APPENDIX A

MAIDSTONE BOROUGH COUNCIL

REVENUE AND CAPITAL ESTIMATES

2020/21

INDEX

Section

STATEMENT OF ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

1. INTRODUCTION

1.1 Section 25 of the Local Government Act 2003 requires that a local authority's Chief Finance Officer must report on:

- the robustness of the estimates made for the purposes of the budget calculations; and
- the adequacy of the proposed financial reserves.

The authority must have regard to this report when making decisions about the calculations in connection with which it is made, these decisions being to set a budget and to agree the level of Council Tax.

1.2 The following statement seeks to fulfil this requirement in respect of the 2020/21 budget setting process for Maidstone Borough Council. I acknowledge my responsibility for ensuring the robustness of the estimates and the adequacy of the reserves as part of the process.

1.3 The context for the budget setting process is set out in the Council's Medium Term Financial Strategy (MTFS), which is included as section 8 of this Appendix. The MTFS covers both revenue and capital budgets and underpins the budget setting process over the coming five year period. It sets out in financial terms how the Council will deliver its Strategic Plan given the resources available.

2. ROBUSTNESS OF ESTIMATES

2.1 The budget contains estimates of future income and expenditure, which like any future events are subject to risk and uncertainty. The way in which the estimates have been drawn up has sought to mitigate this risk as much as possible.

2.2 It has done this, first of all, by adopting a structured approach in preparing the estimates. The budget estimates are the outcome of an exhaustive process, which commenced with Members agreeing underlying assumptions and a plan for developing a Medium Term Financial Strategy at the meeting of Policy and Resources Committee on 23 July 2019. The MTFS recognises that there is a high degree of uncertainty about the medium term financial position, and therefore incorporates various potential scenarios, representing favourable, neutral and adverse sets of circumstances. The current budget proposals are based on a neutral scenario but money has been set aside in reserves to help build resilience to accommodate a range of potential scenarios in future years.

2.3 There has been a thorough assessment of future spending pressures. In drawing up Strategic Revenue Projections, careful estimates have been made of the way in which spending is likely to increase and the potential sources of new spending pressures. There is considerable uncertainty about the impact of the new local government funding regime that is due to be implemented in 2021 on the Council's future income. Whilst the likely overall framework, incorporating 75% business rates retention for local authorities, has now been defined, the overall amount of funding available to local authorities is not known. Moreover, the distribution of funding between authorities depends on the government's assessment of local authorities' relative needs and resources. Both factors indicate that the trend towards dependence entirely on Council Tax and self-generated income from fees, charges, etc will continue, with no support from central government and minimal benefits from the business rates retention regime.

2.4 Future financial projections have been validated against current performance as reported through the Council's regular quarterly budget monitoring. The budget estimates have been reviewed in the light of the latest budget monitoring information. Overall, current budget monitoring indicates a positive position, but where appropriate additional contingency has been included in respect of overspends that are likely to continue into 2020/21.

2.5 The table below sets out the specific factors that have been taken into account in the process of drawing up the MTFS and setting the 2020/21 budget.

The Council's corporate objectives and key priorities	The estimates are intended to support the priorities within the Council's Strategic Plan and to maintain service delivery. The Council agreed a new Strategic Plan in December 2018 and the estimates reflect this together with updates over the last 12 months, notably the declaration of twin emergences in Biodiversity and Climate Change in April 2019.
Consultation with Council Taxpayers	The results of the 2019 Budget Survey and the views expressed in prior year consultations have been taken into account when developing the budget proposals.
Consultation with Business Ratepayers	The Council publishes its Medium Term Financial Strategy and budget proposals. Business ratepayers may make written representations and these will be considered as part of the budget process.
Consultation with Service Committees	The Policy & Resources Committee has consulted each of the Service Committees on the budget proposals. A proposed change requested by the Strategic Planning, Sustainability and Transportation Committee has been reflected in the final budget proposals.
The level of funding likely from Central Government towards the costs of local services	The level of Revenue Support Grant fell to zero with effect from 2017/18 and this is reflected in the Strategic Revenue Projections. Other government grants are normally service specific and the amount and future risk is considered as part of the service budget and service risk assessment.

