

AGENDA

AUDIT COMMITTEE MEETING



Date: Monday 10 February 2014
Time: 6.30 p.m.
Venue: Town Hall, High Street,
Maidstone

Membership:

Councillors Black, Butler, Daley, Nelson-Gracie
(Chairman) and Warner

Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information
7. Minutes of the meeting held on 25 November 2013

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Continued Over/:

Issued on 31 January 2014

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Alison Broom

**Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone, Kent ME15 6JQ**

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|-----|---|---------|
| 8. | Report of the Director of Regeneration and Communities - Reconciliation of the Collection Fund 2012/13 | 5 - 12 |
| 9. | Report of the Director of Regeneration and Communities - Treasury Management Strategy 2014/15 | 13 - 34 |
| 10. | Report of the Director of Regeneration and Communities - Budget Strategy 2014-15 Onwards - Risk Assessment | 35 - 74 |

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 25 NOVEMBER 2013

Present: Councillor Nelson-Gracie (Chairman), and
Councillors Black, Mrs Wilson and Yates

61. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Butler, Daley and Warner.

62. NOTIFICATION OF SUBSTITUTE MEMBERS

The following substitutions were noted:-

Councillor Yates for Councillor Butler
Councillor Mrs Wilson for Councillor Daley

63. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

64. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

65. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

66. EXEMPT ITEMS

RESOLVED: That the Items on the Agenda be taken in public as proposed.

67. MINUTES OF THE MEETING HELD ON 16 SEPTEMBER 2013

RESOLVED: That the Minutes of the Meeting held on 16 September 2013 be approved as a correct record and signed.

68. ANNUAL GOVERNANCE STATEMENT ACTION PLAN UPDATE

The Committee considered the report of the Head of Policy and Communications regarding an update on the Annual Governance Statement Action Plan.

The Committee asked a number of questions of the Officers in relation to:

- How the project management arrangements have been improved;

- The holding of public meetings twice a year;
- The consultation process and the meaningfulness of this;
- Members' development – compulsory training.

It was noted that CIPFA would shortly be publishing an update on guidance for Audit Committees which was expected to cover training.

RESOLVED:

- a) That the report be noted; and
- b) That the following actions be agreed:-
 - i) That a report on the updated guidance for Audit Committees from CIPFA be brought to the next meeting; and
 - ii) That the findings of the Scrutiny Co-Ordinating Committee regarding the corporate governance review be brought to the next meeting.

69. **INTERNAL AUDIT - INTERIM REPORT**

The Committee considered the report of the Head of Internal Audit Partnership regarding details of the work of the Internal Audit team between April and September 2013.

It was noted that the benefit fraud initiative was a national exercise which the Council facilitated on behalf of the Government. It involved every Local Authority providing a range of data sets that are matched at a national level.

The Committee asked a number of questions of the Officers relating to:

- Museum collections policy and procedures and adherence to those procedures;
- Follow-up reports
- Community Right to Challenge
- Review of the location of CCTV cameras

The Committee thanked the Head of Internal Audit Partnership and his team for the good work done, especially while working under difficult circumstances and with a number of staff changes.

RESOLVED:

- a) That it be agreed the audit process is working effectively and that management is taking the necessary action to implement agreed audit recommendations.
- b) That a list of follow-up reports be circulated to the Members of the Committee.

70. EXTERNAL AUDITOR'S LETTER TO THE CHAIRMAN

The Committee considered the report of the Head of Finance and Resources regarding a letter from the External Auditor to the Chairman of Audit Committee and a proposed action plan relating to the Collection Fund.

The Committee requested that they be advised of the findings in relation to the investigation into the difference identified in the reconciliations respectively between Council Tax and Business Rates to the General Ledger.

RESOLVED: That the contents of the letter be noted and the current actions in relation to the collection fund be endorsed.

71. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER 2012/13

The Committee considered the report of the Head of Finance and Resources regarding the External Auditor's Annual Audit letter for the financial year 2012/13.

The Committee raised the key areas for Council action on page 53 of the report of the Head of Finance and Resources and asked Officers how these key areas were going to be addressed.

It was noted that improvements have been made with regard to the working papers and Officers are looking at ways to improve further.

The External Auditor advised the Committee that they are keen to work closely with the Finance Team to address the issues from this year's audit so that they can work toward a smoother audit process next year and future years.

RESOLVED: That the External Auditor's Annual Audit Letter be noted.

72. TREASURY MANAGEMENT HALF YEARLY REVIEW 2013/14

The Committee considered the report of the Head of Finance and Resources setting out the activities of the Treasury Management function for the 2013/14 financial year.

It was raised that there was a discrepancy between the investments listed on page 63 and the table at Appendix A to the report of the Head of Finance and Resources. Members' noted that this was due to the omission from the table in Appendix A of the £3m investment with Lloyds TSB.

RESOLVED:

- a) That the position as at 30 September 2013, as set out in the report of the Head of Finance and Resources, be noted; and
- b) That it be agreed no amendments to the current procedures are necessary as a result of the review of activities in 2013/14 to date.

73. AUDIT COMMITTEE WORK PROGRAMME 2013/14

The Committee considered its work programme for the remainder of the 2013/14 Municipal Year.

It was noted that a further meeting was required in January 2014 to consider the Treasury Management Strategy 2014/15 and the Review of Risk Assessment of Budget Strategy 2014/15 Onwards. A date has yet to be agreed.

Officers were asked to consider the possibility of moving some of the reports listed for March 2014 to other meeting dates in order to reduce the number of reports to that meeting.

RESOLVED: That the Audit Committee work programme be noted and that consideration be given to the possibility of reports scheduled for March 2014 being moved to other meeting dates.

74. DURATION OF MEETING

6.30 p.m. to 7.32 p.m.

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 10 FEBRUARY 2014

REPORT OF DIRECTOR OF REGENERATION AND COMMUNITIES

Report prepared by Paul Riley

1. RECONCILIATION OF THE COLLECTION FUND 2012/13

1.1 Issue for Decision

1.1.1 This report updates the committee on the reconciliation of the financial management system to the council tax and business rates system.

1.1.2 The report is in response to the committee's request, at its meeting on 25th November 2013, to be updated on the actions taken to complete the reconciliation.

1.2 Recommendation of Head of Finance & Resources

1.2.1 That the Audit Committee notes the actions taken on completion of the reconciliation.

1.3 Reasons for Recommendation

1.3.1 The Audit Opinion letter from the external Auditor to the Chairman of the Audit Committee was considered by the committee at its meeting on 25th November 2013. The letter noted an uncertainty in the accounts. This related to the reconciliation of the accounts to the records of the revenue system (council tax and business rates). A copy of the letter is attached at Appendix A.

1.3.2 While the Audit opinion letter noted that the "amounts are not material to the financial statements, but with any uncertainty, there is always a note of caution" the Audit Committee rightly expressed concern and requested an update on progress at their next meeting.

1.3.3 At the time of the annual audit officers were unable to provide an appropriate reconciliation due to time pressures rather than an

inability to explain the variance. The reconciliations have now been completed and the primary issues and actions are detailed below.

1.4 **Variance on Business Rates**

1.4.1 The variance on the business rates account is the deferred element of business rates arising from the Non-domestic Rates Deferral Scheme instigated by the Government in 2009/10. The value of deferred business rates was reversed from the general ledger in that year to ensure the collection fund conformed to the return and payment made to central government. This value was not re-introduced to the ledger in the following year and the net result has been a difference in the record since that date.

1.4.2 As the business rates system has changed since the date of this transaction any adjustment must be accounted for in the new system. The adjustment has been made to the financial management system to increase arrears of business rates to match the business rates system and at the same time increase the bad debt provision for business rates.

1.4.3 When the collection fund is completed for 2013/14 the provision will be recalculated to meet the arrears as at 31st March 2014 and if this leads to an excess of provision the excess will be distributed to the government, county council, fire authority and this council as required by the regulations.

1.5 **Variance on Council Tax**

1.5.1 In a similar way this variance is attributable to a movement in the collectable amount of council tax that was identified after the year end entries for council tax had occurred. The value of council tax collectable in the council tax system for 2011/12 was adjusted post 31st March 2012 due to changes to the year end reports produced by the system supplier. These reports are changed on a regular basis as council tax and business rates regulations are amended and, on this occasion, the amendment was provided late and not reflected in the 2011/12 accounts.

1.5.2 As the required amendment is similar in nature to the amendment required for business rates the arrears brought forward and the provision for bad debts have been increased. This will allow the calculation of the provision required as at 31st March 2014 to lead to any necessary distribution of the balance between major preceptors and the council.

1.4 **Alternative Actions and why not Recommended**

1.4.1 The reconciliation had to be completed and amendments to the accounts must be made. These lead to an additional resource within the collection fund. The resource could be directed to the fund and preceptors could be notified of an additional distribution of the balance in 2014/15. This is not recommended because of the recent changes to the business rates system and the fact that the reconciliation increases the level of arrears in the accounts. Allocating the balance to the bad debt provisions for council tax and business rates enables evidence of any need for increased provision at year end 2013/14 to be considered in advance of any distribution.

1.5 **Impact on Corporate Objectives**

1.5.1 The major impact on the corporate objectives is to customer and corporate excellence. The failure to provide timely and accurate reconciled working papers to the external auditor reduces the quality of the final accounts process.

1.5.2 As part of the revised regulations concerning the accounting for business rates, the government intends to bring forward the completion deadline for the annual business rates return from September each year to May each year. This will cause administrative difficulties for local authority revenues officers but will ensure the accounts are closed on more accurate figures in future years.

1.6 **Risk Management**

1.6.1 The major risk to the Council is that the resources provided by this adjustment may be incorrectly allocated. Using the value to enhance the level of bad debt provision means that the Council will have completed the reconciliation for 2013/14 before reporting the value to preceptors. This allows a further year of reconciliation to occur to ensure the council has accurately identified the source of the imbalance.

1.7 **Other Implications**

- 1. Financial
- 2. Staffing
- 3. Legal
- 4. Equality Impact Needs Assessment
- 5. Environmental/Sustainable Development

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| X |
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- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management

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1.7.1 The financial implications are set out in the body of the report.

1.8 **Relevant Documents**

1.8.1 Appendices

Appendix A – Audit Opinion on Maidstone Borough Council’s Financial Statements 2012/13

| | |
|---|-------------------------------------|
| <u>IS THIS A KEY DECISION REPORT?</u> | |
| Yes | <input type="checkbox"/> |
| No | <input checked="" type="checkbox"/> |
| If yes, when did it first appear in the Forward Plan? | |
| | |
| This is a Key Decision because: | |
| | |
| Wards/Parishes affected: | |
| | |

Councillor Rodd Nelson Gracie
Maidstone Borough Council
Maidstone House
King Street
Maidstone
ME15 6JQ

30 September 2013

Dear Cllr. Nelson Gracie

Audit Opinion on Maidstone Borough Council's Financial Statements 2012/13

We presented our Audit Findings Report at the Audit Committee meeting on 16th September 2013. At that time there were a number of outstanding matters that needed to be resolved before we could issue our audit opinion on the Council's financial statements for 2012/13. Following that meeting progress has been made in finalising these matters, and we intend to issue an unqualified audit opinion on 30th September 2013.

As a result of the additional work, some further audit findings have emerged, and we need to bring the following matters to your attention.

1. Uncertainty in accounts

In our Audit Findings Report we reported that we had not been provided with working papers to support debtors and creditors in respect of the collection fund. Officers provided these working papers on the 24th September. Audit review resulted in further revision and identified an uncertainty over the value of council tax arrears and the recorded creditor in the balance sheet in respect of non-domestic rates. The working papers provided to support the balance sheet entries for council tax and NNDR did not agree to the accounts presented to members. On further investigation, we determined that Academy as the prime system did not agree with the produced working papers or the accounts.

Officers have not been able to reconcile the balances in the council's main financial system to those recorded in the subsidiary revenues system. Officers cannot currently explain the differences and acknowledge the need to investigate the issues further.

The resulting impact of the differences between the two systems is a level of uncertainty over the Balance Sheet entries for council tax and non-domestic rates, amounting to £247k and £955k respectively.

These amounts are not material to the financial statements, but with any uncertainty, there is always a note of caution. On consideration, we have concluded this uncertainty is not material and will not impact on our audit opinion. We have sought further assurances from officers on this issue in a revised letter of representation.

2. Adjustments to the financial statements

Officers made a number of changes to the draft accounts submitted for audit to correct errors relating to the Balance Sheet entries for Council Tax and Non-Domestic Rates. These changes were reflected in the Statement of Accounts presented to the Audit Committee on 16th September 2013. At this date we had not reviewed the amended financial statements, as we were waiting for the supporting working papers as noted above. Further changes to the accounts were made following the auditors' review of working papers provided on 24th September 2013.

The table below sets out amendments to the draft Statement of Accounts presented for audit on 5th July 2013, and further changes to these balances made since the accounts were approved by the Audit Committee on 16th September 2013.

