of the Council's gross revenue budget (excluding housing benefit payments and concessionary fares), this is obviously an area which must feature strongly in any review of costs and budgetary provision. In order to be able to achieve the large-scale savings that need to be redirected to fund priority services over the course of the medium term, more substantial changes are required. As a result, staff contracts are being reviewed and the merging of some services is being considered. The Council will also continue to manage staff costs very carefully with an ongoing review of structures.
- **Collaboration with Other Councils** – An efficiently run organisation should always keep costs to a minimum by setting organisational structures that minimise management costs through delivering complimentary services via a single management team. This principle can be further extended across a group of councils, where substantial savings are possible through the establishment of shared services. The Council is being extremely proactive in this area and is investigating options for collaborative working with the other East Kent authorities of Canterbury, Dover and Shepway for a number of services including housing management and waste management. Work is also in progress to consider extending this to the majority of other front-line and back-office services.

Key Proposals for Budget Reductions

The above principles have been taken forward as part of the budget developments for 2010/11. Budget reductions of £2.4m, £1.38m, £1.46m, £1.19m and £1.16m for 2010/11 through to 2014/15 respectively (including removal of discretionary prices) have been identified in order to fund budgetary growth and to stay within the Government's capping limits.

Staffing and staff related costs – The Council's costs are heavily driven by staffing levels. As with most local government agencies, the majority of staff contracts are based on traditional office hours, even in areas where the workload demands more of an extended working day, such as evening and weekend working. It is proposed to take a close look at existing contracts to optimise the staff availability to the peaks and troughs of workload, taking care to ensure that any proposals do not breach equal pay or age discrimination legislation. A review will also be undertaken of staff travel expenses entitlement. In addition, it is proposed to merge functions where staff have similar skills to enable a reduction in staff numbers whilst maintaining resilience. Some minor revisions to the responsibilities of the senior managers have prevented the need to appoint to the vacant Deputy Chief Executive post. Given the tight financial constraints, the Council will continue to manage staff costs very carefully with an ongoing review of structures, especially when posts become vacant.

Whole Council Shared Service – The proposals for the whole council shared service should deliver savings through mass economies of scale across the East Kent councils, whilst enabling best practice to be shared across all four, and providing a structure that has an even greater resilience than currently. It is felt that a sum of between £2.5m and £3m could be achieved across the full breadth of council services that are expected to be transferred into the shared service vehicle in the fullness of time. It is expected that these savings will fall over the last three years of the MTFP.

Service Efficiencies and Reductions – The Council has been able to make a number of budget reductions as a result of further efficiency improvements. These include modernising the access points for visitor information centres; removing anti-virus scanning of e-mails; improving the rate of return of assets; reducing the cost of supporting members and reducing staff in fee-funded areas.

Increased Activity on Charged-for Services – It is anticipated that additional licence fee and land rental income will be generated from the London Array site over the next few years. Additional income from moorings of work boats is also projected.

Phasing of Savings – It is proposed that where feasible all of the savings actions will be implemented at the earliest opportunity to give the Council the best chance of stabilising its budget requirement as soon as possible. However, as many of the savings are expected to take a few years before a full year reduction is able to be budgeted for, some of the savings have been slipped to 2011/12. Where savings are generated ahead of when expected or are for sums greater than budgeted for, in line with previously agreed policies, they will be set aside to fund severance costs in the first instance, and then to re-populate the General Reserve and Invest to Save Reserve.

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

Table 6

Budgetary Reductions 2010 - 2015

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Staff Related Savings	1696.5	697.9	199.6	26.0	10.5
Whole Council Shared Services	0.0	0.0	1000.0	910.0	890.0
Service Reductions and Efficiencies	465.6	295.6	9.5	0.0	0.0
Increased Activity	21.0	139.0	0.0	0.0	0.0
Removal of Discretionary Price Increases	243.4	248.3	253.3	258.3	263.5
Total Budgetary Reductions	2426.5	1380.8	1462.4	1194.3	1164.0
As a percentage of opening net budget	10.5%	5.8%	6.2%	5.2%	5.1%

Volatile Budgets

Ordinarily, the budget and MTFP are used to set out expectations of future expenditure and income streams. However, there is considerable uncertainty in some areas that means predicting some budgets is not possible. For example, there is uncertainty regarding how quickly the recovery will be following the recession and what future interest rates are likely to be; there is also uncertainty around future possible restructures, shared services and whether the Council will need to undertake prudential borrowing due to lack of other capital funding. All these uncertainties will impact on future income streams, interest payable and receivable and pensions. This means that we can not predict with any confidence the likely budget adjustments that may be required to these budgets. It has been assumed that as a minimum any positive or negative budget impacts will offset each other, or more likely, will result in a surplus that could be contributed to reserves. To manage this, these volatile budgets will be controlled corporately, ringfenced and any variations reported back to members. It is hoped that these budgets can be predicted with more certainty in 2011.

The Impact of the Proposals on Staffing Numbers

The changes to the General Fund Revenue Account planned for in the medium term that are described earlier in this report reflect a number of changes to the Council's permanent staffing establishment. These have been carefully considered, and have been, or are yet to be consulted on, to ensure that the staffing structures are able to support the service delivery plans for the next five years.

The result of the changes to the permanent staffing establishment by service that is anticipated over the course of the medium term is shown in Table 7.

Table 7

Planned Changes to the Permanent Staffing Establishment

	Number of Full Time Equivalent Posts as at...			
	31/03/10	31/03/11	31/03/12	31/03/13
Environmental Services	257.91	260.77	260.77	260.77
Regeneration & Economic Development	95.13	95.77	95.77	95.77
Community Services	56.76	50.97	50.97	50.97
Chief Executive & Executive Support	6.54	4.54	4.54	4.54
Customer Services & Transformation	151.91	135.11	135.11	135.11
Finance & Corporate Services	68.81	75.53	75.53	75.53
Legal & Democratic Services	18.00	18.00	18.00	18.00
Total	655.06	640.69	640.69	640.69

The table above does not reflect changes in staff numbers following the implementation of shared services projects so these numbers are subject to change. It also does not reflect those posts that are grant funded, or seasonal, as the numbers of these are not easily known in advance as it is determined by the amount of funding available. Grant funded posts are regularly reviewed, and where a robust business case exists for the permanent provision of the service they provide the post is added to the permanent establishment through the additional base budget as part of the annual budget report. The funding for seasonal staff is treated as cash limited and its deployment will depend upon the particular need which may vary on a year to year basis depending upon the weather and other seasonal influences.

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 largest risk facing the Council in the medium term, as identified in this risk assessment, is shared services failing. It is anticipated that there would be sufficient time to take alternative action to balance the budget if this were to happen and therefore it is considered appropriate to keep the optimal level of general reserves at 10% of the net revenue budget, as in the last MTFP, as this is felt to be a sufficient level of contingency.

The opening balance as at 1 April 2009 was £2.076m, which equates to only 9.16% of the 2009/10 Net Revenue Budget. This balance is expected to drop to £1.883m by 31 March 2011 due to anticipated severance costs of £193k - this is just 8.16%. Every effort will be made to replenish the General Reserve to the recommended level at the earliest opportunity from in-year underspends.