Retained element of business rates	Since 1 April 2013 a proportion of business rates income has been retained by the Council. The amount of business rates income due to the Council under existing arrangements has been projected using prudent assumptions and has been reflected in the Strategic Revenue Projections. Additional income is anticipated as a result of the Council's participation in the Kent Business Rates Pool and is earmarked as a separate exercise from the main budget setting process. Whilst the element of business rates to be retained by the Council in 2020/21 can be projected with a reasonable degree of certainty, the impact of the new local government funding regime to be implemented in 2021/22 on future business rates income is unclear at this stage.
Council Tax Base	The recommended council tax base for 2020/21 is 63,319.80, a 2.1% increase in the tax base over the 2019/20 figure, representing both an increase in the number of new homes and a fall in the number of Council Tax Support claimants.
Power of the Secretary of State to require a local referendum in respect of rising Council Tax levels	The Localism Act 2011 contained requirements for the Council to hold a referendum in circumstances where it plans an increase in council tax that is considered excessive and due regard has been paid to this requirement. This is consistent with the objective of the Medium Term Financial Strategy for the revenue budget to achieve a balanced budget whilst maintaining a reasonable level of council tax increase.
The Council's Capital Programme	The Council's capital programme is based on the principles of prioritisation, affordability and deliverability. The Council has adopted a Medium Term Financial Strategy for capital which sets out the planning process and priorities for capital. The revenue costs of the capital programme are reflected in the Strategic Revenue Projections.
The Prudential Code and its impact on Capital Planning	The Council uses a number of sources for the financing of its capital expenditure. The main source in recent years has been New Homes Bonus but external borrowing was employed for the first time in 2019/20 and will be the principal source of funding in future years. Borrowing will be undertaken in line with the requirements of the Prudential Code, which aims to ensure, within a clear framework, that the capital expenditure plans of the authority are affordable, prudent and sustainable. These principles are set out in the Medium Term Financial Strategy statement for capital with specific details contained in the Council's Treasury Management Strategy.

Availability of funding for capital programme	It is assumed that funding will continue to be available for the capital programme. Historically the main source of funding for local authorities has been the Public Works Loan Board, but in October 2019 PWLB rates were increased by 100 basis points for all loans, which may signal a reduced level of willingness by central government to support local authority borrowing. At this stage alternative sources of borrowing, offering competitive rates continue to be available.
Interest Rates	Interest costs and returns have been assumed based on the advice of the Council's treasury management advisors as set out in the Treasury Management Strategy. Where prudential borrowing is undertaken, interest costs are fixed at the start of the loan term.
Financial resilience	Local authority financial resilience has received increased attention over the past two years. This statement demonstrates that Maidstone Borough Council is in a strong financial position and holds adequate reserves. This is supported by the Council's scores in CIPFA's Financial Resilience Index, published in December 2019, which are around the mid-point for its peer group and do not highlight any areas of concern.
Adequacy of Balances	At the start of 2020/21 it is anticipated that the uncommitted general fund balance will be £5.8 million. The adequacy of reserves is discussed in more detail below.
Earmarked Reserves	The Council maintains a series of Earmarked Reserves to manage more effectively the resources set aside for specific activities. At the start of 2020/21 these reserves are projected to be £7.2 million. This includes a contingency for future funding pressures of £1.6 million, which is intended to cushion the impact of the new local government funding settlement to be implemented in 2021/22. Details are set out in Section 5 of the Budget Book.
Pay and Price Inflation	The MTFS takes account of the impact of inflation on service expenditure, based on current predictions of the future level of inflation. Included within the budget is suitable provision for these increases.
Fees and Charges	The Council's strategy is to maximise income, subject to market conditions, opportunities, comparable charges elsewhere and the impact of charges on the delivery of key objectives. The Council has approved a policy on the use of fees and charges and service managers have regard to that policy when proposing changes to fees and charges. Increased levels of fees and charges are incorporated in the 2020/21 budget where these have been proposed and subsequently agreed by Members.

Growth Pressures	The Budget for 2020/21 and the projections within the MTFS for the revenue budget include all known and quantified key priorities and growth pressures that the Council is aware of at the present time. New priorities and growth pressures are anticipated to emerge over the period and in consequence, the strategy will be updated at least annually. There is an expectation that expenditure on expanding and improving services should be accommodated by direct charges to service users or reductions elsewhere within the Council's budget from efficiencies and low priority services through a prioritisation process.
Achieving budget savings	The MTFS depends on the delivery of budgeted savings. The Council has a good track record of delivering planned savings and regular budget monitoring ensures that prompt action is taken where savings are delayed. The deliverability of future savings is assessed as part of the budget preparation process.
Financial Management	The Council’s financial information, management and reporting arrangements are sound and its procedures in relation to budget under / overspends are clear. Collection rates for council tax and business rates remain satisfactory. The Council’s external auditor has found the Council’s budgetary control procedures to be sound and is satisfied with the overall internal financial control arrangements, the Council’s arrangements for ensuring the legality of transactions and has given an unqualified opinion on the 2018/19 Accounts. It is anticipated that a similar position will be reported for future years. CIPFA has introduced a Financial Management Code which is intended to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The Council already meets many of the requirements and expects to be fully compliant, as required, by 1 April 2021.
Insurance Arrangements and Business Continuity	Risks identified via the preparation of Service Risk Registers have wherever possible been mitigated to an acceptable level. Any remaining risks have been transferred to an external insurance provider where possible. In addition, specific arrangements are in place to ensure the continuity of business in the event of both major and minor disruptions to services. As insurance premiums are reactive to the external perception of the risks faced by local authorities and to market pressures, both risks and excess levels are kept under constant review. The Council has a well-established Business Continuity Plan for key services.

Corporate Governance and Risk Management	The Council has adopted a local Code of Corporate Governance based upon the requirements of the CIPFA/SOLACE Corporate Governance framework. This incorporates risk management and the Council has a risk management strategy involving the preparation of risk registers at a Corporate level and for each Service area. The Council has had an established and effective Audit Committee since 2007.