Balance Sheet

| | Draft Accounts (05/07/2013) £000 | Audit Committee (16/09/2013) £000 | Final Position (30/09/2013) £000 |
|----------------------|--|---|--|
| Short Term Debtors | 14,096 | 13,797 | 11,555 |
| Short Term Creditors | 8,357 | 9,206 | 6,882 |

Other changes made to correct errors in the Collection Fund disclosure notes are set out below. These changes also arose from the auditors' review of working papers provided on 25th September 2013:

Collection Fund Note 1 – Council Tax

| | Draft Accounts £000 | Audited Accounts £000 |
|---------------------------|------------------------|--------------------------|
| Initial accounts | 101,076 | 101,353 |
| Additional accounts | 75,037 | 75,037 |
| Less: reduced accounts | -74,264 | -84,393 |
| | 101,849 | 91,997 |
| Less: amounts written off | -9,852 | -278 |
| Net income to Fund | 91,997 | 91,917 |

The following changes were required following review of the amended Statement of Accounts presented to the Audit Committee on 16th September. These adjustments correct errors which had been previously identified and raised with officers, but had not been accurately reflected in the amended statements:

Note 22 – Financial Instruments

| | Audit Committee (16/09/2013) £000 | Final Position (30/09/2013) £000 | Audit Committee (16/09/2013) £000 | Final Position (30/09/2013) £000 |
|--|---|--|---|--|
| | Long Term | | Short Term | |
| Investments | | | | |
| Loans & Receivables | 0 | 0 | 13,520 | 13,520 |
| Available-for-sale financial assets | 11 | 11 | | |
| | 11 | 11 | 13,520 | 13,520 |
| Bank Overdraft | 0 | 0 | 0 | 77 |
| Debtors | | | | |
| Loans & Receivables | 30 | 30 | 21,795 | 5,453 |
| Creditors | | | | |
| Financial liabilities at amortised cost | 0 | 0 | 4,909 | 5,174 |
| Other Long Term Liabilities | | | | |
| Finance Lease Liabilities | 2,124 | 0 | 428 | 0 |

Note 47 – Cash Flow Statement – Investing Activities

| | Audit Committee (16/09/2013) £000 | Final Position (30/09/2013) £000 |
|---|---|-------------------------------------|
| Purchase of short-term and long-term investments | 5,000 | 7,000 |

Property, Plant and Equipment – Comparative Figures

The prior year balance for property, plant and equipment was changed to achieve consistency with the supporting note:

| | Audit Committee (16/09/2013) £000 | Final Position (30/09/2013) £000 |
|---|---|-------------------------------------|
| Property, plant and equipment (2011/12 figure) | 62,298 | 62,103 |

Yours sincerely

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cc Zena Cooke - Director of Regeneration & Communities

Paul Riley – Head of Finance & Resources

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

10 FEBRUARY 2014

REPORT OF DIRECTOR OF REGENERATION & COMMUNITIES

Report prepared by Paul Riley
Head of Finance & resources

1. TREASURY MANAGEMENT STRATEGY 2014/15

1.1 Issue for Decision

- 1.1.1 In accordance with CIPFA's Code of Practice on Treasury Management, Audit Committee is asked to consider the Draft Treasury Management Strategy for 2014/15 including the Treasury and Prudential Indicators.

1.2 Recommendation of Head of Finance & Resources

- 1.2.1 That Audit Committee considers the draft strategy and related appendices as set out in sections 1.13 and 1.14 of this report and recommends it to Cabinet for consideration and recommendation to Council.

1.3 Reasons for Recommendation

- 1.3.1 The Council has adopted CIPFA's Code of Practice on Treasury Management (the Code) and this requires that the council sets out a treasury management strategy on an annual basis. This report considers the proposed strategy for 2014/15 onwards along with current guidance from CIPFA and the DCLG.
- 1.3.2 The primary requirements of the Code are as follows:
- a) Receipt by full Council of an annual Treasury Management Strategy that includes the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead.
 - b) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - c) Delegation by the Council of the role of scrutiny of the treasury management strategy and policies, a Mid Year Review Report and an Annual Report covering activities during the previous year to an

appropriate committee. These functions have been delegated to the Audit Committee by the Council.

1.3.3 The agreed process previously approved by Council is:

- a) Audit Committee will consider, as part of their monitoring role, the initial draft and make recommendations to Cabinet.
- b) Cabinet will consider the draft and any recommendations from Audit Committee and recommend to Council
- c) Council will approve the strategy by March of each year for the forthcoming financial year.

1.4 **The 2013/14 Strategy**

1.4.1 The Strategy for 2013/14 was approved by Council in February 2013 and set the following objectives:-

- a) Keep investments short term (up to 1 year) to make funds available to invest if rates increase;
- b) Use up to £3m from core cash balances to be invested for 1 year or above if rates are at a premium over predicted base rates and funds are available for the term;
- c) The use of enhance cash funds which is an extension to the current AAA rated money market funds. These offer higher yields to money market funds due to giving short term notice to withdraw funds;
- d) The Head of Finance & Resources be given delegated responsibility to add or withdraw institutions from the counterparty list when ratings change, either as advised by Capita Treasury Management (the Council’s advisors) or from another reliable market source.

1.5 **Current Cashflow Performance**

1.5.1 Also at the 25 November 2013 meeting of the Audit Committee the mid-year performance report included details for 2012/13 of the position as at 30th September 2013. Given below is an update on that position.

| | £m | % |
|--|-----------|----------|
| Investments as at 1 st April 2013 | 13.5 | |
| Investment Balance as at 31st Dec 2013 | 31.1 | |
| Investment Income as at 31st Dec 2013 | 0.17 | |
| Ave Balance/Rate of Investments during year | 26.9 | 0.76 |
| Est. Investments as at 31 st March 2014 | 17.9 | |

- 1.5.2 Investments with Lloyds TSB (part nationalised bank) total £5m. This is made up of two longer term investments, one of £3m for 365 days and the other of £2m for 364 days.
- 1.5.3 All other investments have been completed on a short term basis (up to one year), as agreed within the Strategy.
- 1.5.4 During 2013/14 to date the Council has not borrowed either for cash flow purposes or financing. During the last quarter of 2013/14 there is a possibility that the Council will borrow as the first purchases arising from the commercialisation projects occur.
- 1.5.5 Based on the current cash flow projection the Council has anticipated cash balances at 1 April 2014 available for investment totalling £17.9m.

1.6 Developing the Strategy

- 1.6.1 In formulating and executing the strategy for 2014/15, the Council will continue to have regard to the DCLG's guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectional Guidance Notes.
- 1.6.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.6.3 The Council will also achieve optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to on lend and make a return is unlawful and the Council will not engage in such activity.
- 1.6.4 The Council, in conjunction with its treasury management advisor, Capita Asset Services, will use Fitch, Moodys and Standard and Poors ratings in combination to derive its credit criteria. All credit ratings will be monitored daily. The Council is alerted to changes in ratings of all agencies through its use of the Capita's creditworthiness service.
- 1.6.5 The Council will therefore use counterparties with durational bands and these are set out later in the report and at Appendix A.
- 1.6.6 It is proposed that UK part-nationalised banks (e.g. RBS & Lloyds) duration be extended from 1 year to 2 years, as these have the added security of government backing if the council were to invest in longer term deposits.

- 1.6.7 If a downgrade means the counterparty or investment scheme no longer meets the Council's minimum criteria, its use for further investment will be withdrawn immediately. If funds are already invested with the downgraded institution, a decision will be made by the Head of Finance & Resources whether to withdraw the funds and maybe incurring a penalty.
- 1.6.8 If a body is placed under negative rating watch (i.e. there is a probability of a rating change in the short term and the likelihood of that change being negative) and it is currently at the minimum acceptable rating for placing investments, then no further investments will be made with that body.
- 1.6.9 In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in a downgrade of an institution or removal from the Council's lending list.
- 1.6.10 The use of leading building societies for investment purposes to use the top 5 ranked on a combination of management expenses of the group, as shown within the Income and Expenditure Account, as well as the asset size.
- 1.6.11 Other market intelligence will also be used to determine institutions credit worthiness, such as financial press, financial broker advice and treasury management meetings with other authorities, e.g. Kent Treasury Management Forum. If this information shows a negative outcome, no further investments will be made with that body.
- 1.6.12 The Head of Finance & Resources has previously been given delegated authority to use alternative forms of investment, should the appropriate opportunity arise to use them, and should it be prudent and of advantage to the Council to do so. This delegated authority is subject to prior consultation with the Cabinet Member for Corporate Services on any possible use of these instruments. This delegation has not been exercised to date.
- 1.6.13 The following table shows the balance of investments which will mature during 2014/15 and the total of this balance which will be needed to fund the revenue/capital expenditure.

| Investment | 2014/15 £m |
|---|-----------------------|
| Short Term Investments at start of Year | 17.9 |
| Use of Balances/Capital receipts | 11.9 |
| Total Core Cash | 8.0 |

1.6.14 These maturities will therefore cover the anticipated use of cash balances for the period and leave a minimum of £8.0m available for investment, along with day to day cash flow management funds. However, £5m has been identified for possible investment leaving a surplus of £3m worth of funds for contingencies.

1.7 A Forward Look

1.7.1 The MPC has previously stated that an increase in interest rates will not be discussed until unemployment levels reach 7% or below which was originally thought to be 3 years away. The current unemployment rate is now 7.1%. It is believed that the Governor of the Bank of England will look at other variables, such as economic growth, before deciding raising rates.

1.8 Interest Rate Forecast

1.8.1 As part of their service Capita Asset Services assist the Council to formulate a view on interest rates. Below is a table which forecasts short term (Bank Rate) and longer term fixed interest rates that reflects their current view on the future.

| Bank Rate | | | | | | | | | | | | | | |
|-----------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | NOW | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
| Capita Asset Services | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.00% | 1.25% |
| UBS | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | - | - | - | - | - |
| Capital Economics | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | - | - | - | - | - |
| 5yr PWLB Rate | | | | | | | | | | | | | | |
| | NOW | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
| Capita Asset Services | 2.73% | 2.50% | 2.60% | 2.70% | 2.70% | 2.80% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.40% |
| UBS | 2.73% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Capital Economics | 2.73% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.50% | 2.90% | 3.30% | - | - | - | - | - |
| 10yr PWLB Rate | | | | | | | | | | | | | | |
| | NOW | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
| Capita Asset Services | 3.82% | 3.60% | 3.70% | 3.80% | 3.80% | 3.90% | 3.90% | 4.00% | 4.10% | 4.20% | 4.30% | 4.30% | 4.40% | 4.50% |
| UBS | 3.82% | 3.70% | 3.80% | 3.90% | 4.05% | 4.05% | 4.30% | 4.55% | 4.55% | - | - | - | - | - |
| Capital Economics | 3.82% | 3.55% | 3.55% | 3.55% | 3.55% | 3.55% | 3.55% | 3.55% | 3.80% | - | - | - | - | - |
| 25yr PWLB Rate | | | | | | | | | | | | | | |
| | NOW | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
| Capita Asset Services | 4.41% | 4.40% | 4.50% | 4.50% | 4.60% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.10% | 5.10% | 5.10% |
| UBS | 4.41% | 4.55% | 4.55% | 4.80% | 4.80% | 5.05% | 5.05% | 5.30% | 5.30% | - | - | - | - | - |
| Capital Economics | 4.41% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.35% | - | - | - | - | - |
| 50yr PWLB Rate | | | | | | | | | | | | | | |
| | NOW | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
| Capita Asset Services | 4.36% | 4.40% | 4.50% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.20% | 5.20% | 5.20% | 5.20% |
| UBS | 4.36% | 4.45% | 4.45% | 4.70% | 4.70% | 4.90% | 4.90% | 5.05% | 5.05% | - | - | - | - | - |
| Capital Economics | 4.36% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.50% | - | - | - | - | - |

1.8.2 Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until June 2016.

1.8.3 Shorter term investment rates are still currently more appealing than longer term. Current investment rates are as follows:

- Instant Access 0.6%
- 95 Day Notice 0.8%

- 2yrs 0.95%
- 3yrs 1.5%
- 5yrs 2.45%

1.8.4 The interest rate change being brought forward from September 2016 may increase longer term rates during 2014/15 so the Head of Finance and Resources may use the £5m core funds set aside for this purpose.

1.8.5 The use of property funds has been discussed with the Council's advisors, Capita. Some Kent Authorities are already investors in such funds. Charities, Churches and Local Authorities (CCLA) have their own property fund specifically for Local Authorities however rates are around 2.4% which is currently low to tie up funds for 5 years. If the situation changes, the Head of Finance & Resources will, in discussion with the Cabinet Member for Corporate Services decide if it is a prudent time to invest in property funds.

1.9 Capital Programme and Prudential Borrowing

1.9.1 As part of the development of the prudential indicators, that themselves form part of the treasury management strategy, the Council must consider the affordability of its capital programme.

1.9.2 In the past this programme has been financed by the use of capital resources such as receipts from asset sales and grants. More recently the Council has also used receipts from the New Homes Bonus initiative. In which case affordability of the programme is calculated by the lost revenue income from the possible investment of the resources.

1.9.3 The authority to borrow up to £6m for the financing of capital expenditure is included in the current capital programme and the current prudential indicators. This report includes the continuation of that authority within the calculation of the indicators. If the Council is to borrow then the affordability of the capital programme must include an assessment of the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.

1.9.4 At this time the strategy proposes the use of up to £5m of core cash held for longer term investment of over one year, if the rates are appealing. As detailed earlier in this report when considering a forward look, the income from investments of greater than one year is diminishing as the counterparties used by the Council are becoming less interested in longer term borrowing.

1.9.5 The current long term borrowing rate from the Public Works Loan Board given in the table at paragraph 1.8.1 is 4.41% for 25 years. Were the Council to temporarily borrow the necessary resources from its own

cash balances rather than complete a further one year investment it would save the equivalent of 3.46% of the amount borrowed. The affordability of the capital programme has been calculated based upon the assumption that internal borrowing would occur initially.

- 1.9.6 Should rates move quicker than the forecast predicts, the current and proposed strategies do allow the Head of Finance and Resources to take advantage of external borrowing.

1.10 Cash Flow Projection to 2015/16

1.10.1 A cash flow projection up to March 2016 has been created reflecting the spending proposals in the Budget Strategy 2014/15 onwards. The cash flow projection shows that anticipated investment income will be consistently £0.25m per annum over the period from 2014/15 to 2016/17. This is based on interest rates remaining as forecast.

1.10.2 Considering the proposal to use internal borrowing to finance the capital programme, as set out in section 1.9 above, the investment income suggested by the cash flow projection may be provided in part from internal charges or through the surplus generated by commercialisation projects.