Earmarked Reserves

In addition to the General Reserve, a number of earmarked reserves exist, which are sums set aside for specific purposes. Essentially these allow funds to be saved over a number of years for large and often one-off items of expenditure, thereby smoothing the impact on Council Tax.

The earmarked reserves over the medium term are shown below. Where the exact demand on the reserve is not known sufficiently far enough in advance over the medium term no estimates are allowed for within the MTFP. This does not affect the 'bottom line' of the budget requirement, as neither the expenditure nor the equivalent amount of funding from the earmarked reserves are reflected.

The Earmarked Reserves that are being used in the medium term are:

- **Capital Projects Reserve** – This holds revenue monies and other contributions set aside to meet capital projects.
- **Revenue Projects (Slippage) Reserve** – To enable all planned costs to be contained within budget, this reserve has been established to carry forward budget that remains unutilised as a result of slippage of a significant value.
- **Information Technology Reserve** – This reserve was created to support the development of new information technology initiatives to improve efficiency throughout the Council's activities. The annual budget includes provision for IT related projects. Where the projects are not delivered within the financial year, the unutilised budget is transferred to this reserve to be spent in future years. The budget proposals over this MTFP are to increase the base budget for the replacement of the Council's e-mail system, which is due in 2012. It is intended that the budgetary growth will be set at one third of the amount needed, and set aside three years in this earmarked reserve, until needed. The base budget growth will then be reversed.
- **Environmental Action Plan Reserve** – The Environmental Action Plan is a fundamental part of the Council's Corporate Plan and a key corporate priority. This reserve therefore holds funds that have been set aside to meet various environmental improvements throughout the district.
- **Housing and Planning Delivery Grant Reserve** – Housing and Planning Delivery Grant offers significant funding to enable local authorities to improve their planning and housing services and to introduce the many changes involved in the Government's programme for the reform of planning services. All of this grant that is not used in the year received is rolled forward in this reserve for future years.
- **Cremator Works Reserve** – The Council has an obligation to be environmentally compliant by the year 2012. Major works to the crematorium facilities are needed in order to meet this requirement and a reserve has been established to ensure that sufficient monies are put aside so that the required works can be carried out. A surcharge is raised on all cremation fees and this surcharge is transferred to the reserve.
- **Decriminalisation Reserve** – The Council administers on-road parking service but has to account for the income and expenditure separately. This reserve holds any unutilised revenues from parking charges. These are used to fund future parking, transport or environmental improvement related schemes. It is planned to use £40k per annum from this reserve to meet the additional costs arising from the concessionary fares scheme. The funds within this reserve are not available for general Council use.
- **Local Authority Business Growth Initiative (LABGI) Reserve** – All LABGI grant that is not used in the year that it is received is rolled forward in this reserve so as to be available in future. The reserve is used to fund the non-base costs that arise from the implementation of the Corporate Plan and other one-off costs as deemed appropriate.
- **Priority Improvement Reserve** – This holds money set aside to fund initiatives that require one-off funding that will deliver service improvements or act as an invest to save reserve, providing initial start-up funds for projects that will ultimately save money.
- **Council Elections Reserve** – This is a saving account for the elections which occur every four years.
- **Office Accommodation Reserve** – This is to meet the costs of the office accommodation strategy.
- **Corporate Plan Reserve** – Any slippage on the proposed Corporate Plan growth is carried forward on this reserve, to enable the activities within the Plan to be adequately funded.

- **Local Development Framework Reserve** – Due to the variable profile of spend on the Local Development Framework and the variable cost in relation to consultation and inspection, it is proposed that any underspend on this activity be set aside in this reserve to be drawn against as required.
- **Renewal Fund** - This is a saving account for specific purposes based on the average annual amount required e.g. for the production costs of the best value survey which occurs every three years and for the cost of CRB checks.
- **Customer Services Fund** – This reserve is for concessionary fares and housing benefit subsidy. Due to the volatility of these two activities and the tight financial constraints which preclude the budgets being set at a level that would be sufficient for upper activity levels, it is prudent to set aside underspends that arise in these areas as a contingency for future years.
- **Area Based Grants** – Any underspend against the Area Based Grant funding is set aside in an earmarked reserve to be utilised in future years.
- **Waste Vehicle Maintenance Reserve** - This reserve holds contributions in relation to the refurbishment of the waste vehicles. The reserve will be used to fund a rolling programme of maintenance over the next few years.
- **Homelessness Reserve** – The unspent grant allocated to the rent deposit scheme has been put into this reserve. The scheme is ongoing and so funding will continue to be drawn down over future years.
- **Performance Reward Grant Reserve** – Unspent Performance Reward Grant monies were put into this reserve with the intention of being utilised on future East Kent working. The monies held will now be used to minimise the demands on the General Fund, while remaining in line with the original aims of the grant.
- **Maritime Reserve** – It is anticipated that there will be an underspend within the dredging budget for 2009/10. This will be set aside in a new reserve to meet the future cost of Maritime works.
- **Pensions Reserve** – The expected underspend against the pension budget in 2009/10 will be set aside in this reserve to meet any future increase in pensions following the 2010 actuarial valuation.
- **VAT Reserve** – The anticipated receipt of monies in relation to the Council's Fleming claim will be set aside in an earmarked reserve as there is a possibility that it could be withdrawn from Customs in the first three years of receipt subject to a review.

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 2010 – 2015 which are presented in summary in Table 8.

Table 8

The Medium Term General Fund Revenue Budget 2010 - 2015

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Opening Revenue Budget	23108.7	23705.1	23544.4	23058.2	22945.8
Inflationary Increases	514.4	684.6	582.9	973.5	978.3
Growth	2738.5	535.6	393.3	108.5	139.9
Identified Savings	(2426.5)	(1380.8)	(1462.4)	(1194.3)	(1164.0)
Funding of Corporate Plan	(230.0)	0.0	0.0	0.0	0.0
Net Service Revenue Budget	23705.1	23544.4	23058.2	22945.8	22899.9
Contribution to Costs from Grant	(349.3)	(247.8)	(103.0)	(53.0)	(53.0)
Use of Earmarked Reserves	(300.0)	(300.0)	(42.0)	(40.0)	(40.0)
Net Revenue Budget Requirement	23055.8	22996.6	22913.2	22852.8	22806.9
Reduction in Budget Requirement	(1.62%)	0.26%	0.36%	0.26%	0.20%

Funding the Medium Term General Fund Revenue Budget

Local Government Finance Settlement 2008/09 - 2010/11

Formula Grant – In January 2008, the Government announced the first ever three-year settlement for Thanet District Council for its General Fund expenditure requirements. The settlement included amounts for activities that had previously been funded by way of a specific grant, and as a result appeared at first to be more generous than was actually the case. After taking account of this change in funding treatment, the actual growth in cash for this Council equated to an increase of 1.1% for each year of the three years. The indicative formula grant figure for 2010/11 announced in January 2008 was confirmed on 26 November 2009. The settlement does not provide figures for 2011/12 but the MTFP has assumed a reduction of 3% for that year based on the view from commentators that future settlements are likely to be extremely tight.