3. Adequacy of Reserves

3.1 The Council maintains reserves as a financial safety net to allow for unforeseen circumstances. There is no statutory definition of a minimum level of reserves. Rather, it is accepted that minimum prudent level of reserves that the Council should maintain is a matter of judgement.

3.2 The Council has set a target for the minimum General Fund balance of £2 million. This is equivalent to approximately 5% of the Council's gross income or 10% of its net income. It is useful to establish a benchmark in this way but in the end the appropriate level of reserves is likely to fluctuate depending on the degree of risk that the Council faces. It is even possible that a given level of reserves may be excessive, if there is no likelihood of their being required, and there is an opportunity cost from failing to use the money in some more productive way.

3.3 The corporate risks faced by the Council, which might give rise to a call on reserves, include the following:

- Poor partner relationships
- Financial restrictions
- ICT security failure
- Housing pressures increasing
- Major project failure
- Contraction in retail and leisure sectors
- Significant contract failure
- Building of incomplete communities
- Environmental damage
- Short term Brexit impacts
- Governance failures
- Loss of community engagement
- Insufficient workforce capacity / skills.

These risks are kept under regular review and mitigations developed as appropriate.

3.4 Specific financial risks facing the Council include the following:

- Failure to contain expenditure within agreed budgets
- Fees and Charges fail to deliver sufficient income
- Commercialisation fails to deliver additional income
- Planned savings are not delivered
- Shared services fail to meet budget
- Council holds insufficient balances
- Inflation rate predictions in MTFS are inaccurate

- Adverse impact from changes in local government funding
- Constraints on council tax increases
- Capital programme cannot be funded
- Increased complexity of government regulation
- Collection targets for Council Tax and Business Rates missed
- Business Rates pool fails to generate sufficient growth
- Adverse financial consequences from a disorderly Brexit
- Litigation costs exceed budgeted provisions.

These risks are likewise kept under regular review and mitigating actions taken. The financial risks, and an up to date evaluation of each, are reported to each meeting of the Audit, Governance and Standards Committee.

3.5 The Council's risk management strategy and policies seek to identify risks such as those outlined above and to promote appropriate mitigations. Nevertheless, there will remain a degree of residual risk, and it is for this reason that it is appropriate to hold reserves.

3.6 The uncommitted General Fund balance as at 31 March 2020 is projected to be £5.8 million. Other earmarked balances total £7.2 million. As at 31 March 2021, the General Fund balance is projected to rise to £5.9 million and earmarked balances to fall to £6.4 million. This is above the minimum level of balances set by the Council but is appropriate given the variety and potential severity of risks that the Council faces.

3.7 Taking into account the risks that the Council faces, and the overall scale and scope of the Council's activities, I consider the level of reserves to be adequate but not excessive. The level of reserves remains under regular review and is reported to Members as part of the quarterly budget monitoring process.

4. Conclusion

4.1 I am of the opinion that the approach taken in developing the 2020/21 budget meets the requirements contained in the Local Government Act 2003 to ensure the robustness of the estimates and the adequacy of reserves.

Mark Green
Director of Finance and Business Improvement

Date: 26 February 2020

REVENUE ESTIMATE 2020/21 TO 2024/25
STRATEGIC REVENUE PROJECTION

2019/20 £000		2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
	PROJECTED INCOME					
16,157	COUNCIL TAX	16,817	17,411	18,025	18,662	19,320
17	EMPTY HOMES PREMIUM					
3,208	RETAINED BUSINESS RATES	3,260	1,672	1,705	1,739	1,774
1,129	BUSINESS RATES GROWTH	1,210	0	180	362	546
49	LEVY ACCOUNT SURPLUS					
-85	COLLECTION FUND ADJUSTMENT					
20,475	**PROJECTED NET BUDGET**	**21,287**	**19,083**	**19,911**	**20,763**	**21,640**
20,839	OTHER INCOME - EXISTING	21,037	21,247	21,460	21,674	21,891
0	OTHER INCOME - NEW INVESTMENTS	673	887	298	1,145	1,949
41,314	**TOTAL RESOURCES AVAILABLE**	**42,996**	**41,217**	**41,668**	**43,582**	**45,480**
	PROJECTED EXPENDITURE					
38,853	**CURRENT SPEND**	41,314	42,996	41,217	41,668	43,582
	INFLATION & CONTRACT INCREASES					
997	PAY, NI & INFLATION INCREASES	1,013	1,009	1,039	1,069	1,100
40	MAIDSTONE HOUSE RENT INCREASE					
	EXTERNAL BUDGET PRESSURES					
6	PENSION DEFICIT FUNDING	150	150	150		
	LOCAL PRIORITIES					
-400	PLANNING APPEALS					
-100	PLANNING ENFORCEMENT					
	LOCAL PLAN REVIEW					
131	GROWTH TO MEET STRATEGIC PRIORITIES	24				
	ADDITIONAL GROWTH AGREED BY P&R	10	-10			
50	GENERAL GROWTH PROVISION	50	50	50	50	50
-20	ENVIRONMENTAL ENFORCEMENT					
91	OTHER SERVICE PRESSURES					
	PROVISION FOR MAJOR CONTRACTS				500	
78	REVENUE COSTS OF CAPITAL PROGRAMME	1,870	893	646	562	583
1,589	CONTINGENCY FOR FUTURE PRESSURES		-1,589			
41,314	**TOTAL PREDICTED REQUIREMENT**	**44,431**	**43,500**	**43,102**	**43,849**	**45,315**
	SAVINGS REQUIRED	**-1,435**	**-2,283**	**-1,434**	**-266**	**164**
	EXISTING SAVINGS	**1,611**	**940**	**623**	**200**	**0**
	NEW AND AMENDED SAVINGS / (GROWTH)	**-89**	**-50**	**-20**	**0**	**0**
	SURPLUS / (DEFICIT)	**87**	**-1,393**	**-831**	**-66**	**164**
	CUMULATIVE SURPLUS / (DEFICIT)	**87**	**-1,306**	**-2,137**	**-2,203**	**-2,039**