1.11 Minimum Revenue Provision

1.11.1 Where spend is financed through the creation of debt, the Council is required to pay off an element of the accumulated capital spend each year. The total debt is identified as the capital financing reserve and ensures that the Council includes external and internal borrowing along with other forms of financing considered to be equivalent to borrowing.

1.11.2 The payment is made through a revenue charge (the minimum revenue provision - MRP) made against the Council's expenditure, although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

1.11.3 Although the Council has maintained a capital financing reserve based upon the prudential borrowing limit previously set, the MRP was based upon the actual payments made under the Serco Paisa arrangements for the capital works completed by Serco at Maidstone Leisure Centre. Debt repayment is made by annual instalments over the 15 year life of the contract and is suitably equivalent to a MRP value.

1.11.4 With the real potential for the use of prudential borrowing the development of the strategy for 2013/14 considered the most appropriate option for future borrowing and agreed to use the asset life method due to the requirement to split assets into component parts and depreciate different components at different rates.

1.12 Summary of Changes Proposed

1.12.1 With this outlook in mind it is appropriate to consider changes to the policy for the core funds of the Council and the level of investment with the most secure counterparties on the Council's list. The strategy for 2014/15 therefore looks to enhance these areas as follows:

- a) Increasing the maximum duration limits with some part-nationalised groups to 2yrs from 1yr;
- b) Invest up to £5m of core cash for over 1 year if rates were to improve. Maybe using property funds;
- c) To consider the use of core cash during 2014/15 for internal borrowing if not used for longer term investments;

1.12.2 Based on the issues outlined and following consultation with the Council's Treasury Management advisors the following strategy is recommended.

1.13 Draft Strategy for 2013/14

1.13.1 The council will maintain a counterparty list to identify institutions suitable for investment. The proposed list is set out at Appendix A and will be maintained using the following principles.

- a) Use the Council's Treasury Management Consultant's scheme for rating of institutions for creditworthiness which uses a sophisticated modeling approach with credit rating agencies, Moodys, Fitch and Standard & Poors, along with Sovereign ratings, CDS spreads and credit watches.
- b) Group limits placed on institutions within the same group and not separate for each institution. The group limit will be the highest individual credit criteria for the group.
- c) An institution will never have a higher credit rating than the sovereign country it operates within. If the sovereign is downgraded below the rating of an institution, the institution is downgraded to the same level.
- d) Duration limits with part nationalised to increase to 2 yrs.
- e) Use of the top 5 Building Societies is ranked using the management expenses and asset size ranking.
- f) The Head of Finance & Resources be given delegated responsibility to add or withdraw institutions from the counterparty list when ratings change, either as advised by Capita Assets Services (the Council's advisors) or from another reliable market source.

1.13.2 The DCLG provides criteria for specified investments with all other investments being non-specified. These are set out at Appendix B and the following principles are applied to their use.

- a) Only the top five building societies and investments over a 1 year duration with a credit worthy institution will be non-specified.
- b) Funds will be invested short term (up to one year) so that funds are available to invest when rates increase.
- c) The use of £5m core cash deposits limits with part nationalised institutions can be greater than one year if rates are at a premium over predicted base rates and funds are available for the term.
- d) The use of enhance cash funds which is an extension to the current AAA rated money market funds. These offer higher yields to money market funds due to giving short term notice to withdraw funds.

1.13.3 Minimum Revenue Provision 2014/15

- a) The assumption is to borrow up to a maximum of £6m through the most economically advantageous method, as decided by the Head of Finance & Resources, from: internal borrowing of core cash balances; PWLB loans; or other reputable sources of lending.
- b) The Council will use the asset life method for the calculation of the Minimum Revenue Provision on all future unsupported borrowing;
- c) Principle repaid will be used to calculate the Minimum Revenue Provision on the arrangement with Serco Paisa regarding the Leisure Centre improvements.

1.14 Prudential and Treasury Management Indicators

1.14.1 The Prudential and Treasury Management Indicators that have been developed based upon the proposed strategy set out in section 1.11 above and are detailed in Appendix C.

1.15 Alternative Action and why not Recommended

1.15.1 The Council is required to endorse a Treasury Management Strategy and monitor and update the strategy and Prudential Indicators as necessary. The Council could endorse a simple strategy for Treasury Management. However this would be contrary to best advice from the Council's advisors and likely to produce a reduced income stream from investments.

- 1.15.2 Within the strategy proposed the Council could chose to retain a maximum investment with any institution of £5m or even reduce this level. Given the difficulty in identifying opportunities to lend at suitable rates within the counterparty list it is necessary to increase the level of investment possible with the most secure organisations.
- 1.15.3 Also within the strategy proposed the Council could chose to utilise additional counterparties with the investments from the non-specified investments group. Due to the fact that this increases the risk to capital it is appropriate that the Council continues to only use such investments with the top five building societies and other local authorities.
- 1.15.4 As an additional action the Council could consider alternative investment options such as Certificates of Deposit or corporate bonds with banks and building societies. At this time the yields on these arrangements are not significantly higher and often these come with a management fee or requiring a high level of initial capital investment. As the strategy identifies other appropriate methods of investment for the Council these options are not recommended as they do not offer benefits commensurate with the cost. They will continue to be reviewed and proposed if suitable in future strategies.
- 1.15.5 The Council could utilise the resources invested in expenditure on key priority outcomes. However the core cash held by the Council is either set aside for future expenditure, such as the capital programme, or held as a form of risk mitigation, such as the minimum level of revenue balances. To utilise these resources for alternative projects would put the Council at future risk should an unforeseen event occur.
- 1.15.6 External Fund Managers – by appointing external managers local authorities may possibly benefit from security of investments, diversification of investment instruments, liquidity management and the potential of enhanced returns. Managers do operate within the parameters set by local authorities but this involves varying degrees of risk. This option has been discounted on the basis of the risk to capital receipts which would make it difficult to ascertain a suitable sum to assign to an external manager.

1.15 Impact on Corporate Objectives

- 1.15.1 The Treasury Management Strategy will impact upon all corporate objectives through the resource it provides from the investment of the council's balances. These resources are incorporated in the council's budget.

1.16 Risk Management

1.16.1 Risk Management is included within the Treasury Management Practices which the council adheres to. The main risks to the council are counterparty risk, liquidity risk and interest rate risk which are closely monitored on a regular basis using the council's treasury advisors, Capita, and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken immediately through delegated authority.

1.17 Other Implications

| | |
|--|---|
| 1. Financial | X |
| 2. Staffing | |
| 3. Legal | X |
| 4. Equality Impact Needs Assessment | |
| 5. Environmental/Sustainable Development | |
| 6. Community Safety | |
| 7. Human Rights Act | |
| 8. Procurement | |
| 9. Asset Management | |

1.17.1 The financial implications are set out in the body of the report.

1.17.2 The legal implications, including the Council's ability to borrow and to invest, are also set out in the body of the report.

1.18 Relevant Documents

1.18.1 Appendices

Appendix A – Treasury Management Strategy for 2014/15 including Prudential Indicators & Specified & Non-specified Investments

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

APPENDIX A – COUNTERPARTY LIST

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands

| | Colour (and long term rating where applicable) | Money and/or % Limit | Time Limit |
|--|---|-----------------------------|-------------------|
| Banks * | yellow | £8m | 2 yrs |
| Banks | purple | £8m | 2 yrs |
| Banks – part nationalised | blue | £8m | 2 yrs |
| Banks | orange | £5m | 1 yr |
| Banks/Building Societies | red | £3m | 6 mths |
| Banks | green | £2m | 100 days |
| Building Societies | No colour | £2m | 6 mths |
| DMADF | AAA | unlimited | 6 months |
| Local authorities | n/a | £8m | 2yrs |
| Money market funds | AAA | £8m | liquid |
| Enhanced money market funds with a credit score of 1.25 | Dark pink / AAA | £8m | liquid |
| Enhanced money market funds with a credit score of 1.5 | Light pink / AAA | £8m | liquid |

* Please note: the yellow colour category is for UK Government debt, or its equivalent, constant NAV money market funds and collateralised deposits where the collateral is UK Government debt

Our creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support

rating of 1 There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

1.1 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown below. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

1.2 Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- France
- Hong Kong
- U.K.
- U.S.A.

APPENDIX B: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

| | * Minimum credit criteria / colour band | ** Max % of total investments/ £ limit per institution | Max. maturity period |
|---|---|--|--|
| DMADF – UK Government | N/A | 100% | 6 months |
| UK Government gilts | UK sovereign rating | | 2 years |
| UK Government Treasury bills | UK sovereign rating | | 2 years |
| Bonds issued by multilateral development banks | UK sovereign rating | | 6 months |
| Money market funds | AAA | 100% | Liquid |
| Enhanced money market funds with a credit score of 1.25 | AAA | 100% | Liquid |
| Enhanced money market funds with a credit score of 1.5 | AAA | 100% | Liquid |
| Local authorities | N/A | 100% | 2 years |
| Term deposits with banks and building societies | Yellow Purple Blue Orange Red Green No Colour | | Up to 2 years Up to 2 years Up to 2 years Up to 1 year Up to 6 Months Up to 100 days Top 5 Building societies only |

| | | | |
|--|---|--|---|
| CDs or corporate bonds with banks and building societies | Yellow Purple Blue Orange Red Green No Colour | | Up to 2 years Up to 2 years Up to 2 years Up to 1 year Up to 6 Months Up to 100 days Top 5 Building |
| Corporate bond funds | | | |
| Gilt funds | UK sovereign rating | | |
| Property funds | | | |

ENGLISH LOCAL AUTHORITIES

SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

| | * Minimum 'High' Credit Criteria | Use |
|---|----------------------------------|----------|
| Debt Management Agency Deposit Facility | -- | In-house |
| Term deposits – local authorities | -- | In-house |
| Term deposits – banks and building societies ** | Capita Green Rating | In-house |
| | | |

Term deposits with nationalised banks and banks and building societies

| | * Minimum Credit Criteria | Use |
|--|---------------------------|----------|
| UK part nationalised banks | Capita Blue Rating | In-house |
| Banks part nationalised by high credit rated (sovereign rating) countries – non UK | Sovereign rating AA+ | In-house |

| | | |
|--|---------------------|----------|
| Collateralised deposit (see note 2) | UK sovereign rating | In-house |
| Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee | UK sovereign rating | In-house |

| | | |
|--|---------------------|-----------------------|
| UK Government Gilts | UK sovereign rating | In-house buy and hold |
| Bonds issued by multilateral development banks | AAA | In-house buy and hold |
| Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation) | UK sovereign rating | In-house buy and hold |
| Sovereign bond issues (other than the UK govt) | AAA | In-house buy and hold |
| Treasury Bills | UK sovereign rating | In house |

| Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): - | | |
|--|--------------------------|----------|
| 1. Government Liquidity Funds | Capita Yellow Rating | In-house |
| 2. Money Market Funds | Capita Yellow Rating | In-house |
| 3. Enhanced Money Market Funds with a credit score of 1.25 | Capita Dark Pink Rating | In-house |
| 4. Enhanced Money Market Funds with a credit score of 1.5 | Capita Light Pink Rating | In-house |
| 5. Bond Funds | AAA | In-house |
| 6. Gilt Funds | AAA | In-house |

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS A maximum of 25% will be held in aggregate in non-specified investment

1. Maturities of ANY period

| | * Minimum Credit Criteria | Use |
|--|--|----------|
| Fixed term deposits with variable rate and variable maturities: -Structured deposits | Capita Green Rating | In-house |
| Term deposits with unrated counterparties : any maturity | Top five Building Societies based on a combination of Asset size and Man Exp | In-house |
| Commercial paper issuance covered by a specific UK Government (explicit) guarantee | UK sovereign rating | In-house |
| Commercial paper other | | In-house |
| Corporate bonds | * Short-term __, Long-term __, Viability __, Support __ | In-house |
| Other debt issuance by UK banks covered by UK Government (explicit) guarantee | UK sovereign rating | In-house |
| Property fund: <i>the use of these investments would constitute capital expenditure</i> | -- | In house |

2. Maturities in excess of 1 year

| | * Minimum Credit Criteria | Use | Max. maturity period |
|--|---------------------------|----------|----------------------|
| Term deposits – local authorities | -- | In-house | 2 yrs |
| Term deposits – banks and building societies | Capita Blue Rating | In-house | 2 yrs |
| Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee | UK sovereign rating | In-house | 2yrs |
| | | | |
| Certificates of deposit issued by banks and building societies | Capita Blue Rating | In-house | 2 yrs |

| | | | |
|--|---------------------|----------|-------|
| UK Government Gilts | UK sovereign rating | In-house | 2 yrs |
| Bonds issued by multilateral development banks | AAA | In-house | 2 yrs |
| Sovereign bond issues (other than the UK govt) | AAA | In-house | 2 yrs |
| Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) | | | |
| 1. Bond funds | AAA | In-house | 2 yrs |
| 2. Gilt funds | AAA | In-house | 2 yrs |

PRUDENTIAL INDICATORS**PRUDENTIAL INDICATORS****Ratio of Financing Costs to Net Revenue Stream**

| 2012/13 % | 2013/14 % | 2014/15 % | 2015/16 % | 2016/17 % |
|--------------|--------------|--------------|--------------|--------------|
| -2.0 | -0.9 | -0.1 | -0.1 | -0.1 |

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. As estimated investment income is higher than interest costs, this results in a negative total.