Area Based Grants – In addition to the Formula Grant, the Finance Settlement announced additional amounts that are paid as Area Based Grants. These include the Working Neighbourhood Fund, the Community Cohesion Grant and the Safer Stronger Communities Fund. These are provided to further the goals that are set out in the Local Area Agreement (LAA). The grants have been reflected within this medium term plan, shown as offset against an equivalent amount of expenditure, which will be used to deliver Thanet's contribution to the financial plans of the LAA.

Specific Grants – Although the Government has stated its commitment to reduce the use of specific grants, preferring to either provide funding through the Formula Grant or on an area basis, for technical reasons a number of specific grants remain. Thanet receives a specific grant to provide funds to meet increased costs arising from the introduction of the national free bus scheme (The Concessionary Fares Scheme). It is likely that all of this grant will be required to meet the costs of delivering this new service.

Concessionary fares, however, is expected to transfer to Kent County Council from 2011/12. Specific Grants are also received for services for the homeless and for administering the housing benefit and council tax payment and collection systems on behalf of Government. Where the level of grant has not yet been announced, it has been assumed to remain at the same level as 2009/10.

Grant Funded Revenue Projects

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

Housing and Planning Delivery Grant – This offers funding to enable local authorities to improve their planning and housing services and to introduce the many changes involved in the Government's programme for the reform of planning services.

Conservation Grant - Heritage Lottery Funding of £30k is anticipated in 2010/11 for the costs of staff working on the Thanet Heritage Initiative.

East Kent Local Strategic Partnership – Canterbury City Council, Dover District Council and Shepway District Council each make an annual contribution of £25k to this Council towards the East Kent Local Strategic Partnership.

Kent County Council Interreg Customer Profiling– A sum of £20k is expected in 2010/11 to improve evidence based service planning and customer satisfaction with public services by understanding citizen needs, wants and motivations.

Medway Council Interreg Tudor House – Funding of £30k in 2010/11 towards improving Heritage and Maritime memories in Thanet.

SEEDA – Funding of £90k towards the core team and overheads of the Margate Renewal Partnership.

Kent County Council – Funding from KCC of £30k towards the core team and overheads of the Margate Renewal Partnership.

English Heritage – the Margate Arts Culture Heritage is part of the Creative Margate 10 year vision and aims to develop new creative work studios in local conservation areas, artist led public realm improvements and animation, potentially leading to a new culture led Community Trust. Funding of £200k will be received in 2010/11, with a further £175k in 2011/12.

Migration Impact Fund – This offers £90k to fund a bi-lingual outreach worker to work closely with the Czech/Roma community.

Second Homes – Second Homes funding of £60k will be utilised in 2010/11 towards maximising the opportunities arising from the 2012 Olympics and to fund a transport study.

Interreg PATCH Funding – The Council will receive European revenue monies of approximately £260k towards works Maritime projects.

The main funding sources for the Council in the Medium Term are summarised in Table 9.

Table 9

Funding Sources for Thanet for 2008/09 to 2011/12

	2008/09	2009/10	2010/11	2011/12
	£'000	£'000	£'000	£'000
Formula Grant	13,021	13,163	13,310	13,310
Increase in Adjusted Formula Grant		142	147	0
% Increase in Adjusted Formula Grant		1.1%	1.1%	0
Area Based Grants				
Community Cohesion	72	133	205	0
Stronger Safer Communities	413	258	0	0
Working Neighbourhood Fund	1,003	1,599	1,614	-
Climate Change		23	23	
Economic Assessment Duty		-	6	
Specific Grants				
Concessionary Fares	524	536	551	0
Homelessness	90	90	90	0
Housing & CTax Benefit Administration	1,746	1,835	1,769	0
Miscellaneous Revenue Grants	541	560	963	329

Council Tax

The Council sets its net budget requirement (after having taken account of increased income from charges and the use of reserves) which is then part funded from Government Grant and part from Council Taxes. The total amount that is needed to be raised by Council Taxes is known as the Precept. This is divided by the total number of equivalent Band D properties (the tax base) in order to calculate the individual Council Tax band amounts. For medium term planning purposes, the level of growth in the tax base has been assumed to be 0.5%, based on experience in the last 3 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 overleaf in Table 10.

This shows that with the Council's planned efforts to keep expenditure levels down, and optimise revenue receipts, despite the low level of financial support from Central Government, Council Tax increases are able to be reduced to 2.5% for each of the years covered by this MTFP.

Table 10

The Medium Term Revenue Funding Summary 2010 - 2015

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Net Service Budget	23705.1	23544.4	23058.2	22945.8	22899.9
Contributions from Grants	349.3	247.8	103.0	53.0	53.0
Transfer from Earmarked Reserves	300.0	300.0	42.0	40.0	40.0
Net Budget Requirement	23055.8	22996.6	22913.2	22852.8	22806.9
Funded From:					
Formula Grant	13309.9	12910.6	12523.3	12147.6	11783.2
Precept	9795.0	10086.0	10390.0	10705.0	11024.0
Council Tax Base	46645	46878	47113	47348	47585
Band D Council Tax	£209.97	£215.19	£220.50	£226.08	£231.66
Increase in Band D Council Tax	£5.04	£5.22	£5.31	£5.58	£5.58
% Increase in Band D Council Tax	2.46%	2.49%	2.47%	2.53%	2.47%

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.

At 31 March 2009 the Council had 3,126 dwellings, including shared ownership dwellings. This is projected to decrease to 3,103 at 31 March 2010. The number of Right to Buy sales over the past year has fallen due to the current economic market and is expected to continue to drop. The reduction to anticipated housing stock in 2010 takes into account the loss of units due to the Newington Development. Although the Council's housing stock has reduced by approximately 10% over the past 5 years it still has management responsibilities for flats sold under a long lease. In the future it is intended that the reduction in dwellings will be compensated for by the provision of new housing stock that will be planned for through Housing Associations within the District.

The HRA 30 Year Business Plan

The HRA Business Plan is in the process of being reviewed and updated. The current business plan clearly indicates that the Council can maintain its properties to the Decent Homes Standard for the full 30 years of the plan (which runs to 2036). It anticipates a revenue deficit after 2013, although the latest estimates indicate that this is not now likely to happen for a number of years later.

To extend the financial viability of the HRA Business Plan it is proposed to establish a shared service organisation to manage the council housing of all of the East Kent Local authorities. Each council would continue to determine its own HRA Business Plan and its stock investment priorities. The annual planned maintenance budgets would also continue to be determined by each council as part of its existing constitutional and budget processes. However, the feasibility study for this proposal has identified that significant savings could be achieved as a result of merging the services. By pooling resources, the councils will also be able to develop greater expertise in specialist areas like HRA accounting, asset management, community development and housing and tenancy law. The proposal of the establishment of a shared services vehicle has been agreed in principle by this Council and work is progressing to get the buy-in and involvement from each council with the aim of moving the project forward to an implementation date of 2010.

Changes to Relevant Legislation

Currently the Government is reviewing the HRA Subsidy System. It is proposing to allow local housing authorities to opt out of the HRA Subsidy System, provided they can become self-financing from rental income and other direct service charges. The implications of this will be reviewed as part of the new Business Plan, which will form the basis of the HRA elements of the next Medium Term Financial Plan.