THE MAIDSTONE BOROUGH COUNCIL

STATEMENT OF COUNCIL TAX REQUIREMENT - 2020/21

			BAND D
	£	£	£
MAIDSTONE BOROUGH COUNCIL NET SPEND		21,286,730	336.18
ADD:			
Parish Precepts		2,128,645	33.62
DEDUCT:			
Retained Business Rates	-3,259,829		
Reatined Business Rates Growth	-1,209,795	-4,469,624	-70.59
TOTAL COUNCIL TAX REQUIREMENT		18,945,751	299.21
ADD PRECEPTS			
Kent County Council Precept		78,050,518	1,232.64
Kent County Council Adult Social Care Charge		7,510,995	118.62
Kent Police & Crime Commissioner Precept		12,863,417	203.15
Kent & Medway Fire & Rescue Authority Precept		5,020,627	79.29
TOTAL COUNCIL TAX REQUIREMENT		122,391,308	1,932.91
MAIDSTONE BOROUGH COUNCIL (EXCLUDING PARISH PRECEPTS)			265.59
TOTAL COUNCIL TAX (EXCLUDING PARISH PRECEPTS)			1,899.29
TAX BASE			63,319.8

MAIDSTONE BOROUGH COUNCIL REVENUE ESTIMATES

REVISED ESTIMATE 2019/20 AND ESTIMATE 2020/21

COMMITTEE SUMMARY

Cost Centre/Service	Original Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 £
Policy & Resources	6,399,330	6,983,680	6,344,300
Strategic Planning & Infrastructure	-1,499,240	-1,235,770	-1,325,730
Communities, Housing & Environment	8,511,490	8,436,980	8,505,380
Economic Regeneration & Leisure	1,023,380	1,219,770	938,690
	14,434,960	**15,404,660**	**14,462,640**
Invest to Save Contributions	10,000	10,000	10,000
Transfers to Reserves	6,030,180	5,146,980	6,814,090
Net Revenue Expenditure	**20,475,140**	**20,561,640**	**21,286,730**