Incremental Impact of Capital Investment Decisions on the Council Tax

| | 2012/13 £,000 | 2013/14 £,000 | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 |
|--|------------------|------------------|------------------|------------------|------------------|
| i) Forecast of total budgetary requirement no changes to capital programme | 5,383 | 5,612 | 1,970 | 450 | 450 |
| ii) Forecast of total budgetary requirement after changes to capital programme | 5,009 | 7,885 | 11,948 | 5,223 | 5,878 |
| iii) Additional Council Tax Required | -0.06 | 1.75 | 4.77 | 3.83 | 3.93 |

Demonstrates the affordability of the capital programme. It demonstrates the impact of the proposed capital programme upon the Council Tax.

Current Financial Plan

| 2012/13 £,000 | 2013/14 £,000 | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 |
|------------------|------------------|------------------|------------------|------------------|
| 5,009 | 7,885 | 11,948 | 5,223 | 5,878 |

This is the estimate of capital expenditure taken from the Corporate Budget Strategy 2013/14 Onwards. Assumption that Capital Programme may increase

Capital Financing Requirement

| 2012/13 £,000 | 2013/14 £,000 | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 |
|------------------|------------------|------------------|------------------|------------------|
| 1,901 | -3,553 | -12,099 | -13,705 | -14,003 |

This is a measure of the capital expenditure incurred historically by the council that has yet to be financed. Having a negative CF

PRUDENTIAL INDICATORS

TREASURY MANAGEMENT INDICATORS**Authorised Limit for External Debt**

| | 2012/13 £,000 | 2013/14 £,000 | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| Borrowing | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Other Long Term Liabilities | 6,294 | 5,856 | 5,426 | 4,971 | 4,514 |
| Total | 16,294 | 15,856 | 15,426 | 14,971 | 14,514 |

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003.

Operational Boundary

| | 2012/13 £,000 | 2013/14 £,000 | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| Borrowing | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| Other Long Term Liabilities | 6,261 | 5,856 | 5,426 | 4,971 | 4,514 |
| Total | 12,261 | 11,856 | 11,426 | 10,971 | 10,514 |

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day basis.

Upper Limit for Fixed Interest Rate Exposure

| 2012/13 % | 2013/14 % | 2014/15 % | 2015/16 % | 2016/17 % |
|--------------|--------------|--------------|--------------|--------------|
| 100 | 100 | 100 | 100 | 100 |

This is the maximum amount of net borrowing and investment that can be at a fixed rate. Variable rate call accounts may be cleared during periods of high payments eg Precept so fixed rate can peak during these periods.

Upper Limit for Variable Interest Rate Exposure

| 2012/13 % | 2013/14 % | 2014/15 % | 2015/16 % | 2016/17 % |
|--------------|--------------|--------------|--------------|--------------|
| 80 | 80 | 80 | 80 | 80 |

This is the maximum amount of net borrowing and investment that can be at a variable rate. The limit set reflects the fact that during the year there can be excess surplus funds available for short term investment. These arise from timing differences between receipts received and payments made.

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Maturity Structure of New Fixed Rate Borrowing during 2012/13

| | Upper Limit % | Lower Limit % |
|------------------------------|---------------------|---------------------|
| Under 12 months | 100 | 0 |
| 12 months to under 24 months | 100 | 0 |
| 24 months to under 5 years | 100 | 0 |
| 5 years to under 10 years | 100 | 0 |
| 10 years and over | 100 | 0 |

It may be necessary to borrow at fixed term rates during 2013/14. This will be monitored as the year progresses and a decision will then be made.

Principal Invested for more than 364 Days

| 2012/13 £,000 | 2013/14 £,000 | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 |
|------------------|------------------|------------------|------------------|------------------|
| 2,000 | 3,000 | 3,000 | 3,000 | 3,000 |

This indicator is set to reflect current advice from our Treasury Management Advisors.

External Debt as at 31st March

| | 2012/13 £,000 | 2013/14 £,000 | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| Actual Borrowing | 0 | 0 | 0 | 0 | 0 |
| Other Long Term Liabilities | 5,856 | 5,426 | 4,971 | 4,514 | 4,033 |
| Total | 5,856 | 5,426 | 4,971 | 4,514 | 4,033 |

Actual point in time of external borrowing

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 10 FEBRUARY 2014

REPORT OF DIRECTOR OF REGENERATION AND COMMUNITIES

Report prepared by Paul Riley

1. BUDGET STRATEGY 2014/15 ONWARDS – RISK ASSESSMENT

1.1 Issue for Decision

1.1.1 On 18 December 2013 the Cabinet agreed an update for the Budget Strategy 2014/15 Onwards and referred that update to Corporate Services Overview and Scrutiny Committee for consideration.

1.1.2 As the remit of the Audit Committee includes consideration of risk it is also appropriate that the decision is considered by this Committee, with a specific emphasis on the consideration of the risk analysis produced for the Finance Section's service plan.

1.2 Recommendation of Head of Finance & Resources

1.2.1 That Audit Committee considers the risk assessment of the Budget Strategy provided at Appendix D and makes comment or recommendations to Cabinet for consideration on 12 February 2014.

1.3 Reasons for Recommendation

1.3.1 On 18 December 2013 the Cabinet considered an update to the Budget Strategy 2014/15 Onwards. The update covered three reports one on the revenue strategy, one on the capital strategy and one on fees and charges. The Cabinet decisions are attached as Appendices A - C. Members may wish to review the reports to Cabinet and these are contained within the agenda for 18 December 2013 meeting.

1.3.2 Members should note that some detail in the reports on the agenda for the Cabinet meeting was superseded by the finance settlement announced in parliament on the day of the Cabinet meeting. Because of the announcement Cabinet took a verbal update to the reports and the records of decision vary from the detail of the reports in some respects.

- 1.3.3 A full risk assessment of the proposals agreed by Cabinet are set out in Appendix D of this report.
- 1.3.4 The strategic risk in relation to the budget relates to failure to deliver a balanced budget. The risk assessment given at Appendix D considers operational risks rather than the strategic risk and the actions to mitigate these risks form part of the service plan of the Finance Section for 2014/15. In some cases the risks will also be reflected in other service plans.
- 1.3.5 To assist the Committee's consideration of the risks set out in Appendix D the details of the major monitoring and control processes in place at the Council to identify and act upon any emerging factors that trigger such risks are:
- a) The key control is monitoring and reporting of the budget throughout the year. A reporting process exists that ensures budget managers receive monthly reports and Cabinet and Management Team receive quarterly reports.
 - b) Additional monitoring and reporting occurs in relation to specific financial risk areas examples for 2014/15 include:
 - i. employee costs due to value;
 - ii. major contracts such as the new waste contract due to significant single contract;
 - iii. business rates collection levels due to new retention proposals;
 - iv. council tax support take-up levels due to new local scheme; and
 - v. income from fees and charges due to the variable influence of demand upon actual levels of income.
 - c) The Constitution also requires additional reports on the under recovery of any income budget where this is greater than £40,000.
 - d) All of these reports are produced with full accrual of the cost of works or goods received but not paid for at the effective date. They are therefore as accurate as possible.
 - e) The monthly management reports are produced within 10 working days making them as timely as possible. Reports to Management Team and Cabinet are prepared for the next available meeting and incorporate a projected outturn for the year. The reports identify all necessary actions that must be taken to resolve developing problems and consider other major

balance sheet items such as collection rates and treasury management activity.

- f) Officers and senior members have well developed relationships with organisations similar to this Council, such as through the Kent Finance Officers' Association. These relationships ensure a broader range of information flow to and from the Council on financial matters.
- g) The Committee will be aware of a number of governance controls in place including the Corporate Governance group and the Council's relationship with its external auditor which take a high level overview of the controls in place to mitigate these risks. The Council has contractual relationships with advisors such as Sector Treasury Management who advise the Council on specific projects. Also, through links to the Kent Finance Officers' Association, to other advisors who provide specific analysis of major issues such as business rates retention and analysis of the finance settlement for 2014/15.

1.3.6 With monitoring such as this in place the Council is well placed to recognise and act upon emerging trigger events. The mitigating actions taken in each case will be the most appropriate. Depending on the value or consequence of the event it may be reported to the relevant Cabinet Member or Cabinet along with any mitigating action for approval.

1.3.7 Considering the risk profile on the final page of Appendix D it can be seen that the highest risks in terms of both likelihood and impact are risks 8 and 12. These are the risk from horizon scanning and the risk from the medium term strategy.

- a) Risk 8 in relation to Horizon Scanning arises from the developing complexity and speed of financial developments in central government. This is indicated by the increasing delays to announcements and the continual change to regulations and information produced by government departments such as the department of Communities & Local Government. The Council mitigates these issues by engagement in nation initiatives and supporting national working parties along with the use of briefings and updates from professional organisations along with links to Kent authorities as well as authorities wider afield.
- b) Risk 12 in relation to the medium term strategy arises from the recent indications from central government that the austerity measures are expected to continue through the life of the next parliament to 2020. During 2014/15 the Council will be developing a new strategic plan for the period 2015 to 2020

and it is intended that the budget strategy will be completely reviewed in line with the strategic plan and the most likely levels of reduction.

1.3.8 Other critical risks, considered less likely are numbers 3, 5, 6, 9 and 11. These are:

- a) Risk 3 is the potential failure of national strategy which has become less likely to produce unexpected consequences however the strategy will continue for longer and the outcome for local government becomes less clear over such an extended period of time. Effective use of planning through the budget strategy helps mitigate this risk;
- b) Risk 5 is the consequence of the failure of service based income sources such as fees and charges. As the financial support from central government diminishes such income sources will need to be resilient to enable the Council to increase its self-sufficiency;
- c) Risk 6 is the availability of funding for the capital programme which relies almost entirely upon new homes bonus at this time. The Council has an ambitious capital programme given the economic climate and evidence shows that it is successful. The government has announced a review of the new homes bonus scheme during 2014/15 and the Council needs to be prepared to manage its programme within the parameters identified by the review;
- d) Risk 9 is the efficiency targets sets by the budget strategy which are becoming more and more difficult to identify and manage. While regular monitoring enables failure of a given efficiency to be identified and managed it does not assist in enabling proposals that are not successful and can only enable mitigation of failed proposals to the extent that other resources can be identified; and
- e) Risk 11 is the business rates pooling arrangements with Kent County Council which requires the Council to be confident that business rates income will grow from the government set baseline in 2014/15. There are a number of possible causes of loss and each has been assessed and to the extent possible provisions have been made for potential loss. While it is expected that the outturn will be at or slightly above the target set it remains a risk that a major loss of business rates could occur in year meaning a greater loss to the Council due to the removal of the safety net.

1.3.9 The other likely risk considered less critical in impact is 4b. This is the referendum limit and arises because, at the time of writing this report, the Government has not announced the referendum limit for 2014/15. Should the limit be a percentage less than 2% then the strategy will have to be revised in order to avoid the potential cost of a referendum. As it would be difficult to identify further savings that could be delivered with immediate effect this risk remains significant enough for consideration. The referendum limit will be announced before the Council meeting that sets the Council tax for 2014/15 and as such this risk will expire by the necessary date.

1.3.10 Should the Committee wish to consider further risks not detailed in Appendix D or vary the impact or likelihood of any risks this will amend the Finance Section's service planning for 2014/15 and will be reported verbally to Cabinet for consideration along with the Medium Term Financial Strategy on 12 February 2014.

1.4 **Alternative Actions and why not Recommended**

1.4.1 There is no constitutional requirement for Cabinet to consult with the Audit Committee on this matter. Irrespective of the constitutional requirement the Audit Committee's role in consideration of risk and governance make it appropriate that the Committee considers the risks identified in such a significant strategy and make recommendations to Cabinet regarding their assessment.

1.5 **Impact on Corporate Objectives**

1.5.1 The Budget Strategy is developed to complement the Strategic Plan. Resources identified within the budget are therefore focused on delivering the Council's strategic priorities.

1.5.2 Any failure to identify and/or adequately mitigate a risk within the Budget Strategy may have a direct consequence on the delivery of strategic priorities.

1.6 **Risk Management**

1.6.1 Risks identified within the strategy and considered in this report will be monitored by the Finance Section as part of the Service Plan objectives. Any risk not identified will not be formally monitored and could increase the possibility of failure of the strategy.

1.6.2 The risks identified are comprehensive and have been subject to debate with Internal Audit, Corporate Leadership Team and Cabinet and are now presented to Audit Committee. If unidentified risks remain the key mitigation is horizon scanning and coordinated

working across Kent to ensure the risk is identified as early as possible.

1.7 **Other Implications**

1. Financial
2. Staffing
3. Legal
4. Equality Impact Needs Assessment
5. Environmental/Sustainable Development
6. Community Safety
7. Human Rights Act
8. Procurement
9. Asset Management

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1.7.1 The financial implications are set out in the body of the report.

1.8 **Relevant Documents**

1.8.1 Appendices

- Appendix A – Record of decision Budget Strategy 2014-15 Onwards – Capital
- Appendix B – Record of decision Budget Strategy 2014-15 Onwards – Fees & Charges
- Appendix C – Record of decision Budget Strategy 2014-15 Onwards - Revenue
- Appendix D – Risk Analysis.

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

MAIDSTONE BOROUGH COUNCIL
RECORD OF DECISION OF THE CABINET

Decision Made: 18 December 2013

BUDGET STRATEGY 2014/15 ONWARDS - CAPITAL

Issue for Decision

To determine the strategy for developing the future Capital Programme, for 2014/15 onwards, as part of the consideration of the Medium Term Financial Strategy (MTFS).

To consider and approve the amount and allocation of capital resources for the delivery of the objectives of the Strategic Plan and other key strategies.

Decision Made

- a) That the following be approved for consultation:
 - i) the draft Medium Term Financial Strategy for capital as set out in Appendix B to the report of Corporate Leadership Team;
 - ii) the capital funding projection as set out in Appendix C to the report of Corporate Leadership Team adjusted to include an additional £63,911 of New Homes Bonus for 2014/15; and
 - iii) the proposed capital programme 2014/15 onwards as set out in Appendix D to the report of Corporate Leadership Team adjusted to incorporate the additional New Homes Bonus funding within Transport and Highways.