Changes to legislation also provide new opportunities for councils to develop new affordable housing outside of the HRA subsidy system. This means that councils can compete with Registered Social Housing Landlords (RSLs) to receive government grants to build new homes, allowing councils to:

- Use HRA assets to build new homes rather than gifting or selling assets to RSLs;
- Undertake regeneration schemes to make better use of unpopular or inappropriate housing stock;
- Generate income from the management of the new homes to bolster income on the HRA and thereby extending viability of a stock retention policy.

In November 2008, Cabinet approved the establishment of a Local Housing Company for Thanet to develop new council homes on HRA land and other land that could be acquired.

Developing the Three-Year Housing Revenue Account

The Housing Revenue Account Budget Strategy

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

The Council's Housing Revenue Account Strategy is:

- To maintain a Housing Revenue Account that is self-financing and reflects both the requirements of residents and the strategic visions and priorities of the Council.
- To achieve the Government's "target" rent level by the rent convergence date.
- That the major repairs allowance, current borrowing consent and available rental income is directed to sustain the maintenance and improvement programme required to achieve the Decent Homes Standard by 2010.
- To maximise the recovery of rental incomes by reducing the number of void properties and minimising the level of rent arrears and debt write offs.
- To maintain a minimum level of HRA reserves of £800k but with a target level of reserves of £1m.

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

Budgetary Growth

Inflationary Increases - The HRA is charged with costs that relate to the day-to-day maintenance of the Council's housing stock, which includes supplies and services on improvement and repairs to the buildings, as well as the cost of council employees that are involved in the management of the housing function.

In line with the budget assumptions for the General Fund Revenue Account, growth has been factored in for an annual cost of living rise of 1% for each year from 2010/11 to 2012/13 (but with the award date set at 1 October in the first two years, rather than the traditional April), followed by 2% for each year thereafter. Inflation has been provided for only where it is contractual or has been previously notified e.g. utilities.

Budget Reductions

Efficiency Savings – From April 2010, Thanet and Canterbury are moving towards a joint procurement contract for repairs and maintenance. It is anticipated that this new contract will produce a saving to the HRA of approximately £310k.

Although it is too early to reflect in this plan, the Council's proposal of entering into a shared services vehicle for the management of the council housing of all of the East Kent Local authorities would be expected to bring significant improvements in value for money and could also potentially deliver substantial financial savings in the medium to long term.

The Council will continue to explore all options to improve efficiencies. With the planned revision of the 30 year HRA Business Plan, more firm projections on future efficiency savings will be able to be made in the next Medium Term Financial Plan.

Increased Income

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

Service Charges – It is proposed that there will be no increase to the current unpooled service charges and they will continue to remain at the same level as 2009/10. Heating service charges will be calculated based on actual cost.

Rents – In 2002/03, the first year of rent restructuring, a uniform rent increase of 2.5% was applied to all properties, which was acceptable under Government guidance. Subsequently rents have been increased each year in line with inflationary rates determined by the Government. In order to establish some stability and predictability the Government has decided to adopt a fixed 3.1% increase in guideline rents. With RPI indicators being negative, the way in which government have determined this is by reducing the convergence date for rent restructuring to 2013/14.

The MTFP also includes an increase of 3.1% for garage rents.

HRA Investment Income – This consists of interest accruing on mortgages granted in respect of Right to Buy sales and interest on HRA balances. The base rate has fallen significantly. The budget for 2010/11 is based on an interest rate of 0.5%. It is anticipated that interest rates will rise to 1.5% in 2011/12 and 2% for the years thereafter. This is based on projections from the Council's treasury advisers.

The Housing Revenue Account Subsidy

The Government pays local housing authorities a housing subsidy to cover any shortfall between notional expenditure and income on the HRA, although where there is a surplus the Government recovers this by way of a negative subsidy. The MTFP assumes that Thanet will have a negative subsidy over the next five years which will need to be paid over to the Government.

HRA Reserves

The Council keeps two HRA specific reserves that are allowable under statute; the HRA Balance Reserve and the HRA Major Repairs Reserve. These are explained in more detail below.

Housing Revenue Account Major Repairs Reserve – Within the HRA Subsidy is a Major Repairs Allowance (MRA) that reflects the need to replace building components as they wear out. The Council is required to place this MRA into a Major Repairs Reserve until it is needed to fund HRA capital projects. This funding has enabled the Council to maintain the housing stock in a good condition and as a result it is likely to be able to meet the target to deliver decent homes to all social sector tenants by 2010 that was part of the first Public Service Agreement. This Medium Term Financial Plan allows for increases in the MRA due to inflation which are partially offset due to changes in stock each year and assumes that the MRA will be fully utilised every year over the medium term.

Housing Revenue Account Balance Reserve – This reserve holds the balance on the HRA and is used to draw down to balance the revenue budget or pay revenue contributions to the Capital Programme to smooth any peaks and troughs within the 30 year business plan. It is maintained by annual contributions from the HRA.

The Medium Term HRA Budget Requirements

The changes that are outlined in the paragraphs above have been applied to the existing budget for the Housing Revenue Account and the resulting financial projections for the HRA over the next five years are summarised in Table 11:

Table 11

The Medium Term Housing Revenue Account Budget 2010 - 2015

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
EXPENDITURE					
Repairs and maintenance	3,174	3,120	3,127	3,269	3,351
Supervision and management – General	2,631	2,491	2,486	2,503	2,553
Supervision and management – Special	570	577	583	590	590
Rents, rates, taxes and other charges	190	198	207	216	221
Negative HRA Subsidy Payable	503	531	540	745	924
Bad or doubtful debts provision	120	120	120	120	120
Depreciation/impairment of fixed assets	2,332	2,335	2,335	2,340	2,340
Debt Management Costs	8	8	9	10	10
Capital expenditure funded from HRA	100	100	100	100	100
Gross Expenditure	9,628	9,480	9,507	9,893	10,209
INCOME					
Dwelling Rents (gross)	-10,423	-10,604	-10,862	-11,126	-11,615
Non-dwelling Rents (gross)	-172	-175	-178	-181	-186
Charges for services and facilities	-261	-261	-261	-261	-261
Contributions towards expenditure	-320	-320	-320	-320	-320
Other Charges for services and facilities	-5	-5	-5	-5	-5
Income	-11,181	-11,365	-11,626	-11,893	-12,387
Net Costs of Services	-1,553	-1,885	-2,119	-2,000	-2,178
Asset Interest Charge	1,077	1,131	1,167	1,139	1,139
HRA Investment Income	-49	-141	-188	-188	-188
Net Operating Expenditure/Income(-)	-525	-895	-1,140	-1,049	-1,227
Housing Revenue Account Balance:					
Surplus(-)/Deficit at Beginning of Year	-8,254	-8,779	-9,674	-10,814	-11,863
Surplus(-)/Deficit For Year	-525	-895	-1,140	-1,049	-1,227
Surplus(-)/Deficit at End of Year	-8,779	-9,674	-10,814	-11,863	-13,090

The Capital Programme

Overview

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

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

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

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

Impact of the Current Economic Climate

Since drafting the previous (2009-2011) MTFP, the deterioration in the national economic position has had a serious impact on the Council's capital plan. The plan that was presented relied upon significant levels of capital receipts being generated from the sale of surplus Council assets. However, with the downturn in the property market, many of the proposed disposals are being held back until more realistic sales prices can be generated. As a result the planned capital investments have had to be scaled back accordingly. The capital programme thus presented in this MTFP is therefore a realistic one which recognises the current market conditions. The plan does reflect a slow upturn in the market in future years.