SUMMARY ESTIMATE 2020/21 - BY COMMITTEE

Cost Centre/Service	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 (Expenditure) £	Estimate 2020/21 (Income) £	Estimate 2020/21 £
Policy & Resources					
Contingency	183,420	63,970	250,000		250,000
Unapportionable Central Overheads	1,783,370	1,783,370	1,419,050		1,419,050
Non Service Related Government Grants	-3,880,840	-3,729,760	0	-4,472,240	-4,472,240
Appropriation Account	978,880	1,275,060	1,030,360		1,030,360
Balances, Pensions & Appropriations Total	-935,170	-607,360	2,699,410	-4,472,240	-1,772,830
Council Tax Collection	-370,600	52,740	91,020	-37,170	53,850
Council Tax Collection - Non Pooled	57,780	-365,560	58,940	-423,340	-364,400
Council Tax Benefits Administration	-152,120	-152,120		-152,120	-152,120
NNDR Collection	-244,910	-880	2,650	-1,170	1,480
NNDR Collection - Non Pooled	-72,160	-149,200	15,020	-249,230	-234,210
MBC- BID	0	0	17,250	-16,920	330
Registration Of Electors	47,790	47,790	51,340	-2,340	49,000
Elections	163,910	162,890	168,910	-430	168,480
External Interest Payable	310,310	310,310	2,061,790		2,061,790
Interest & Investment Income	-100,000	-100,000		-100,000	-100,000
Central Services to the Public Total	-360,000	-194,030	2,466,920	-982,720	1,484,200
Palace Gatehouse	-5,300	-8,300	2,000	-10,300	-8,300
Archbishops Palace	-98,390	-97,740	44,300	-141,280	-96,980
Parkwood Industrial Estate	-309,850	-311,250	11,970	-323,050	-311,080
Industrial Starter Units	-28,950	-29,540	23,570	-52,710	-29,140
Parkwood Equilibrium Units	-72,050	-76,560	43,390	-262,250	-218,860
Sundry Corporate Properties	-344,860	-362,180	36,480	-422,340	-385,860
Parks Dwellings	-43,420	22,090	22,230	0	22,230
Chillington House	-25,200	0	0	0	0
Phoenix Park Units	-234,320	-216,560	37,590	-253,480	-215,890
Granada House - Commercial	-107,770	-109,540	11,280	-120,530	-109,250
MPH Residential Properties	-187,700	-161,590	4,150	-284,240	-280,090
Heronden Road Units	-153,170	-151,570	13,960	-165,120	-151,160
Boxmend Industrial Estate	-102,830	-101,100	17,410	-118,090	-100,680
Lockmeadow	-67,850	-75,950	76,570	-148,870	-72,300
Lockmeadow Complex	0	0	57,430	-1,153,430	-1,096,000
Lenworth House	3,770	0	0		0
Commercial Investments Total	-1,777,890	-1,679,790	402,330	-3,455,690	-3,053,360
Performance & Development	7,480	7,480	7,630		7,630
Corporate Projects	40,450	89,450	6,820		6,820
Press & Public Relations	35,450	30,530	31,130	0	31,130
Corporate Management	92,380	92,380	94,230		94,230
Corporate Management Total	175,760	219,840	139,810	0	139,810
Democratic Services Section	165,270	180,220	190,430	-1,800	188,630
Mayoral & Civic Services Section	109,550	109,960	114,550		114,550
Chief Executive	176,790	176,680	184,960		184,960
Communications Section	199,870	204,240	186,650	-370	186,280
Policy & Information Section	222,100	249,150	270,550	0	270,550
Head of Policy and Communications	109,290	111,250	114,310		114,310
Registration Services Section	137,300	134,530	141,570		141,570
Director of Finance & Business Improvement	139,180	139,260	145,850		145,850
Accountancy Section	716,060	704,430	757,560	-21,720	735,840
Director of Regeneration & Place	137,630	138,240	145,910	-1,090	144,820
Procurement Section	134,310	129,810	153,980	-13,100	140,880
Property & Projects Section	400,480	399,680	426,170	-6,030	420,140
Facilities & Corporate Support Section	266,140	232,300	244,230		244,230
Improvement Section	322,470	335,180	369,980	-25,000	344,980
Executive Support Section	164,330	144,760	172,710		172,710
Head of Commissioning and Business Improvement	101,470	98,970	103,230		103,230
Customer Services Section	638,860	643,020	667,710	0	667,710
Salary Slippage	-247,100	-200,910	-261,000		-261,000
Corporate Support Services Total	3,894,000	3,930,770	4,129,350	-69,110	4,060,240
Civic Occasions	42,310	41,330	42,060		42,060
Members Allowances	379,970	379,970	389,300		389,300
Members Facilities	40,520	28,520	29,060		29,060
Democratic Representation Total	462,800	449,820	460,420	0	460,420
Emergency Centre	33,140	25,090	25,590		25,590
Emergency Planning Total	33,140	25,090	25,590	0	25,590
Housing Benefits Administration	-389,520	-357,890	14,280	-371,890	-357,610
Housing Benefit Administration Total	-389,520	-357,890	14,280	-371,890	-357,610
Upper Medway Internal Drainage Board	115,400	115,400	120,070		120,070
Levies Total	115,400	115,400	120,070	0	120,070
Town Hall	98,630	98,090	101,500	-1,500	100,000
South Maidstone Depot	140,600	164,940	152,800		152,800

SUMMARY ESTIMATE 2020/21 - BY COMMITTEE

Cost Centre/Service	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 (Expenditure) £	Estimate 2020/21 (Income) £	Estimate 2020/21 £
The Link	101,660	91,410	345,400	-243,890	101,510
Maidstone House	1,146,970	1,140,440	1,285,950	-225,440	1,060,510
Museum Buildings	298,160	267,490	274,190	-1,110	273,080
Office Accommodation Total	1,786,020	1,762,370	2,159,840	-471,940	1,687,900
Rent Allowances	-161,160	-146,790	37,400,740	-37,547,530	-146,790
Non HRA Rent Rebates	-6,710	-8,490	840,370	-848,860	-8,490
Discretionary Housing Payments	1,680	1,450	300,700	-299,250	1,450
Rent Rebates Total	-166,190	-153,830	38,541,810	-38,695,640	-153,830
Mid Kent Improvement Partnership	750	80	0	0	0
Revenues Section	475,240	471,940	833,940	-331,820	502,120
Benefits Section	448,340	457,340	761,930	-278,980	482,950
Fraud Section	42,330	45,790	239,170	-209,240	29,930
Mid Kent Audit Partnership	211,440	211,710	723,440	-510,750	212,690
Legal Services Section	511,140	503,140	571,250	-69,000	502,250
Mid Kent ICT Services	535,890	535,790	1,580,240	-964,520	615,720
GIS Section	108,890	109,150	192,610	-77,080	115,530
Director of Mid Kent Services	42,770	42,770	139,210	-92,800	46,410
Mid Kent HR Services Section	386,970	380,410	664,530	-263,640	400,890
MBC HR Services Section	178,080	94,010	182,180	-2,060	180,120
Head of Revenues & Benefits	65,070	67,600	111,780	-39,280	72,500
Revenues & Benefits Business Support	153,920	109,060	357,560	-246,740	110,820
Dartford HR Services Section	-17,600	-19,130	51,970	-71,700	-19,730
IT Support for Revenues and Benefits	0	31,030	65,720	-26,610	39,110
I.T. Operational Services	326,900	531,920	532,560		532,560
Central Telephones	14,620	14,620	14,910		14,910
Mid Kent ICT Software	197,860	0	0	0	0
Shared Services Total	3,682,610	3,587,230	7,023,000	-3,184,220	3,838,780
Apprentices Programme	48,460	48,500	49,910	0	49,910
Internal Printing	-32,820	-6,070	51,680	-56,920	-5,240
Debt Recovery Service	-10,170	-13,090	1,112,310	-1,147,960	-35,650
Debt Recovery MBC Profit Share	-127,100	-143,280		-144,100	-144,100
Trading Accounts Total	-121,630	-113,940	1,213,900	-1,348,980	-135,080
Policy & Resources	**6,399,330**	**6,983,680**	**59,396,730**	**-53,052,430**	**6,344,300**