- b) That the use of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee's budget working group as the all-party sounding board for capital proposals be agreed.

Reasons for Decision

Attached at Appendix A to the report of Corporate Leadership Team is a summary of the current capital programme. The programme as given in Appendix A to the report of Corporate Leadership Team was approved by Council in February 2013. Subsequently Cabinet has approved amendments at its meetings in May 2013 and August 2013 that are not reflected in Appendix A, but the agreed amendments have been taken into account in the development of the recommendations in the report of Corporate Leadership Team.

The Medium Term Financial Strategy (MTFS) is directly influenced by the country's economic situation and the government's strategy to remove the structural deficit. The impact covers both the revenue and capital

elements of the strategy and must be considered in any review of the capital programme.

In the spending review 2010, and more recently the spending round 2013 and the autumn statement 2013, the government has reduced the level of resources available for capital expenditure. The most direct effect for Maidstone has been seen in the area of support for affordable housing through the Homes and Communities Agency.

As part of the spending round 2013 and the autumn statement 2013 the government has also announced a series of initiatives that direct capital resources towards economic growth in a targeted way. Most of the funding for these programmes is being directed through Local Enterprise Partnerships (LEPs). Proposals must therefore be submitted as bids to the SE-LEP if the resources are to be directed towards Maidstone initiatives.

Determining the Strategy - MTFS Principles

In their 2012/13 review of the capital programme the Corporate Service Overview and Scrutiny Committee recommended a number of changes to the strategy. In addition, the Committee gave their support to prudential borrowing where it was used for acquisitions that were of a commercial nature and provided a net revenue benefit after costs. The review made many recommendations including proposed changes to the strategy, such as:

- a) Creation of a stand-alone capital strategy separate from the MTFS;
- b) Active encouragement of capital proposals;
- c) The creation of a cross party sounding board to evaluate proposals;
and
- d) The development of a disposal, acquisition and management strategy for assets

The strategy set out in the report of Corporate Leadership Team has been developed from the current MTFS. In addition it includes possible actions arising from the recommendations listed above. The first of which is the creation of a stand-alone strategy separate from the MTFS. While this will achieve the visibility that was of concern to the Overview and Scrutiny Committee, it will remove the integrated view of the strategy that effectively links revenue and capital resources with the priorities in the strategic plan.

In considering options for the capital strategy the principles have been updated and are attached at Appendix B to the report of Corporate Leadership Team. This Appendix is to be used as the basis for the development of a stand-alone strategy.

MTFS Principles - Appraisal of Options

All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must comply with the requirements of the Prudential Code and:

- a) Where schemes fit within a specific strategy and resources are available within the capital programme for that strategy, such as the Asset Management Plan, the schemes would also be subject to appraisal and prioritisation against the objectives of that strategy. These schemes must be individually considered and approved by the relevant Cabinet Member following the approval of the full programme.
- b) Where schemes can be demonstrated to be commercial in nature and require the use of prudential borrowing, a business case must be presented to the Property Investment Advisory Panel. These proposals will receive final approval from the Property Investment Cabinet Committee.

Where schemes do not fit within the criteria above but an appropriate option appraisal has been completed the use could be made of the proposed cross party sounding board however the prioritisation of such schemes will remain as previously approved by Council and set out below:

- a) For statutory reasons;
- b) Fully or partly self-funded schemes focused on strategic plan priority outcomes;
- c) Other schemes focused on strategic plan priority outcomes;
- d) Other non-priority schemes with a significant funding gearing.

If the programme is promoted to the point of there being a number of schemes that cannot be accommodated within the current programme, this could be used as the basis for the creation of a select list of schemes for addition to the programme as future resources permit. Schemes that receive endorsement from the cross party sounding board could be prioritised by Cabinet thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.

The MTFS requires the Council to identify actual funding before commencement of schemes and that, while schemes may be prioritised for the programme, commencement of the scheme can only occur once all the necessary resources have been identified.

MTFS Principles - Funding

The MTFS principles require that the Council will maximise the resources available to finance capital expenditure, in line with the requirements of the Prudential Code, through:

- a) The use of external grants and contributions, subject to maintaining a focus on the priority outcomes of its own strategies;
- b) Opportunities to obtain receipts from assets sales as identified in the asset management plan and approved for sale by the Cabinet Member for Corporate Services;
- c) The approval of prudential borrowing when the following criteria also apply to the schemes funding by this method:
 - i) they are commercial in nature;
 - ii) the outcome returns a financial benefit at least equal to the cost incurred by borrowing to fund the schemes;
 - iii) after covering the cost of funding, a further financial or non-financial benefit accrues to the Council that directly or indirectly supports the strategic plan's priority outcomes.
- d) The provision of on-going revenue support to manage the needs of the Asset Management Plan and the ICT Strategy.
- e) The use of New Homes Bonus for capital purposes in line with the Council Great Place and Great Opportunity priorities.
- f) The implementation of a community infrastructure levy (CIL) and the management of its use, along with other developer contributions (S106), to deliver the priority objectives of the infrastructure delivery plan.

The Amount and Allocation of Capital Resources.

The funding assumptions made in the development of the future capital programme are essential to the development of the budget and specific detail in relation to each source is set out in the paragraphs below. Appendix C to the report of Corporate Leadership Team sets out the projected funding levels over the five year period of the MTFS.

Capital Grants

This funding source is the main focus of government's controls over the level of capital expenditure. In fact a number of the grants that were available to the Council for funding capital projects no longer exist.

Recent projects that have received support through grants and contributions include the Museum, Mote Park and the High Street. Some government grants are annual sums, such as the disabled facilities grant, but the majority of sums are one-off and scheme specific.

In the spending round 2013 announcement the government set out plans for a joint NHS/local authority pooled fund of £3.8bn. Although details are still to be released it is expected that the £3.8bn will be resourced in part from the disabled facilities grant currently paid to district and single tier

authorities. It is unclear at this time if responsibility for paying disabled facilities grants will also transfer although it is assumed to be likely.

Obtaining grant funding for schemes is often conditional upon match funding from the Council and other sources. Schemes that are currently applying for or being developed as part of a proposal may appear in the capital programme commitments in order to evidence to potential funders that the Council is prepared to commit or has received match funding for the scheme.

Capital Receipts

From 2004 through to 2008 the receipt from the voluntary transfer of the housing stock was the main source of funding for the capital programme. Since then the Council has sold surplus assets to provide support to the programme. Receipts in the current programme represent assets for which agreement on sale has been reached and are at least under offer. Council assets available for sale are diminishing although some potential asset sales still exist. In line with the principles of the MTFS the capital receipts from these potential sales will not be recognised in the programme until they are confirmed.

Further asset sales are restricted by two issues, the difficulty in obtaining best consideration for the asset during the recession and evidencing, in advance of sale, the greater benefit to be derived from the proceeds of the sale when compared to current or alternative uses of the asset. No assets can be sold until the Cabinet Member for Corporate Services has confirmed that a suitable business case exists or they are surplus to requirements.

Prudential Borrowing

In 2012 the Council approved in principle expenditure of up to £6m through prudential borrowing for acquisition of commercial property, acquisition of property to alleviate homelessness and action to enable stalled development to progress.

The Council has the power to borrow to finance capital expenditure subject to the guidance set out in the Prudential Code. This code of practice is published by the Chartered Institute of Public Finance and Accountancy and covers the full range of capital planning not just potential borrowing. Compliance with the code is a statutory requirement and the Council's MTFS has been developed to ensure compliance. In summary the key objectives of the code are:

- a) To ensure within a clear framework that capital expenditure plans are affordable, prudent and sustainable;
- b) That treasury management decisions are taken in accordance with good professional practice;
- c) That local strategic planning, asset management planning and proper option appraisal are supported; and

- d) To provide a clear and transparent framework to ensure accountability.

Revenue Support

The Council has, over the last three years, created a permanent revenue resource of £0.35m to directly support programmed capital expenditure. This funding was provided because the Council foresaw the end of the resources available from asset sales and wished to ensure that asset management and ICT provision do not suffer from the lack of available resources.

In addition to this a number of windfall cash receipts have been used to support the capital programme. Examples include the use of the refund from the Fleming VAT claim and the outcome the bidding process for the use of the revenue under spend in 2011/12 and 2012/13.

The revenue support to the capital programme is the most flexible of the available resources because, arising as it does from the revenue budget, it can be utilised for both revenue and capital purposes. For this reason the Council has always elected to use other available resources first when funding actual capital expenditure and the balance of revenue support has grown to over £7m. This is a cash resource with the exception of the £0.35m annual budget mentioned above.

Full use of this balance to fund the capital programme is expected by the end of 2014/15 as other sources of funding are diminishing.

New Homes Bonus (NHB)

The government has made a series of announcements to channel additional capital resources through LEPs as reported above. One proposal is to top slice the new homes bonus funding to support the development of a single local growth fund of £2bn per annum from 2015/16. The national value of the NHB top slice is £400m.

This proposal was stopped as part of the announcements in the autumn statement 2013. The Government has resourced the LEP growth fund from other sources. In addition the Government has announced a full review of the NHB scheme during 2014/15 with any necessary changes following that review.

The announcements do support a longer term attitude by government to the principles of the NHB system than had previously been considered by the Council. It is therefore possible to continue to account for the receipt of NHB in all years of the current MTFS.

As the government still intend to review the NHB system there remains a risk that there will be a change in the focus and/or calculation of the bonus. It is prudent at this time to continue to assume a loss of resources. It is proposed to assume a loss equivalent to 35% from 2015/16 onwards. Once the review has been completed, any additional funding can be incorporated in the development of a future capital programme.

The Cabinet was informed that the government had announced the distribution of NHB for 2014/15 and that the Council was due to receive £63,911 more than set out in the report. All of this resource would be used for capital purposes, not to support the revenue account.

Other Contributions

The major other contributions are developer contributions through S106 and, in the future, the community infrastructure levy (CIL).

The intention of CIL and an element of S106 contributions is the completion of the priority schemes detailed in the Infrastructure Delivery Plan. The plan remains in formative stage at this time as it must reflect the infrastructure needs of housing and business development in the final agreed local plan and these must be considered in accordance with the location of strategic sites.

It is however possible to identify an expected level of CIL given the information in the current draft Local Plan and an assumption that CIL will be introduced by 1st April 2015. The values attributable to CIL within the programme period are included with the detailed values of the other funding streams below

Overall Funding Level

The funding available for the capital programme, based on the detail above, is set out in Appendix B to the report of Corporate Leadership Team. The Appendix provides details of the available funding. The table below summarises the level of funding assumed for each resource type.

| 2013/14 £,000 | Funding Projection | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 | 2017/18 £,000 | 2018/19 £,000 |
|--------------------------|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 5,115 | Revenue Support | 400 | 350 | 350 | 350 | 350 |
| 2,948 | New Homes Bonus | 3,740 | 2,752 | 3,115 | 2,898 | 2,673 |
| 472 | Grants & Contributions | 450 | 450 | 450 | 450 | 450 |
| 2,442 | Capital Receipts | 0 | 0 | 0 | 0 | 0 |
| 1,850 | Prudential Borrowing | 4,150 | 0 | 0 | 0 | 0 |
| 0 | Developer Contributions | 0 | 0 | 1,963 | 1,963 | 1,963 |
| 12,827 | Total | 8,740 | 3,552 | 5,878 | 5,661 | 5,436 |

Current Programme

The current programme, set out in Appendix A to the report of Corporate Leadership Team, was approved by Council in February 2013 and only annual programmes are included after 2014/15. The main reason behind the decision not to develop the programme beyond 2014/15 at that time was the limited detail available on future funding and the needs of the infrastructure delivery plan. The draft IDP available at that time predicted a need for resources that could not be completely covered by either the Council's current access to resource or the development of a community infrastructure levy.

In May 2013 Cabinet considered the outturn for 2012/13 and in August 2013 Cabinet considered the first quarterly monitoring report for 2013/14. Approved recommendations from those reports have amended the current programme since the document reproduced as Appendix A to the report of

Corporate Leadership Team. The report of Corporate Leadership Team takes account of those approvals in developing the future programme.

Future Programme

A decision on the programme for 2014/15 onwards can no longer be deferred. Even though a finalised IDP does not exist at this time it is necessary to make some assumptions about future use of Council resources. Appendix D to the report of Corporate Leadership Team sets out a programme based on proposals that have come forward to date, as set out below.

A number of proposals have been reviewed by Cabinet Members and by Overview & Scrutiny. It was necessary for these proposals to be formally agreed by Cabinet at this stage to allow for consultation on a future programme as agreed at Council in February 2013. The proposals were as follows:

- a) The Council has reached agreement on the contract for the Hazlitt Arts centre and as part of that contract has agreed to provide capital support for the replacement of carpet and seating in the theatre and upgrades to the box office. This support will be returned to the Council through a discounted annual payment under the contract. In addition this work will enhance possible payments under the profit share. The discount will reduce revenue costs over the 15 years of the contract by a future payment equivalent to an immediate capital cost of £0.121m identified in the programme for the current year.
- b) The Housing Service has resources from the HCA to bring back into use vacant property. The scheme as funded by the HCA requires the properties to be leased for five years however the principles of the scheme do not produce a viable business case. The Housing Service has, following consideration by the Cabinet Member, diverted some private sector grant resources into a proposed acquisition of a medium sized unit of flats requiring renovation. The HCA has confirmed that their grant can be used to renovate but not acquire the unit. The programme identifies £750,000 in the current year for acquisition should the Council's offer be accepted.
- c) To create and support an Enterprise Hub within the borough. In order to enable a suitable bid for funding to be made to Kent County Council it is necessary to include the proposal within the capital programme with match funding of up to £0.7m, part of which may eventually be a loan rather than a grant.
- d) The planned work on Play Areas which has already been formally considered by Overview and Scrutiny requiring £1.75m
- e) A number of commercial acquisitions are being considered in line with the commercialisation programme. In some cases, while a suitable revenue stream can be identified, the rate of return would not warrant prudential borrowing. There is a potential benefit to the Council's revenue account from the investment of its own resources rather than prudential borrowing in some of the proposals under

consideration. This proposal adds £3m of the Council's own capital resources to the commercialisation budget and adds £0.15m to the revenue income from corporate property in the future budget strategy.