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.

The Property Portfolio (excluding housing)

The Council owns many properties from which its services are delivered. These include office accommodation, visitor information centres, leisure facilities and entertainment venues. As the Council evolves it needs to ensure that its premises remain fit for purpose which means that properties need to be sold or their use converted as they become unsuitable and new premises acquired. The approach to the future development of premises to meet the needs of the Authority is set out in the Council's Asset Management Strategy (AMS), which outlines the approach to the management of its property portfolio.

In line with best practice the premises element of the capital programme is developed in line with the AMS, which considers the strategic needs of the Council as well as the ongoing maintenance demands of the existing properties. It also takes account of external factors such as the demands of legislation. For example, it considers the requirements of the Disability Discrimination Act 1995 (DDA), which required service providers to make 'reasonable adjustments' to the way they deliver their services so that disabled people can use them. This has required significant investment to modernise our properties to enable access to be granted to disabled people, although there are still some properties where physical limitations mean that suitable adaptations have not been possible.

The AMS has been developed to enable the Council to move towards a property portfolio that is fit for purpose and able to deliver its aspirations for future service delivery as set out in the Corporate Plan and to meet existing and planned services. The Budget and this Medium Term Financial Plan present the financial implications that are associated with the implementation of the AMS.

Information, Communications and Technology Systems

The Council has a Service Development Programme Board, which sets the strategy and direction for information and communication systems and agrees the planned investments in this area. This allows a consistent approach to using improvements in technology to deliver efficiencies through the streamlining of processes and the avoidance of duplication. The Council has been very proactive in this area and a great number of its processes are now able to be completed electronically as a result of having invested in electronic payments and booking systems, document imaging and workflow systems, the Council's website as well as Digital TV. Investments in technology will continue to feature as part of the Council's strategy where it supports mobile, remote and home working, reducing the demand for filing storage and enabling a more flexible approach to service delivery. These investments can make a significant difference to our customers too: new Customer Relationship Management and Automated Call Distribution systems form the backbone of the Service Centre and Gateway, and as a result, the level of services that can be offered at a single point of contact have increased enormously. Due to work with regard to shared services, a reserve has been set up whereby a sum of £30k per annum will be set aside towards system developments associated with shared services.

Vehicles and Equipment

The Council's refuse collection and grounds maintenance vehicles represent the majority of the Council's assets in this category; the numbers of which are based on the minimum needed to maintain a fleet that can deliver a comprehensive service to Thanet's residents over the course of the working week. Currently a plan is being developed for the establishment of a formal replacement programme to fund the future purchase of these vehicles as the current ones come to the end of their useful life, although this will depend upon the revenue resources available. If such an approach is appropriate (and indeed affordable), this will feature as part of the next Medium Term Financial Plan.

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 five-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.

Planned Investments

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

Corporate Plan Schemes - Within the Corporate Plan are a number of projects that have associated capital expenditure. The Corporate Plan was prepared following extensive consultation and therefore the associated capital projects were treated as priority against the available funding. The projects include providing fish landing or market or restaurant facilities; Ramsgate swimming pool; improving 215 listed buildings in the Ramsgate Townscape Heritage; developing and improving play areas in Margate and Ramsgate and extending CCTV coverage.

Service-Led Capital Schemes – The running of a district council requires ongoing investment in assets that are used to deliver the business. Schemes put forward for which significant capital funding will be required include cremator works, the Military Road arches and various infrastructure works at the Port and Harbour. A review is being undertaken with regards to the cremator works to compare the option of purchasing against leasing and this review may well change the amounts within the Capital Programme for these works.

Grant Funded Projects - The Council has plans for a number of schemes that will be fully or part funded by grant. The most significant of these is the provision of Disabled Facility Grants (DFGs) which are provided to residents as a financial contribution for adaptations to their homes, such as to assist with mobility difficulties. Councils can claim 100% of Communities and Local Government funding for each DFG without a need to match fund up to the total value of Government grant awarded. However, the Council intends to maintain its match funding of £400k per annum towards the programme.

The Council has been successful in a bid of £3.8m from the DCMS's Sea Change programme towards the first phase of development of Dreamland into a park of 'thrilling historic rides'. This phase of the project will include the restoration of the Scenic Railway to operational status, provide approximately 66% of the amusement park and the restoration of the exterior of the cinema building. Some additional funding is also required to meet the full cost of this project and discussions are ongoing around the available funding options. For the purposes of the 2010/11 draft budget it has been assumed that the Council's contributions will be £1m from prudential borrowing.

Other capital grant funded projects included private sector housing, historic town centre and planning projects.

Council Housing – A stock condition survey has recently been undertaken and the results of this have been used to determine the HRA Capital Programme. This ensures that the Council meets Decent Homes standard and provides a continuing maintenance scheme for the housing stock.

The redevelopment of Newington Centre is continuing and as the HRA will continue to own the shops within the development, the cost of rebuilding the shops and the rental income derived from them will fall to the HRA.

There has been a high level of Anti-Social Behaviour surrounding Trove Court and Kennedy House and it is therefore proposed to consult with tenants regarding introducing a concierge scheme. A capital budget has therefore been included within the HRA Capital Programme for equipment costs in anticipation of the project being supported by the tenants.

The Council has been successful in its bid for Capital Grant to build new houses. A capital budget has therefore been included within the HRA Capital Programme for building five new units.

Details of the planned capital projects for the next five years are summarised later in Table 12.

Capital Funding Sources

The capital investment proposals contained within this MTFP rely upon an overall funding envelope made up of a number of sources, including borrowing, capital receipts, capital grant and revenue contributions. For investment in our housing stock the Council receives a Major Repairs Allowance that is paid as part of the calculation of the Housing Revenue Account Subsidy. This is paid into the HRA Major Repairs Reserve.

Borrowing

In 2004 a new system governing the access to loan capital for Local Authorities was introduced, which is known as The Prudential Code. This allows the Council to borrow to meet its capital expenditure requirements provided that it is based on capital investment plans that are affordable, sustainable and prudent over the medium term. The Council has to complete a range of calculations (Prudential Indicators) as part of its annual budget setting process to evidence this. These make sure that the cost of paying for interest charges and repayment of principal by a minimum revenue contribution (MRP) each year is taken into account when drafting the Budget and Medium Term Financial Plan. Over the course of this MTFP, prudential borrowing has been assumed for the crematorium works, works at the Port and Harbour and also for Dreamland.

HRA Supported Borrowing – The Council is able to borrow to fund capital expenditure on its houses, which creates interest costs which have to be charged to the HRA. The revenue cost of borrowing is supported in the HRA Subsidy, which is assumed to be fully utilised over the medium term.