POLICY & RESOURCES COMMITTEE

Subjective Analysis	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 £
Agency & Contractor	1,028,180	1,152,170	1,057,870
Allowances	369,920	369,920	379,050
Benefits	44,030,190	38,541,810	38,541,810
Employee Direct	8,991,410	9,158,730	9,476,000
Employee Other	1,948,390	2,259,100	1,517,600
Equipment & Furniture	1,156,300	891,640	897,700
Fees & Charges	-1,049,300	-1,167,810	-1,209,370
General Insurances	15,820	17,810	18,020
Grants & Contributions Paid	425,210	424,400	2,178,100
Grants & Contributions Received	-52,198,610	-46,923,500	-47,047,500
Income Other	-1,182,970	-1,146,580	-1,142,160
Information & Communications	4,310	4,310	4,390
Leasing & Capital Charges	978,880	1,275,060	1,030,360
Premises Other	1,499,940	1,595,650	1,627,760
Printing & Stationery	149,210	153,430	137,920
Professional Services	381,680	504,850	416,420
Rent	-2,292,090	-2,170,670	-3,653,400
Repairs & Maintenance	593,630	536,150	534,170
Security & Protection	38,590	39,630	39,350
Subsistence & Training	172,930	120,450	175,370
Supplies & Services Other	690,350	745,010	754,010
Utilities	467,850	436,130	447,210
Vehicle & Transport	179,510	165,990	163,620
Policy & Resources	**6,399,330**	**6,983,680**	**6,344,300**

SUMMARY ESTIMATE 2020/21 - BY COMMITTEE

Cost Centre/Service	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 (Expenditure) £	Estimate 2020/21 (Income) £	Estimate 2020/21 £
Strategic Planning & Infrastructure					
Building Regulations Chargeable	-324,890	-324,890	7,100	-391,850	-384,750
Building Control	-1,030	-1,030	2,090	-3,080	-990
Street Naming & Numbering	-69,000	-69,000		-81,500	-81,500
Building Control Total	-394,920	-394,920	9,190	-476,430	-467,240
Land Charges	-297,460	-297,010	39,160	-335,550	-296,390
Central Services to the Public Total	-297,460	-297,010	39,160	-335,550	-296,390
Development Management Section	912,110	1,045,370	937,330		937,330
Spatial Policy Planning Section	499,020	550,690	557,970	-20,000	537,970
Head of Planning and Development	106,420	106,360	111,380		111,380
Development Management Enforcement Sec	174,220	201,360	185,030		185,030
Building Surveying Section	374,880	375,590	443,720		443,720
Heritage Landscape and Design Section	184,000	212,130	207,560		207,560
Parking Services Section	333,970	326,720	470,670	-127,220	343,450
Salary Slippage	-81,570	-70,750	-90,200		-90,200
Corporate Support Services Total	2,503,050	2,747,470	2,823,460	-147,220	2,676,240
Development Management Advice	-67,380	-210,970	85,600	-251,160	-165,560
Development Management Appeals	124,240	124,240	86,730		86,730
Development Management Majors	-695,610	-684,620	20,940	-590,960	-570,020
Development Management - Other	-836,820	-836,820	6,210	-717,720	-711,510
Development Management Enforcement	67,130	67,130	68,470		68,470
Development Control Total	-1,408,440	-1,541,040	267,950	-1,559,840	-1,291,890
Environment Improvements	17,460	24,880	24,880	0	24,880
Name Plates & Notices	18,310	18,310	18,680		18,680
Network & Traffic Management Total	35,770	43,190	43,560	0	43,560
On Street Parking	-350,820	-361,020	410,600	-813,540	-402,940
Residents Parking	-259,240	-253,190	96,460	-347,750	-251,290
Pay & Display Car Parks	-1,913,310	-1,895,960	555,880	-2,418,380	-1,862,500
Non Paying Car Parks	10,910	11,210	11,450	-10	11,440
Off Street Parking - Enforcement	-69,600	-82,610	109,750	-190,220	-80,470
Mote Park Pay & Display	-174,270	-189,260	32,770	-221,380	-188,610
Sandling Road Car Park	2,870	3,140	156,090	-152,530	3,560
Parking Services Total	-2,753,460	-2,767,690	1,373,000	-4,143,810	-2,770,810
Planning Policy	196,320	305,810	200,250	0	200,250
Neighbourhood Planning	0	25,000	0		0
Conservation	-11,470	-11,470	4,210	-15,600	-11,390
Planning Policy Total	184,850	319,340	204,460	-15,600	188,860
Park & Ride	179,980	189,600	165,920	0	165,920
Socially Desirable Buses	32,590	32,590			0
Other Transport Services	-10,260	-10,260	26,370	-36,110	-9,740
Public Transport Total	202,310	211,930	192,290	-36,110	156,180
Mid Kent Planning Support Service	397,320	397,690	618,470	-223,900	394,570
Mid Kent Local Land Charges Section	31,740	45,270	145,970	-104,780	41,190
Shared Services Total	429,060	442,960	764,440	-328,680	435,760
Strategic Planning & Infrastructure	**-1,499,240**	**-1,235,770**	**5,717,510**	**-7,043,240**	**-1,325,730**