- f) To continue the on-going work of housing services in supporting registered providers and private sector landlords through grant aid it is necessary to extend the funding of these schemes. The proposal assumes an annual budget of £0.9m to be distributed between the different types of grant. Cabinet noted that is a significant reduction from the resources that have previously been set aside for support to housing providers but ensures an ongoing programme exists.
- g) The ICT and the asset management programmes currently expire in 2014/15, however the asset management plan and the ICT strategy both identify a need for resources in the future. The level of resources currently provided is £0.38m. There is an on-going provision of £0.35m from revenue support and it is proposed that the programme is matched to this funding.

Incorporating these schemes into the programme, at the values indicated, is possible within the projected funding as set out in Appendix C to the report of Corporate Leadership Team. If the programme is approved, a balance of unused NHB will exist of £9.55m. This sum is proposed for use in delivering the IDP as complementary funding to the provision of S106 and CIL from developers. The programme as set out in Appendix D to the report of Corporate Leadership Team includes subheadings from within the draft IDP and identifies levels of funding that could be used to deliver schemes under each heading. Some schemes will be required regardless of the final format of the Local Plan and are most effectively completed early, to support and enable development.

Alternatives Considered and Why Rejected

The Cabinet could have chosen to take no further action in relation to the capital programme. An approved programme through to the end of the financial year 2014/15 exists as set out in Appendix A to the report of Corporate Leadership Team. Whilst the Cabinet could have chosen to wait, giving consideration at a future time, resources are available for immediate use and it was felt appropriate to consider options as part of the Medium Term Financial Strategy for 2014/15 onwards.

The Cabinet could have chosen any variation on the strategy, funding assumptions and programme as set out in the Appendices to the report of Corporate Leadership Team for approval.

- a) The strategy has been set using the MTFS approved for 2013/14. It also considers current circumstances and the recommendations of Overview and Scrutiny Committee.
- b) The funding assumptions are based upon prudent assumptions made from the latest information available and it was not recommended that the Cabinet amend these assumptions at this time.
- c) The programme is based upon the known schemes that have come forward for consideration or require match funding to enable an

application for grant funding. All schemes meet the Council's priorities and have been considered by the relevant Cabinet Member.

The Cabinet could have considered the use of prudential borrowing to finance a larger capital programme. Whilst achieving the Council's strategic aims at a quicker pace, such a strategy would place additional pressure on the revenue budget. An alternative strategy such as this would not, at this time, support the requirements of the Prudential Code. Such a change requires approval by Council of changes to prudential borrowing levels and the related prudential indicators.

Background Papers

None

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| Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Policy and Communications by: 2 January 2014. |
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MAIDSTONE BOROUGH COUNCIL
RECORD OF DECISION OF THE CABINET

Decision Made: 18 December 2013

BUDGET STRATEGY 2014/15 - FEES & CHARGES

Issue for Decision

To consider the appropriate level of fees and charges for 2014/15 for services where the Council raises income by charging the user of a service and where the setting of the fee or charge is discretionary;

To note the level of fees and charges that are set in accordance with statutory requirements; and

To consider the impact on budget strategy of the changes in the level of fees and charges as set out in the report of Corporate Leadership Team.

Decision Made

- a) That the proposed fees and charges for 2014/15, as set out in detail in Appendix A to the report of the Corporate Leadership Team, be approved; and
- b) That the proposed changes to income budgets that occur as a consequence of the proposed fees and charges, as set out in paragraph 1.3.7. of the report of the Corporate Leadership Team, be approved.

Reasons for Decision

The Council adopted a corporate fees and charges policy in May 2009. The Policy promotes consistency across the authority, is focused on the strategic aims of the authority and sets out the approach that the Council takes in setting fees and charges.

The Policy covers fees and charges that are set at the discretion of the Council. It does not apply to services where the Council is prohibited from charging, e.g. collection of household waste or services where the charge is currently determined by Central Government, e.g. planning application fees. Consideration of any known changes to such fees and charges and any consequence to the budget strategy are detailed below.

The headline objective of the Policy is that fees and charges are set at the maximum level after taking into account conscious decisions on the subsidy level for individual services, concessions, impact of changes on users and any impact on the delivery of the Strategic Plan. Therefore there is a presumption that a charge will be levied for a service unless justified by strategic consideration or legal constraints.

The Policy also proposes that a review of all fees and charges will occur annually in line with the development of the Medium Term Financial Strategy. The review of fees and charges should consider the following factors:

- a) The Council's vision, objectives and values, and how they relate to the specific services involved;
- b) The level of subsidy currently involved and the impact of eliminating that subsidy on the level of fees and charges, the effect on users and the social impact;
- c) The actual or potential impact of any competition in terms of price or quality;
- d) Trends in user demand including the forecasted effect of price changes on customers;
- e) Customer survey results;
- f) Impact on users of proposals both directly and in terms of delivery of the Council's objectives;
- g) Financial constraints including inflationary pressure and service budget targets;
- h) The implications arising from developments such as an investment made in service;
- i) The corporate impact of Council wide pressures to increase fees and charges in other service areas;
- j) Alternative charging structures that could be more effective;
- k) Proposals for targeting promotions during the year and the evaluation of any that took place in previous periods.

For the last three Budget Strategy reviews the results of the annual review of fees and charges as required by the Policy have been reported to the Cabinet in a single report. This process has been repeated for 2014/15.

The work completed last December created an average increase of 2.28% in the budgeted income from fees and charges for the current year. Cabinet are aware from the second quarter's budget monitoring report that income levels achieved in the first half of 2013/14 are above the midyear target in total with some services exceeding their target while others have not. At September 2013 the Development Management and Refuse and Recycling services were significantly above target. The detailed results of the review carried out this year are set out in Appendix A to the report of the Corporate Leadership Team and the approval of the Cabinet was sought to the amended fees and charges for 2014/15.

The table below shows the current budget and predicted outturn for income from the different fees and charges, the proposed budget increase that can be achieved from each proposal and the percentage increase in budget. The table is sub-divided by the effect any increase can have on the budget strategy and the approval of the Cabinet was sought to the proposed levels of budgeted income for 2014/15 shown in the table.

| Service Charge Type | 2013/14 Original Estimate | 2013/14 Projected Outturn | 2014/15 Proposed Increase | Proposed Increase % | 2014/15 Estimate |
|---|---------------------------|---------------------------|---------------------------|---------------------|------------------|
| Cemetery | 118,950 | 118,950 | 0 | | 118,950 |
| Crematorium | 1,080,290 | 1,109,670 | 29,470 | 2.73% | 1,109,760 |
| Licences | 122,240 | 122,240 | 0 | | 122,240 |
| Hackney and Private Hire Drivers Licences | 40,250 | 40,250 | 0 | | 40,250 |
| Licensing Statutory | 131,320 | 131,320 | 0 | | 131,320 |
| Recycling & Refuse Collection Total | 625,650 | 725,650 | 20,970 | 6.55% | 646,620 |
| Conservation | 21,470 | 21,470 | 0 | | 21,470 |
| HMO Licensing | 2,380 | 2,380 | 0 | | 2,380 |
| Town Hall | 2,150 | 2,150 | 0 | | 2,150 |
| Parking Services | 2,758,080 | 2,758,080 | 0 | | 2,758,080 |
| SUPPORT TO BUDGET STRATEGY | 4,902,780 | 5,032,160 | 50,440 | 1.03% | 4,953,220 |
| Environmental Enforcement | 242,420 | 242,420 | 0 | | 242,420 |
| Development Control-Planning | 868,940 | 918,000 | 0 | | 868,940 |
| STATUTORY CHARGES | 1,111,360 | 1,160,420 | 0 | 0.00% | 1,111,360 |
| Building Control | 285,270 | 285,270 | 0 | | 285,270 |
| Development Control-Land Charges | 253,750 | 253,750 | 0 | | 253,750 |
| OBLIGATION TO BREAK EVEN | 539,020 | 539,020 | 0 | 0.00% | 539,020 |
| Parks and Open Spaces | 69,540 | 29,540 | 0 | | 69,540 |
| Street Naming & Numbering | 29,000 | 29,000 | 0 | | 29,000 |
| PRE-SET TARGETS EXIST | 98,540 | 58,540 | 0 | 0.00% | 98,540 |
| Environmental Health | 17,180 | 17,180 | 0 | | 17,180 |
| Market | 209,840 | 179,840 | 0 | | 209,840 |
| Museum | 75,500 | 50,500 | 0 | | 75,500 |
| Park and Ride | 466,350 | 460,000 | 0 | | 466,350 |
| CURRENT BUDGET IN SHORTFALL | 768,870 | 707,520 | 0 | 0.00% | 768,870 |
| Total | 7,420,570 | 7,497,660 | 50,440 | 0.68% | 7,471,010 |

As required by the Policy, the level of increase in fees and charges budgets for 2014/15 set out in the table above reflects consideration of the effect of increasing the charges, such as elasticity of demand and the possibility of users moving to competitors or ceasing to use a service. A number of services have either not proposed an increase or, where they have, the increase has not resulted in an increased budget. The reasoning behind these actions is all in line with the Policy's guidance.

Each service has been considered separately and in all cases the Policy has been followed. Brief explanations of the consideration Officers have given to significant issues are given in the following paragraphs.

Fees & Charges Supporting Budget Strategy (increase available to count as a saving)

On average there was an increase of 1.29% in these fees in 2013/14. As mentioned above the current income expectations are being achieved at the mid-point of the year and the year-end prediction is a minor surplus.

The fees and charges policy identifies current performance as a factor for consideration when setting future fees and charges. Officers have considered this factor in setting the proposed fees and the result is an average increase of 1.03%.

Specific issues that the Cabinet noted are:

- a) Recycling & Refuse Collection is showing an increase in income generated in the current year. Longer term the consequences of this additional income will form part of the service changes following the commencement of the new service contract. At this time a separate income target of £20,000 has been set as part of the budget strategy without an increase in fee and it would be a duplication of the increase to include it here. The figures given in the table above have therefore been adjusted when compared to the figures in Appendix A to the report of Corporate Leadership Team.
- b) The Licensing Service is influenced by a number of fees and charges that are either statutorily controlled or set to break even. The service has considered increases where appropriate and will report to the Licensing Committee to seek approval to these fees. The service has generated income slightly above target in the last two years and an increase is expected. As with the income from the refuse and recycling services this has been accounted for in the budget strategy outside of this decision.

Statutory Charges

These charges are set in accordance with regulation. The environmental enforcement penalty charge is already set at the maximum. Development Management charges were increased by an average of 15% in November 2012 by Central Government. No further increase can be reflected here however there is growth in income this year as a result of increases in the level of applications. The budget strategy already reflects the assumptions relating to this increase and they are not reflected here to avoid the risk of double counting.

Obligation to Break Even

Both Building Control and Land Charges have a statutory obligation to break even. Both services will consider any necessary increase following budget setting and, if necessary, report this to the respective Cabinet Member.

Any increase set will not benefit the budget strategy as it will be set to maintain a break even cost of service.

Pre-Set Targets

These services have pre-set obligations and at this time no increases are proposed that will have an additional effect on income budgets.

Current Budget Shortfall

These services are currently reporting difficulty in generating income and any increase in fees proposed is designed to support current targets. In all cases managers are developing or implementing action plans following the identification of the concerns through the normal budget and performance monitoring processes in 2013/14.

Alternatives Considered and Why Rejected

The Cabinet Members could consider their respective service proposals individually. This was not felt appropriate as the consideration of the full range of fees and charges in this way enables the impact of all charges to be considered together. This gives the Cabinet the ability to assess the impact of changes on individual customers. The consideration of fees and charges in this way removes the need to set a generic target for increases as part of the budget strategy. This is in line with the approved policy on fees and charges.

The Cabinet could have agreed different increases to those proposed. However, Officers have considered all aspects of the policy in developing these proposals and they are in line with the factors set out above.

Background Papers

None

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| Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Policy and Communications by: 2 January 2014. |
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MAIDSTONE BOROUGH COUNCIL
RECORD OF DECISION OF THE CABINET

Decision Made: 18 December 2013

BUDGET STRATEGY 2014/15 ONWARDS - REVENUE

Issue for Decision

To agree a draft Council Tax and Budget Strategy for 2014/15 onwards.

Decision Made

- a) That the report and the financial settlement for 2014/15 be noted, and that the Officers be requested to bring forward additional savings proposals to meet the shortfall of £62,000 for presentation to Portfolio Holders and the Strategic Leadership and Corporate Services Overview and Scrutiny Committee in January 2014;
- b) That the Cabinet notes the earlier than anticipated significant reduction in Revenue Support Grant for 2015/16 and, in the light of the full review of the Council's Strategic Plan during 2014, requests proposals for prioritisation, transformation and commercialisation of services that reflect this reduction of resources at the earliest opportunity;
- c) That the provisional allocation of the local council tax support funding, as set out in Appendix B to the report of the Corporate Leadership Team, be notified to parish councils along with their tax base;
- d) That the proposed savings, as set out in Appendix C to the report of the Corporate Leadership Team, be agreed; and
- e) That the proposed actions with regard to the recommendations of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee, as set out in section 1.9 of the report of the Corporate Leadership Team, be agreed.