Capital Receipts

Capital receipts are generated when a fixed asset is sold and the receipt is more than £10k. Capital receipts can only be used to fund capital expenditure. All of the receipts from the disposal of an asset on the Council's General Fund (i.e. for its main services) can be kept by the Council, but the Council is required by law to set aside 75% of the proceeds from the sale of HRA dwellings and so can only keep 25%. The "pooled receipts" which are set aside have to be paid over to the Government, who then allocate them back to councils according to need. The 25% of the receipts that the Council keeps can be used for either General Fund assets or HRA assets. For other HRA assets the pooling rate is 50%, however the Council has set a capital allowance which ensures that the capital receipt may be retained in full by the Council for use for provision of affordable housing including meeting the decent homes standard and for regeneration.

The Asset Management Strategy (AMS) – The Council's planned level of capital expenditure means that significant levels of asset sales are required. The AMS provides a framework for determining which of the Council's assets are suitable for disposal in order to fund new investments that will ensure that its property portfolio is fit for purpose. Over the course of this Medium Term Financial Plan the AMS has enabled the identification of a number of assets that can be disposed of without any detriment to service delivery, and yet improve the overall value for money represented by the Council's assets. The affordability of the Capital Programme has been based on the assumption of a certain level of capital receipts being generated, however, the current economic climate has resulted in falling sales values and consequently some of the planned asset disposals have had to be put on hold until the property market picks up. The Capital Programme will therefore be reviewed once future capital receipt projections are more certain.

Capital Grant

The Council receives additional grant funding for a variety of purposes and from a range of sources, including the Central Government, European Regional Development Fund, Heritage and Lottery Funds and the South East European Development Agency (SEEDA). Many of these relate to regeneration projects for the area and typically have conditions attached to them that govern their use.

Revenue Contributions

General Fund Contributions - Although the Council can use its General Fund revenue funds to pay for capital expenditure, as it has in the past, the current financial constraints that are on the Revenue Budget means that this is not an affordable option in the medium term.

HRA Contributions – Funding for capital expenditure on houses can be met from within the HRA and small amounts of such funding are anticipated in this Medium Term plan. The future funding requirements will be informed by the revised 30 year HRA business plan.

Capital Reserves

HRA Capital Reserves – The Major Repairs Allowance that is contained within the HRA Subsidy is exclusively available for use on HRA capital expenditure.

Capital Projects Reserve – Any surplus arising on the 2009/10 Capital Programme will be set aside in this reserve to provide additional flexibility.

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 12.

Table 12

The Medium Term General Fund Capital Budget

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Statutory and Mandatory Schemes	1297	1297	1297	1297	1297
Schemes continuing from prior years	200	400			
Annual Enhancement Schemes	50	50	50	50	50
Wholly Externally Funded Schemes	1774	2650	600	0	0
Corporate Plan Schemes	133	194	19	19	19
Replacements and Enhancements	2454	2000	50	0	50
Area Improvement	5650	0	0	0	0
Total Capital Programme Expenditure	11558	6591	2016	1366	1416
Capital Resources Used:					
Capital Receipts and Reserves	1806	1825	500	450	500
Capital Grants and Contributions	7645	3766	1516	916	916
Contributions from Revenue	0	500	0	0	0
Supported Borrowing	0	0	0	0	0
Prudential Borrowing	2107	500	0	0	0
Total Funding	11558	6591	2016	1366	1416

The plans that exist for capital investment into the Council's housing stock are reflected in Table 13. Together the information in Table 12 and Table 13 comprises the Medium Term Capital Programme for the Council.

Table 13

The Medium Term Housing Revenue Account Capital Budget

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Total HRA Capital Programme Expenditure	4773	2865	2259	2259	2259
<i>HRA Capital Resources Used:</i>					
HRA Major Repairs Reserve	2595	2765	2159	2159	2159
Supported Borrowing	1703	0	0	0	0
HRA Revenue Contributions	100	100	100	100	100
Capital Grant	375	0	0	0	0
Total Resources	4773	2865	2259	2259	2259

Partnerships

It is stated in the Corporate Plan 2007-11 that 'we have tried to be clear and specific about what the Council can deliver directly itself, but the plan also includes inspirations that can only be delivered through effective partnership working with other organisations and the community.'

A register of partnerships is maintained to provide an overview of the range of collaborations in which the authority has an interest. The Council has also developed a Partnership Framework. This document has been developed as a guide to use when working in partnership. It demonstrates the governance arrangements that we are committed to as a Council and allows our partners and the public to see the key principles and standards that we aim to achieve.

The current partnerships that we are involved in will be built upon, and we will develop new ones using this Framework to bring greater benefits to our local community, as we work to achieve our common aims to create and sustain a better quality of life for all our residents. Some of the Council's major partnerships are described below:

Table 14

Key Council Partnerships

Partner/Project	Commentary
Better Homes Active Lives	A partnership between Kent County Council (KCC) and other councils in the county, to build and run a total of 340 apartments for older and disabled people.
Crime & Disorder Reduction	Working in partnership with the police and other public bodies to reduce crime and disorder in the area.
East Kent Internal Audit	This is a partnership between Thanet, Dover, Shepway and Canterbury councils for the provision of an internal audit service
East Kent Local Strategic Partnership	A partnership of local authorities, businesses and voluntary and community sectors, working to improve the quality of life for those living and working in East Kent (covering Canterbury, Dover, Shepway and Thanet).
East Kent Opportunities	An arms length company set up by KCC and TDC to drive forward the development of the Manston and Eurokent sites.
Kent Choice Based	A new approach of Kent housing authorities, to letting homes, allowing tenants

Partner/Project	Commentary
Lettings Partnership Kent Connects	and prospective tenants to bid for available properties. Working in partnership with KCC, Medway Council, districts, Kent Fire and Rescue Service and Kent Police to offer a single countywide IT infrastructure to enable partners to join up and share their service delivery mechanisms securely and cost effectively
Kent PFI : Excellent Homes for All Margate Renewal Partnership	This is a partnership between TDC, Ashford, Dartford, Dover, Tunbridge Wells and KCC to develop up to 229 units of affordable housing across Kent The Council worked closely with South East England Development Agency (SEEDA), KCC, English Partnerships, Arts Council England, Government Office of the South East (GOSE) and English Heritage to set up this partnership for the regeneration of Margate.
Partners and Communities Together (PACT) Strategic Housing Market Partnership	This is a neighbourhood policing initiative to allow residents to meet with partner agencies to discuss priority issues for a neighbourhood This is a partnership led by Dover to procure and deliver the Strategic Housing Market Assessment which is a government requirement, assessing housing need and demand. The other partners are Thanet, Canterbury, Shepway and Swale

Treasury Management

The treasury management service is an important part of the overall financial management of the Council's affairs. Treasury management can be defined as the management of the organisation's cash flow, its banking, money market and capital market transactions and the effective management of the risks associated with those activities. Its activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management).

Prudential Code – The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code. The basis of the Prudential Code is to ensure that the Council is fully aware of the implications of all its treasury actions. As part of the budget process, Full Council approves a series of Prudential Indicators that demonstrate that its activities are affordable, prudent and sustainable.