STRATEGIC PLANNING & INFRASTRUCTURE COMMITTEE

Subjective Analysis	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 £
Agency & Contractor	602,330	579,330	587,980
Employee Direct	3,094,820	3,223,670	3,285,220
Employee Other	121,280	204,000	97,100
Equipment & Furniture	78,160	88,290	90,070
Fees & Charges	-6,464,740	-6,639,240	-6,427,580
General Insurances	11,470	12,190	12,210
Grants & Contributions Paid	50,030	64,870	40,270
Grants & Contributions Received	-455,420	-491,200	-465,690
Income Other	-83,880	-142,390	-142,800
Information & Communications	190	190	190
Premises Other	293,170	314,510	320,810
Printing & Stationery	29,930	29,930	30,510
Professional Services	547,540	716,750	566,350
Rent	-7,170	-7,170	-7,170
Repairs & Maintenance	201,780	227,960	218,860
Security & Protection	73,870	54,140	35,350
Subsistence & Training	2,630	13,000	2,670
Supplies & Services Other	301,940	297,390	325,250
Utilities	15,790	15,790	16,120
Vehicle & Transport	87,040	202,220	88,550
Strategic Planning & Infrastructure	**-1,499,240**	**-1,235,770**	**-1,325,730**

SUMMARY ESTIMATE 2020/21 - BY COMMITTEE

Cost Centre/Service	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 (Expenditure) £	Estimate 2020/21 (Income) £	Estimate 2020/21 £
Communities, Housing & Environment					
Cemetery	43,430	49,540	193,750	-139,380	54,370
National Assistance Act	-480	-480	2,120	-2,560	-440
Crematorium	-786,430	-810,400	498,120	-1,317,780	-819,660
Bereavement Services Total	-743,480	-761,340	693,990	-1,459,720	-765,730
Grants	184,270	184,270	176,950		176,950
Delegated Grants	2,100	2,100	2,140		2,140
Parish Services	127,320	127,320	129,880		129,880
Member's Community Grant	60,000	60,000	0		0
Central Services to the Public Total	373,690	373,690	308,970	0	308,970
Community Environmental Engagement	0	420	440		440
Social Inclusion	0	3,570	0		0
Community Development Total	0	3,990	440	0	440
Community Safety	44,150	45,190	46,140	0	46,140
PCC Grant - Building Safer Communities	0	0	31,250	-31,250	0
C C T V	208,130	207,300	57,020	0	57,020
Community Safety Total	252,280	252,490	134,410	-31,250	103,160
Head of Environment and Public Realm	97,660	97,770	106,950		106,950
Bereavement Services Section	180,630	205,520	217,070	0	217,070
Community Partnerships & Resilience Section	502,430	478,930	450,120		450,120
Licensing Section	108,490	110,080	113,430		113,430
Environmental Protection Section	246,420	260,640	267,160		267,160
Food and Safety Section	255,370	255,370	261,750		261,750
Depot Services Section	691,140	750,050	833,620	-42,040	791,580
Head of Housing & Community Services	106,750	107,290	111,720		111,720
Homechoice Section	206,140	204,190	263,560	-49,740	213,820
Housing & Inclusion Section	517,530	515,590	757,280	-206,330	550,950
Housing & Health Section	252,770	254,760	492,050	-225,890	266,160
Housing Management	246,800	252,950	298,950	0	298,950
Homelessness Outreach	0	6,370	4,020	0	4,020
Salary Slippage	-98,820	-121,350	-150,200		-150,200
Corporate Support Services Total	3,313,310	3,378,160	4,027,480	-524,000	3,503,480
Drainage	31,740	31,740	32,380		32,380
Flood Defences & Land Drainage Total	31,740	31,740	32,380	0	32,380
Homeless Temporary Accommodation	576,830	532,130	869,500	-320,470	549,030
Predictive Analysis & Preventing Homelessness			510		510
Homelessness Prevention	261,760	261,760	267,000	0	267,000
Aylesbury House	2,540	7,830	53,150	-69,140	-15,990
Magnolia House	-18,280	-26,700	23,520	-49,760	-26,240
St Martins House	0	0	17,280	-17,280	0
Marsham Street	34,950	32,640	138,830	-104,220	34,610
Sundry Temporary Accomm (TA) Properties	-34,370	-37,830	13,510	-50,930	-37,420