Reasons for Decision

On 11th September 2013 the Cabinet considered the initial budget strategy for 2013 onwards. At that time a strategic revenue projection (SRP) was agreed, including a provisional level of Council Tax as a planning and consultation tool. The agreed SRP included increases for inflation based on information provided by key officers and projection data from sources such as the office of budget responsibility.

The SRP that was agreed in September 2013 estimated resources at £19.1m and predicted expenditure including new budget pressures of

£20.5m, leaving a need to find savings in 2014/15 of £1.4m. At that time a number of risks were considered by Cabinet and these were:

- a) The government's spending round 2013.
- b) The consultations on: the use of capital receipts; potential changes to NHB; and additional reductions in the finance settlement 2014/15.
- c) The potential for developing a business rates pool.
- d) Council tax levels, including the effect of the offered council tax freeze grant.
- e) The level of income being achieved in the current year.
- f) A series of local pressures including King Street Multi Storey Car Park and the Local Plan.

It was reported that on the afternoon of the meeting the government had announced the provisional finance settlement. The settlement figures for 2014/15 are £62,000 less than the assumed figures used in the strategic revenue projection. Of this sum, £32,000 relates to the cap on business rates increase announced in the Autumn Statement and should attract S31 grant from the government. Confirmation of this grant has not been announced and the method chosen to reduce the Council's baseline funding suggests a single year grant similar to council tax freeze grant and this funding source should not be relied upon to cover the loss of funding in the medium term. Guideline figures for 2015/16 were also announced along with additional commentary about missing data that implied that the national funding level would reduce further in the time between now and 2015/16.

The Autumn Statement

The Autumn Statement is one of two major statements made by the Chancellor of the Exchequer each year. The other is the budget usually presented in March. The Chancellor presented the Autumn Statement to Parliament on 5th December 2013. This is later than in previous years and as a consequence has delayed the annual announcement by the government regarding the finance settlement to the afternoon of the meeting.

Issues important to local government in the Autumn Statement include:

- a) A second extension to the period of doubling of the small business rate relief (SBRR) by a further 12 months;
- b) While requiring some government departments to reduce spending by a further 1.1% in 2014/15 and 2015/16 there will be no similar pressure on local government. This is to support local authorities choosing to take the council tax freeze grant;
- c) Additional support to businesses through a number of special reductions in business rates;
- d) A cap on welfare spending (excluding job seeker allowance and pensions);

- e) The reversal of the proposed policy on top slicing new homes bonus (NHB), coinciding with specific requirements on planning authorities covered by penalties in relation to NHB and a full review of the NHB policy in 2014/15;
- f) Support of £300m to assist housing authorities to build new affordable houses. Enough to deliver a further 10,000 new homes.

The statement was linked to the latest office of budget responsibilities economic and fiscal outlook which was published to coincide with the Autumn Statement. This suggested that GDP was growing faster than previously predicted and is now forecast at 1.4% in the year compared to an earlier estimate of 0.6%. The growth is judged to be cyclical not underlying with increased productivity occurring mainly through additional hours worked. However the positive effect of this is reductions in the level of unemployment. The Chancellor suggested that the positive message had to be tempered by the challenges ahead and the planned austerity measures would still need to take place.

The implications of the Autumn Statement and the finance settlement that has just been announced are that further austerity measures will fall upon local government at a faster rate than previously assumed in the strategic revenue projection. The Cabinet has already identified a time in the future when the Council will need to have become self sufficient and the provisional finance settlement indicates that this time will arrive sooner than previously expected.

Review of Current Performance

The current year's financial performance is reported to the Corporate Leadership Team and to the Cabinet on a quarterly basis. The first two quarterly reports show a balanced position with projected outturn being at the level of budget with no major under or over spend.

The Leader of the Council has considered the use of balances again this year and a series of proposals to utilise the under spend from 2012/13 have been considered by the Strategic Leadership and Corporate Services Overview and Scrutiny Committee and with some minor changes have been approved.

Review of Revenue Resources

The finance settlement

As reported to the meeting the government announced the provisional finance settlement figures for the Council earlier that day. These were different to the figures set out in the report of the Corporate Leadership Team and for 2014/15 are as set out in the table below.

| | |
|-----------------------|--------------|
| | £,000 |
| Revenue Support Grant | 3,274 |
| Business Rates | 2,933 |
| Total | 6,207 |

The figures tabulated above include the central funding towards local council tax support that replaced council tax benefit from 1st April 2013. At its meeting on 12th December 2012 the Council approved the current scheme in operation in the Borough. The funding for 2013/14 represented 90% of the government's predicted expenditure on council tax benefit, had that scheme continued in 2013/14. In 2014/15 the funding is not identified separately in the settlement and the total estimated settlement figure indicates a 13% decrease in overall funding. The December 2013 meeting of the Council considered the proposed scheme for 2014/15.

Part of this funding relates to the benefit paid to claimants in parish areas and the local scheme affects parish precepts in the same way as it affects the Council's income from council tax. The effect was considered by the General Purposes Group when it set the Tax Base for 2014/15. The government has confirmed that it expects appropriate consideration of the funding of parish councils to be made by district councils when considering overall funding levels. It has not legislated for the payment of this funding on to parishes.

The Council chose to pass on the funding to parish councils in 2013/14 and the resources totalling £110,631 were distributed on the basis of predicted demand for the local council tax support in each parish. This sum was greater than the need but was equivalent to the amount stated by central government as provided in order to support parish councils.

It is intended that a similar distribution occurs for 2014/15 albeit of the reduced amount of funding available of £96,802 based on the previously assumed reduction in overall funding. As the level of local council tax support granted is volatile the distribution made against the current year's tax base will not be in proportion to the distribution made against the 2013/14 tax base.

Appendix B to the report of the Corporate Leadership Team sets out the proposed distribution of the parish share based on current demand for local council tax support. The Appendix shows the tax base reduction due to LCTS and the 2013/14 band D charge by the parish. This product of these two figures creates the expected loss. Column 5 of the Appendix shows the individual amount proposed for payment to each parish. Columns 6 and 7 calculate the movement from the 2013/14 grant to identify the increase or reduction for each parish.

This estimate is the best available at this time and the Cabinet gave consideration to the views of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee on the apportionment of the local council tax support scheme funding to parishes before formal approval of the proposal. It was recognised that it would be helpful for parish councils to be given the provisional figures at this time so that they can continue to prepare their budget forecast for 2014/15 and set their local precepts.

Council Tax

The Council's current council tax charge is £226.62 per annum for a band D property.

At the meeting on 11 September 2013 the Cabinet agreed a SRP for planning purposes that included an assumed 2.9% increase in council tax income. This represented a 1.9% increase in the council tax charge and a 1% increase in the tax base arising from new property.

Since that meeting the Government has announced support towards a further council tax freeze. This announcement offers a grant equivalent to a 1% increase for two years and maintains the level at which a council would be required to conduct a referendum at a 2% increase.

On 11 December 2013 the General Purposes Group considered a tax base of 55675.1 for the borough area. This is a 0.94% increase over the tax base for 2013/14.

A council tax increase of 1.9% will produce a band D charge of £230.94. This represents an increase of £4.32 per annum or 36 pence per month. The maximum increase allowable within the referendum limit is 2% and an increase at that level would produce a band D charge of £231.12. This represents an increase of £4.50 per annum or 37.5 pence per month. This would provide an additional £10,000 annual income to the Council.

A decision on the level of council tax that the Cabinet would wish to recommend to the Council need not be taken at this time. It was noted that the revised SRP given at Appendix A to the report of the Corporate Leadership Team includes a 1.9% increase consistent with the increase set for planning purposes in September 2013.

The Cabinet also considered a report on the collection fund adjustment. The decision arising from that report was to distribute approximately £0.43m across the major preceptors and this Council. The share calculated for this Council is £70,705 and this can be added to the resources available from the council tax charge detailed above.

Combining the resources available to this council from the provisional finance settlement, the council tax income and the collection fund adjustment produces estimated resources for the period of the revised SRP as tabled below. The Cabinet noted that the level of resources available from revenue support grant given for the years 2016/17 and beyond assume an effect from the future spending review 2015 announced by the Chancellor in March 2013. Although a projection is given, no actual detail is available to suggest the rate at which the resources available to this council will reduce or whether the reduction will be seen through the revenue support grant or through another source of government funding.

| | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 | 2017/18 £,000 | 2018/19 £,000 |
|----------------------------|------------------|------------------|------------------|------------------|------------------|
| Revenue Support Grant | 3,274 | 2,251 | 1,963 | 1,422 | 923 |
| Business Rates | 2,904 | 2,983 | 2,896 | 2,889 | 2,893 |
| Collection Fund Adjustment | 71 | 0 | 0 | 0 | 0 |
| Council Tax | 12,858 | 13,142 | 13,434 | 13,732 | 14,036 |
| Available Resources | 19,107 | 18,376 | 18,293 | 18,043 | 17,852 |

Review of Strategic Projection

When the Cabinet agreed the SRP in September 2013 officers were set the task of continuing to review the budget pressures and identify additional savings to balance the budget. Since that time officers have reviewed all of the pressures outlined in the SRP and it is now proposed that the following amendments should be considered.

- a) **Lost income from admin grant** – Both the council tax support and the housing benefit admin subsidy grants for 2014/15 have been announced and the reduction in total grant from 2013/14 to 2014/15 is £25,000. This is £105,000 less than the budget pressure included in the original projection. It is assumed that resources will be reduced further in future years so £75,000 of the original budget pressure has been slipped to 2015/16.
- b) **Additional Budget Pressures** – The original projection identified three ongoing pressures that required resource within the year. These were Market income, Advertising income and Development Management staffing. The Development management section is now undergoing a structural review that will be self financing. This will reduce the ongoing budget pressures to the remaining two issues totalling £51,000.

In addition to the proposed reductions set out in the paragraph above, there is one significant increased pressure that has arisen in the last month. This relates to the triennial valuation of the pension fund. Early indicators suggested that the movement in the fund would be minor. Now that final valuations have been published by the actuary it is clear that a positive result for the County, police and Fire authorities had disguised negative results for most district councils.

This Council currently pays £1.325m per annum in backfunding to support the deficit on the fund. The triennial review requires a payment of £1.427m in 2014/15 along with a 4.5% annual uplift in 2015/16 and 2016/17.

There are two alternatives available to the Council:

- a) Budget for this increase and add a further pressure to the revenue projection of £0.5m over the next three years;
- b) Keep the annual budget at £1.325m and use £0.5m from balances to fund the additional increase.

Considering the Council's current resources and longer term expectations a hybrid option is proposed. At this time balances currently include a sum of just under £0.8m remaining from the VAT reimbursements received in prior years. This sum is currently unallocated and could be partially used to make a one-off payment of £0.2m to the pension fund. In addition it is proposed that £50,000 of growth is built into the strategy for the next three years. This would mean that by the time of the next valuation a budget of £1.475m will exist. Given the predicted future improvement in the economy by 2017/18 this sum is expected to be sufficient as a base for the next triennial review.

In response to concerns expressed by district finance offices in Kent the pension fund actuary has agreed to provide annual assessments to assist with monitoring. This will be used in the budget strategy work for 2015/16 and 2016/17 to ensure the proposed funding is satisfactory.

These amendments, taken in combination with the revised assessment of resources available to the Council set a requirement to find savings in 2014/15 of £1.2m compared to the £1.4m requirement set out in the decision of Cabinet in September 2013. The values for each year of the SRP are set out in the table below:

| | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 | 2017/18 £,000 | 2018/19 £,000 |
|-----------------------|------------------|------------------|------------------|------------------|------------------|
| Available Resources | 19,107 | 18,376 | 18,293 | 18,043 | 17,852 |
| Projected Requirement | 20,381 | 19,834 | 18,971 | 19,295 | 18,657 |
| Savings Target | 1,274 | 1,458 | 678 | 1,252 | 805 |

Review of Savings Proposals

Savings and efficiency data was not reported in detail to Cabinet in September 2013. The targets were set out and it was identified that some savings proposals existed, in the main these came from long term plans developed for the 2012/13 strategy. The September 2013 report suggested that, set against a need to find £1.4m in savings, plans existed to save £1.1m.

As stated previously, the revised SRP at Appendix B to the report of the Corporate Leadership Team shows a need to save £1.27m in 2014/15 and attached at Appendix C to the report is a more detailed analysis of the previously identified savings and other proposals that have been developed by officers in discussion with Cabinet Members. The value of these proposals, set against the required need for savings in each of the five years considered by the revised SRP, are tabled below.

| | 2014/15 £,000 | 2015/16 £,000 | 2016/17 £,000 | 2017/18 £,000 | 2018/19 £,000 |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|
| Savings requirement in SRP | 1,274 | 1,458 | 678 | 1,252 | 805 |
| Savings proposals | 1,213 | 541 | 205 | 160 | 0 |
| Savings still required | 61 | 917 | 473 | 1,092 | 805 |

The savings proposals set out at Appendix C to the report of the Corporate Leadership Team include the values reported in the fees and charges report to the Cabinet. Since the announcement of the provisional finance settlement, the figures set out in the report of the Corporate Leadership Team are no longer adequate to set a balanced budget. It is therefore proposed that the Cabinet set a further objective and timescale for Officers to identify additional savings to balance the budget.

Strategic Leadership and Corporate Services Overview and Scrutiny Committee – Budget Working Group

At the meeting of the Committee on 3 December 2013 the budget working group reported back on the all member workshop on the budget strategy. From that meeting four recommendations have been made to Cabinet

with regard to future potential budget strategy savings. The SCRAIP is attached as Appendix D to the report of the Corporate Leadership Team.

It is intended that further work on the first three proposals be carried out by officers and reported back through the committee's budget working group.

With regard to the final recommendation it was the wish of the Cabinet Member for Corporate Services, at the meeting, for the review to be completed separately by the Committee and Cabinet to ensure that the views of each group are brought forward without influence. This to be followed by a joint meeting to review the results and discuss options.