Investment Strategy - The primary principle governing the Council's 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:

- 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 Council's prudential indicators covering the maximum principal sums invested.
- 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.

As a result of the recent unsettled banking market, the Council had moved the majority of its deposits to the Government's Debt Management Account Deposit Facility, an account guaranteed by the Government. Funds placed here are more secure than if they had been placed with a bank or building society, but the rate of interest offered is lower. Over the long-term, a continued loss of investment income due to lower interest rates is not sustainable and the Council therefore needed to look at where else it could safely invest. The Council's counterparty list was also so restrictive that the Council had very few alternatives that could be considered. During 2009/10, therefore, a revised counterparty list was

approved by Full Council. This has enabled the Council to look at other highly credit-rated institutions who may be able to offer higher rates of return whilst still providing security for the Council's surplus funds.

The Audit Commission's report 'Risk and Return' reminded councils that they should invest prudently and should primarily seek to safeguard public funds rather than maximise returns. Security and liquidity should therefore take priority over yield. This Council is diligent in ensuring that monies are only placed in secure and liquid investments and also uses a wide range of information, including, but not limited to, credit ratings, to ensure it is making informed investment decisions. It has well trained treasury officers and has recently undertaken treasury training for members. Treasury activity is also reported on a regular basis to senior management and members.

Borrowing – Active management of the Council's debt portfolio is an important part of the treasury management function. Interest rates are predicted to fall further and therefore the Section 151 Officer will continue to ensure that these rates are closely monitored to ensure any advantages arising from restructuring the Council's debt are obtained. The Council will need to undertake additional borrowing over the next few years as old debts are due to mature and will need to be repaid. A debt of £2m will mature on 30 June 2010, a further £3m matures 31 December 2011 and £2m on 31 December 2013. The Council will opt to take out borrowing to meet these debts when it is most advantageous to do so based on predicted interest rates.

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

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

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

The assumptions made within this MTFP for treasury management related activities are:

Table 15

Treasury Management Assumptions

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Borrowing as at 31 March	28,003	28,003	27,999	27,999	27,999
Total Investments as at 31 March	7,000	7,000	7,000	7,000	7,000
Investment Income	195	195	195	195	195
Interest rate%	1.0%	2.0%	4.5%	4.5%	4.5%

Although the interest rate is predicted to increase over the medium term, there is no certainty around this and therefore it is considered prudent to keep the investment income budget at the current level.

Managing the Financial Risks

With budgeted expenditure of over £70m and income targets of over £47m, just for the General Fund alone, it is fundamental to the financial standing of the Council that its budgets are realistic, affordable and meet its service requirements.

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

Longer Planning Timeframes – With the advent of three-year financial settlements it was expected for it to be possible at last to draw together the impact of known future settlements and anticipated future budget pressures to enable the Medium Term Financial Plan to be modelled so as to identify the level of savings needed for a safe and sustainable budget requirement, thereby reducing the risk that future years' aspirations will not be deliverable. However, contrary to expectations, the latest spending review has not been forthcoming and the settlement for 2011/12 is not expected to be known until the conclusion of the Spending Review 2009. There therefore remains considerable uncertainty about the period from 2011 onwards. The Pre-Budget Report suggests real term growth for public sector expenditure of only 0.8%. As the Government is committed to increasing NHS and schools funding in line with inflation and has promised that policing numbers will be maintained, it follows that funding for other areas will be cut. Therefore, for the purposes of this MTFP, there has been an assumption that formula grant will be cut by 3% each year from 2011/12 onwards.

The Planning Cycle: Develop, Review and Revise – The Budget and this Medium Term Financial Plan set out the expected levels of expenditure and income for the future. The estimates are arrived at through careful consideration of historic trends and actual expenditure levels and any factors which may have an impact in the future, such as known changes in legislation. It also requires a degree of estimation and assumption, such as to calculate the impact of a perceived increase or decrease in future demand as a result of demographic changes or patterns of behaviour that have a socio-economic impact. As time progresses the accuracy of the assumptions behind these figures will become clearer and in many cases will require the budgets within this MTFP to change if they are to continue to reflect the financial implications of delivering the Council's aims and aspirations as set out in the Corporate Plan and other plans and strategies. Through the financial year the Council regularly monitors its financial performance against its budgets and will revise them where necessary, subject to remaining within the overall available funding envelope. By monitoring the actual expenditure against budget in this way, the budgets can be amended to best meet the actual needs of the Council, and provide a more suitable starting point for the next Medium Term Financial Plan.

Financial Risk Assessment

Even with the most sophisticated approaches to budget modelling there is always the chance that events happen which could not be foreseen and plans need to be revisited. The Council holds reserves as a contingency to meet unanticipated expenditure that arises from such an unexpected change in circumstances. In order to be able to gauge the appropriate level of reserves a detailed financial risk assessment is carried out and presented as part of the annual Budget Report. All of the main risks that face the Council are considered, to assess the likelihood of the risk happening and the possible financial implications. The most significant of these are listed in the following table.

Table 16

Significant Risks

Risk	Outcome if Risk Occurs	Mitigating Action
<p>Shared services is no longer a feasible option.</p> <p>Possible risk £2.5m - £3m</p>	<p>If shared services aren't progressed, then a sizeable amount of budget savings factored into the medium term financial plan will not be able to be delivered. The likelihood of shared services not being progressed is also deemed to be high risk, as it relies on reaching consensus with four other councils (at member and officer level) and is dependent upon excellent project management being applied to be able to simultaneously merge a number of services across at least four councils, where currently all partners have different structures, policies and processes.</p>	<p>This is being mitigated by the close involvement of officers in the shared services projects and the long lead in time.</p>
<p>Bankruptcy of a major supplier or customer.</p> <p>Possible risk £100k - £250k</p>	<p>This could result in having to pay twice for the same service if payments were made in advance, or see artificially inflated prices being charged if a replacement service needs to be obtained at very short notice.</p> <p>One of the main customer risks is at the Port, which as the second largest municipal port in the country would suffer significantly in the event of a berth failure, or a problem with a regular operator.</p>	<p>The financial position of new contractors is vetted prior to entering into any large contracts. Managers are aware that they have a duty to work closely with key suppliers as part of contract management role, which would increase their chance of noticing any problems.</p> <p>The options around the future operation arrangements for the Port are currently being reviewed, this will include consideration of measures to mitigate risks associated with service delivery failures or operator difficulties.</p>
<p>Repayment of Grant due to failure to meet qualifying criteria.</p> <p>Possible risk £100k - £800k.</p>	<p>Grant may need to be repaid after the expenditure has already been committed. There may be no budgetary provision for the repayment.</p>	<p>Managers of grant funded schemes are aware of the need to comply with the terms of the grant. Problems have been experienced in the past where there has been a change of management and insufficient hand over. A new grant application protocol has now been developed to address this.</p>
<p>Unplanned major works to the Council's property portfolio are required.</p> <p>Possible risk £100k - £200k</p>	<p>The Council could be expected to fund major works at short notice and so additional revenue funding or prudential borrowing would be required.</p>	<p>This will be closely monitored to enable timely action to be taken.</p>

Risk	Outcome if Risk Occurs	Mitigating Action
<p>Sums are lost as a result of an imprudent investment</p> <p>Possible risk £0k - £1million</p>	<p>The world's banking market is currently unstable. There is therefore a risk of a bank in which the Authority has invested collapsing.</p>	<p>The Council only invests with low risk organisations with high credit ratings and spreads its investment portfolio in accordance with its Treasury Investment Strategy.</p>
<p>An unfavourable outcome arises from any legal action taken against the Council</p> <p>Possible risk £100k - £250k</p>	<p>This could arise over a number of different grounds, including equal pay, discrimination and corporate manslaughter.</p>	<p>This will be closely monitored to enable timely action to be taken.</p>
<p>The Council may incur additional expenditure as a result of incorrect treatment of VAT.</p> <p>Possible risk £100k - £250k.</p>	<p>Incorrect accounting for VAT could affect the Council's partial exemption status, causing a reduction in the amount of VAT that could be reclaimed.</p>	<p>The Financial Services Section regularly reminds managers of the need to consult them on areas which represent the greatest risk. The Council has also entered into a contract with a firm of VAT specialists for the provision of VAT advice.</p>

By assessing the risks in this way allows a financial estimate to be made of the total contingency that is needed to enable the Council to meet all of its financial obligations in the event of a major disaster. The financial risk assessment also considers the cash-flow requirements of the Council for both day-to-day activities, and those that may come out of its treasury management activities. Based on the financial risk assessment that was carried out as part of setting the Council's 2010/11 Budget the required level of the General Reserve was deemed to be 10% of the net budget requirement. Therefore, the financial strategy will be to use reserves sparingly, and only when absolutely necessary and to replace them to restore the balance to 10% when possible.

Sensitivity Analysis

As explained above, many of the figures contained within this Plan are based on estimates, which could prove to be inaccurate. In order to assess the impact of the use of poor estimates a top level sensitivity analysis has been carried out, using a 10% variance to indicate the impact of that level of error in the estimate. The outcome of this is shown in the table below.

Table 17

Sensitivity Analysis

Area under consideration	Sensitivity of Estimates
The opening base budget	<p>The opening base budget for both 2010/11 and 2011/12 is firm, as it is based on the budgets approved in February 2009 and 2010.</p> <p>The base for 2012/13 could change, however this would be picked up as part of the preparation of the 2011/12 budget.</p>
The pay estimates	<p>A 10% change to the figure for pay increases that result from the pay award and increments would equate to £1.8million. However, such a large discrepancy would be unlikely as the pay budget is developed at a very detailed level (on a per post basis).</p> <p>The main impact on the accuracy of the budgets for pay headings results from vacancy estimates which are impossible to predict.</p>
The vacancy savings and post reduction estimates	<p>For 2010/11 the vacancy abatement saving has been budgeted at £522.8k which is equivalent to approximately 20 posts. A variance of 2 posts equates to £50k. This will require a robust proactive approach to ensure that the savings that naturally arise due to staff turnover are retained. Based on experience in recent years, and considering the current staff turnover rate, this target is felt to be challenging but achievable.</p> <p>The savings from posts that become redundant as a result of staffing reviews have been built into the budget based on assumptions as to when the postholders will leave.</p>
Price Increases	<p>In the main these are based on the terms of the contract. Inflation has been assumed at 1%. A 2% variance on this would equate to an increase in budget requirement of £486k.</p>
Pension Increases	<p>No provision has been made for an increase in pension contributions as there is currently an underspend against the budget provision which will be set aside in a reserve to meet any future overspends. The position will be reviewed again in a year's time to ensure that adequate provision has been made.</p>
Service Delivery Pressures	<p>The estimates for service delivery pressures are best estimates. However, the demands on Council funding is continually moving. Therefore there is a chance that there will be greater demand than budgeted for. A 10% increase would account for £90k.</p>
Volatile Budgets	<p>A number of budgets are particularly volatile as they are dependent on how quickly the Council recovers from the impacts of the recession and on future interest rates. These budgets include interest payable, interest receivable and some income streams. Estimating these for budget purposes is made even more difficult due to the planned changes around structures, the uncertainty with regard to shared services and the possible need for prudential borrowing. If income levels return to those prior to the recession and interest rates return to their previous level of 4.5% by 2012/13, then potential revenue savings up to approximately £1.1m could be made. Due to the</p>

Area under consideration	Sensitivity of Estimates
	volatility of these budgets, this has not been reflected in the budget build but these budgets will be reviewed in 2011/12 when hopefully they can be predicted with more certainty.
Reduced Fees Income	The Council has suffered from reductions in income streams due to the recession. The budget assumes that these reductions will continue over the medium term, although in reality the income is likely to pick back up as the economy recovers.
The increased income targets	There is always a risk that increases in fees and charges reduce demand, which can have a detrimental impact on the budget. With £61k having been added into the budget for 2010/11 for increased income targets, a 10% reduction in achieving this would result in £6k. However, the impact of a reduction in demand isn't necessarily limited to the achievement of the increase in income factored in; rather it can affect the achievement of the total income budget for any particular service. The increases proposed within the budget have been carefully calculated to match demand and to remain competitive where appropriate, but customer preference can't always be anticipated, as a result the achievement of income targets will be monitored closely during the year.
Other savings estimates	The budget and Medium Term Financial Plan reflects the savings as a result of a number of efficiency measures and service reductions, which in some cases have been calculated based on indicative plans and in others on the conclusions of more firm contract negotiations. In order to maintain a balanced budget any under achievement of savings will be offset against emerging underspends in the first instance, but will require compensating savings otherwise. Service managers and the Council's Management Team are aware of this and will review the achievement of them carefully over the year.
The level of reserves	<p>The level of general reserves which has been budgeted has been determined based on a financial risk assessment which considers the likelihood of the main risks facing the Council, and the possible financial implication should the risk happen. This has allowed an amount of general reserves to be used as part of the funding envelope for the General Fund Revenue Budget over the medium term, whilst still providing an adequate level of contingency for unanticipated events and cash flow purposes. The estimated position on general reserves at year end is that they will stand at 8.16% of the net revenue budget against the target of 10%. Every effort will be made to replenish these reserves to the recommended level at the earliest opportunity from in-year underspends.</p> <p>Earmarked reserves are being used to enable funds provided for a specific purpose to be held until needed, and allows budgets that are needed on an irregular or periodic basis to be funded by setting aside an annual base budget at a fraction of the total cost. The funds held within earmarked reserves represent a one-off source of funding to meet planned expenditure. Their use is managed on a cash limited basis, and a shortage of reserved funds in year may be dealt with by re-phasing the expenditure, or by making use of emerging underspends.</p>
The Government Grant	The Formula Grant settlement for 2011/12 (comprising Revenue Support Grant and National Non-Domestic Rates) has not yet been announced. There is therefore a strong likelihood of the amount differing to that budgeted. A prudent view has been taken of a cut of 3%, which should minimise the risk of the actual position being worse than anticipated. Were the cut to be as much as some commentators are suggesting of 8%, this would require additional savings over the 5 years of this MTFP of £2.24m.