New Homes Bonus

Along with the finance settlement, the government has announced the allocation of New Homes Bonus for the forthcoming year. This is the fourth year of the programme and the Council will receive an amount equivalent to last year's payment plus the new sum specifically for housing growth during the period October 2012 to October 2013. This totals £3.74m.

As part of the spending round 2013 the Government announced a consultation on options to top-slice all NHB payments to provide £400m towards a £2bn Growth Fund to be distributed to Local Enterprise Partnerships. In the Autumn Statement the Chancellor confirmed that this top slice would not go ahead, instead a full review of NHB would be carried out in 2014/15 with interim penalties that relate to the effectiveness of the planning process in each authority.

The Cabinet has already considered the future use of NHB resources and agreed that they should be set aside to support the Capital programme and the level of future funding is considered in the Capital Budget Strategy report.

Balances

The current level of general fund balance is £3.6m plus provisionally allocated sums of another £1.4m. After allowing for the proposal for use of resources to support the pension fund general fund balances will drop from £3.6m to £3.4m by 31 March 2015. A statement of balances is set out in Appendix E to the report of the Corporate Leadership Team.

For 2013/14 the Council has set a minimum level of balances of £2m and the Cabinet has agreed to set a working balance of £2.3m below which it is not expected that the Cabinet will utilise balances. This means that balances in the sum of £1.1m remain available for use.

Earlier in the discussion on the report of the Corporate Leadership Team, consideration was given to the Chancellor of the Exchequer's Autumn Statement and the Economic and Fiscal Outlook report of the Office of Budget Responsibility. Given the detrimental factors that will continue to face local government Cabinet was mindful of the level of resources and the potential need that the Council may have for those resources to

remain financially stable, before the current economic situation is resolved.

Consultation

Budget consultation is currently ongoing and the results of this work will be incorporated into the report to the Cabinet in February 2014 to enable consideration of the responses prior to a recommendation to the Council.

Medium Term Financial Strategy and Strategic Plan

The Strategic Plan refresh has been reported to the Cabinet. It provides feedback on performance against the outcomes required to achieve the priorities of the Council and gives Cabinet an opportunity to consider update actions. It is essential that Cabinet considers the Strategic Plan and this budget strategy at the same time as the information provided by the budget strategy enables Cabinet to consider the resourcing available for achievement of the proposed outcomes and provides the opportunity for Cabinet to amend either resourcing proposals or outcomes to balance plans and resources appropriately.

As the government had not announced the finance settlement for 2014/15 at the time of writing the report of the Corporate Leadership Team, the MTFS statement had not been updated and for that reason was not appended to the report.

Alternatives Considered and Why Rejected

The production of the budget is an element of the statutory process of setting the council tax each year. In addition the final document and budget is required to be robust and adequate under the Local Government Act 2003 and the Chief Financial Officer is required to give a statement to that fact. On this basis the actions outlined in the report of the Corporate Leadership Team must be considered and a balanced budget ultimately set by March 2014.

A number of the assumptions set out in the report of the Corporate Leadership Team remain uncertain and alternative options are possible. The main examples include:

- a) The indices used to calculate future inflation and contractual commitment – These indices are continuously updated and a revised set of values could be developed, however the level of change likely to occur is not significant and it is proposed that current resources will be re-prioritised if the level of growth allowed in any particular budget area proves to be insufficient.
- b) Savings – The identification of significant and deliverable savings is becoming increasingly difficult and monitoring of outcomes will need to be thorough during 2014/15. The proposals brought to the Cabinet's attention by Strategic Leadership and Corporate Services Overview and Scrutiny Committee demonstrate one way in which Members can become more closely involved in the formation and development of the budget strategy. In such cases the likelihood of

successful achievement will be higher if the proposals are incorporated into the budget strategy following member endorsement.

Background Papers

None

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| Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Policy and Communications by: 2 January 2014. |
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Section: FINANCE

| Risk No | Risk Name | Vulnerability (Why, what’s happening, what’s the problem) | Trigger/risk (What’s the event/ what could go wrong?) | Consequences (What would occur as a result, how much of a problem would it be, to whom and why?) |
|----------------|-------------------|---|--|--|
| 1. | Level of Balances | Effectiveness of agreed minimum level of working balances. For 2014/15 this is expected to be £2.3m which is 12% of net revenue expenditure | <p>a. Minimum balance is insufficient to cover unexpected events.</p> <p>b. Minimum balance is in excess of real need.</p> | <p>a. This would require a large single event or multiple unexpected events greater than £2.3m and would require the additional balances above the minimum level to have already been depleted. At this time balances in excess of the minimum are expected to be in the region of £1m during 2014/15. This value excludes mitigation measures for some risks already consider by cabinet in developing the budget strategy.</p> <p>b. In the past the Council’s external auditor has considered acceptable a policy of holding minimum balances at 10% of net revenue expenditure. This equates to £1.9m for 2014/15. However it is considered prudent to maintain the minimum level of balances at the maximum level it has previously been (£2.3m) due to the current economic climate.</p> |

Section: FINANCE

| Risk No | Risk Name | Vulnerability (Why, what's happening, what's the problem) | Trigger/risk (What's the event/ what could go wrong?) | Consequences (What would occur as a result, how much of a problem would it be, to whom and why?) |
|----------------|-------------------------------------|--|---|---|
| 2. | Inflation rate prediction | <p>Inflation allowances are set for:</p> <ul style="list-style-type: none"> • Energy costs • Contracts • Business Rates • Employee Costs <p>Inflationary increases create a growth pressure of £0.45m in 2014/15</p> | <p>a. Actual levels are above prediction</p> <p>b. Actual levels are below predictions</p> | <p>a. A failure to resource expenditure levels accurately will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.</p> <p>b. The services may have supported the budget strategy through savings that were unnecessary, resulting in an increase in balances or unused resources that could be used to achieve strategic priorities.</p> |
| 3. | National Strategy | Effectiveness of central government strategy as outlined in the spending review 2010 and more recent budget announcements | A failure of the national strategy to reduce the structural deficit as planned | The country has remained in recession longer than the originally planned period and the Chancellor of the Exchequer has indicated that public sector reductions would continue through the next parliament at a similar level to the period since 2010. The provisional finance settlement figures indicate a reduction in central government funding of £1m. The strategy assumes that Government funding will be zero by 2019/20. |
| 4. | Limitation of council tax increases | The current arrangement announced by central government for a council tax freeze includes a two year grant equivalent to a 1% increase in council tax. This is coupled with the requirement for a public referendum on "excessive" increases in council | a) Should the grant be accepted by the council, provision must be made in 2015/16 to finance £0.16m without possibility of a tax increase to mitigate the loss in future years. In addition immediate savings of £0.16m | <p>A 1% freeze for 2014/15 equates to £140,000</p> <p>The Council would forego £191,000 per annum if the freeze grant was accepted in preference to a 2% increase in council tax. After the five</p> |

Section: FINANCE

| Risk No | Risk Name | Vulnerability (Why, what’s happening, what’s the problem) | Trigger/risk (What’s the event/ what could go wrong?) | Consequences (What would occur as a result, how much of a problem would it be, to whom and why?) |
|----------------|------------------|--|---|---|
| | | tax above 2%. | <p>must be found as the strategy has been developed on the basis of a 2% increase.</p> <p>b) Should the referendum limit be reduced below 2% a review of the budget strategy will be required prior to Council on 5th March 2014.</p> | <p>years of the strategy the differential between the two options would be at least £0.25m</p> <p>Acceptance of this grant creates an immediate additional budget pressure in 2014/15 and again in 2015/16 for which savings have not been identified.</p> <p>The referendum limit could still be reduced causing a £95,000 immediate budget pressure for each 1% reduction in the referendum limit.</p> |
| 5. | Fees & Charges | Fees & charges and other service based income sources could fail to deliver expected income levels | Fee charging services are being affected by falling demand due to the economy. | <p>A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met. The total value of all income from fees and charges is in excess of £7.7m.</p> <p>Budget monitoring shows that the budgeted income from fees and charges in the current year is being exceeded but only due to the support of two services where demand is resistant to price increases.</p> |

Section: FINANCE

| Risk No | Risk Name | Vulnerability (Why, what's happening, what's the problem) | Trigger/risk (What's the event/ what could go wrong?) | Consequences (What would occur as a result, how much of a problem would it be, to whom and why?) |
|---------|----------------------|--|---|---|
| 6. | Capital financing | Availability of funding for the capital programme | <p>The budget strategy includes proposals for the use of new homes bonus that mitigate the majority of the risk from funding of the capital programme.</p> <p>The Government has announced a review of the new homes bonus system to commence in 2014/15.</p> | At a lower level of risk a number of options exist to finance the programme including the options to use prudential borrowing permissions or to create slippage in the programme from 2014/15 into 2015/16 and these options will have an effect on the cost or the delivery plans of the programme. |
| 7. | Prudential Borrowing | The Treasury Management Strategy identifies prudential borrowing of £6m. This funding is to resource the acquisition of commercial assets that will make a return to the Council equal to or greater than the cost of borrowing. The principal and interest due annually on £6m would exceed £0.45m per annum over a 25 year period. | <p>a) These commercial ventures may not return sufficient surplus to finance debt repayment.</p> <p>b) The approved prudential borrowing is used to mitigate the consequence of risk 6 above.</p> | <p>The Council is required to provision for repayment of debt in its revenue account through the minimum revenue provision. The budget strategy assumes this will be financed from the surplus generated by commercial activities.</p> <p>If these activities do not produce the surplus the assets may need to be sold to provide the receipt necessary to repay outstanding debt. Cabinet has set aside from balances a resource of £0.5m which may be utilised to temporarily repay debt in such circumstances but the cost would eventually become a burden on the tax payer if the asset does not generate the required receipt.</p> <p>Failure to deliver on the commercialisation strategy set out in the budget creating a cost of debt and a budget pressure from the failure to generate income from acquired assets.</p> |

Section: FINANCE

| Risk No | Risk Name | Vulnerability (Why, what’s happening, what’s the problem) | Trigger/risk (What’s the event/ what could go wrong?) | Consequences (What would occur as a result, how much of a problem would it be, to whom and why?) |
|----------------|------------------|---|---|--|
| 8. | Horizon scanning | Appropriate risks and opportunities must be recognised in advance. | <p>Horizon scanning requires input from all service managers and the financial consequences of future issues may not be clearly identified.</p> <p>Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at a early stage.</p> | <p>On a small number of occasions the financial consequences of future events are likely to be significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy.</p> <p>In general these events bring consequences to other agencies and external relationships are important to ensure no such consequences are missed.</p> |
| 9. | Efficiency | The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence. | Failure to deliver savings and / or failure to monitor and react to non-delivery. | Some of the savings proposed for 2014/15 are considered to be high risk. These total £0.2m. Failure to deliver on any saving proposal places an additional pressure on services levels and / or balances. |

Section: FINANCE

| Risk No | Risk Name | Vulnerability (Why, what's happening, what's the problem) | Trigger/risk (What's the event/ what could go wrong?) | Consequences (What would occur as a result, how much of a problem would it be, to whom and why?) |
|----------------|---------------------|---|--|---|
| 10. | Collection Fund | <p>Collection rates.</p> <p>a) The retention of business rates means that collection rates have become of local importance to ensure the retained element of business rates is maximised. Business rates due is in excess of £56m per annum.</p> <p>b) The localisation of support for council tax means that some element of the tax due will become due from benefit claimants with little or no previous experience of handling money or paying for any part of their council tax. This increases the risk of non-collection. Council tax due is in excess of £79m per annum with the cost of local support exceeding £10m per annum</p> | <p>The Council currently collects in excess of 97% of business rates due in year. This level of collection will mean a shortfall in locally retained resources.</p> <p>For tax payers on benefit and of working age there will be a requirement from 2014/15 to pay additional amounts of tax. Only 87% of the assessed benefit will now be supported by the local scheme and tax payers may find it difficult to identify resources to pay the balance due.</p> | <p>In both cases the consequence will be a reduced level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> |
| 11. | Business Rates Pool | <p>The Council has entered a business rates pool with Kent County Council for 2014/15. This arrangement means that the Council cannot rely on central government safety net funding should the level of business rates fall by more than 7.5%.</p> | <p>a) Major changes may occur in the rateable value of properties following appeal.</p> <p>b) Collection rates may not be maintained</p> <p>c) Increased levels of exemptions may be claimed</p> | <p>In all cases the result will be a reduction in income from business rates and a potential consequence for the Council. Provisions exist so any loss of income would relate to the excess over the provision already made.</p> |

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|----------------|------------------|--|--|--|
| 12. | Medium term | The medium term financial strategy must be the link between the strategic priorities of the council and its financial resilience. In 2014/15 the Council will develop a new strategic plan for the period 2015/16 to 2020/21. The medium term financial strategy will also undergo a complete review to ensure it remains in accord with the Council’s strategic objectives. | <p>These are all significant changes for local government and require careful assessment of the possible consequences at each stage of the implementation.</p> <p>These issues must all be identified in the medium term financial strategy at a level considered adequate to cover the likely consequences to this authority.</p> | <p>In reviewing the strategy the consequences of some of the Council’s plans could be misinterpreted and the strategy could fail to take full account of the risks.</p> <p>Developing the strategy alongside the strategic plan will ensure that some of this risk is mitigated.</p> |

Risk Management: Risk Profile

The risks have been mapped against a typical appetite to risk. The risk assessment has been prepared in the context of key service objectives. The risks at this stage have not been 'mitigated'.

The **vertical axis** shows **Likelihood**:

A = very high; B = high; C = significant; D = low; E = very low; F = almost impossible

The **horizontal axis** shows **Impact**:

1= catastrophic; 2 = critical; 3 = marginal; 4 = negligible