Pelican Court (Leased TA Property)	0	0	0	0	0
2 Bed Property - Temporary Accommodation	-66,160	-52,870	48,930	-104,960	-56,030
3 Bed Property - Temporary Accommodation	-65,590	-52,780	53,440	-100,100	-46,660
4 bed Property - Temporary Accommodation	-17,640	-5,010	13,130	-19,400	-6,270
1 Bed Property- Temporary Accommodation	140	-2,250	3,750	-5,920	-2,170
Melville Road Supported Accommodation	0	-8,500	53,810	-61,250	-7,440
Homelessness Total	674,180	648,420	1,556,360	-903,430	652,930
Housing Register & Allocations	10,400	10,400	10,610		10,610
Housing Advice Total	10,400	10,400	10,610	0	10,610
General Fund Residential Properties	0	-102,760	19,340	-121,460	-102,120
Strategic Housing Role	14,040	14,040	14,320	0	14,320
Housing Strategy Total	14,040	-88,720	33,660	-121,460	-87,800
Parks & Open Spaces	889,480	958,530	1,040,370	-48,600	991,770
Playground Maintenance & Improvements	144,080	144,160	148,870		148,870
Parks Pavilions	25,000	39,490	39,730	-10	39,720
Mote Park	208,440	259,920	286,450	-15,970	270,480
Parks & Open Spaces Leisure Activities	0	-5,830		-5,830	-5,830
Mote Park Leisure Activities	0	-38,310		-38,310	-38,310
Allotments	11,990	12,090	12,900		12,900
Leisure Services Other Activities	5,420	10,420	0		0
Open Spaces Total	1,284,410	1,380,470	1,528,320	-108,720	1,419,600
Marden Caravan Site (Stilebridge Lane)	19,100	19,070	49,570	-30,340	19,230
Ulcombe Caravan Site (Water Lane)	6,980	6,940	46,560	-40,000	6,560
Other Council Properties Total	26,080	26,010	96,130	-70,340	25,790
Private Sector Renewal	-47,270	-47,270	2,780	-50,000	-47,220
HMO Licensing	-20,380	-20,380		-20,380	-20,380
Private Sector Housing Renewal Total	-67,650	-67,650	2,780	-70,380	-67,600
Public Health - Misc Services	0	2,380	0	0	0
Public Health Total	0	2,380	0	0	0
Recycling Collection	712,570	712,570	2,125,630	-1,315,680	809,950
Recycling Total	712,570	712,570	2,125,630	-1,315,680	809,950
Licences	-5,260	-6,300	23,150	-28,890	-5,740
Licensing Statutory	-66,000	-66,000	77,200	-141,320	-64,120
Licensing Non Chargeable	7,530	7,530	7,720		7,720
Dog Control	28,565	28,600	32,970	-3,900	29,070
Health Improvement Programme	9,160	9,160	9,340		9,340
Pollution Control - General	26,160	45,060	21,390	-9,360	12,030

SUMMARY ESTIMATE 2020/21 - BY COMMITTEE

Cost Centre/Service	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 (Expenditure) £	Estimate 2020/21 (Income) £	Estimate 2020/21 £
Contaminated Land	40	40	1,060	-1,000	60
Waste Crime	8,900	280	104,350	-98,080	6,270
Food Hygiene	9,280	2,280	12,140	-3,350	8,790
Sampling	3,440	3,440	3,510		3,510
Occupational Health & Safety	24,760	24,760	16,750	-6,370	10,380
Infectious Disease Control	1,030	1,070	1,070		1,070
Noise Control	1,200	1,200	1,210		1,210
Pest Control	-12,200	-11,840	160	-12,000	-11,840
Public Conveniences	160,470	203,280	199,710		199,710
Licensing - Hackney & Private Hire	-64,380	-64,380	76,360	-139,020	-62,660
Regulatory Services Total	132,695	178,180	588,090	-443,290	144,800
Street Cleansing	1,186,410	1,130,670	1,185,680	-20,390	1,165,290
Street Cleansing Total	1,186,410	1,130,670	1,185,680	-20,390	1,165,290
Commercial Waste Services	-64,230	-64,040	167,030	-228,170	-61,140
Trade Waste Total	-64,230	-64,040	167,030	-228,170	-61,140
Fleet Workshop & Management	274,955	257,900	259,670		259,670
MBS Support Crew	-61,200	-65,220	112,280	-175,250	-62,970
Grounds Maintenance - Commercial	-21,790	-86,200	155,940	-290,970	-135,030
Trading Accounts Total	191,965	106,480	527,890	-466,220	61,670
Household Waste Collection	1,183,080	1,183,080	1,403,260	-154,680	1,248,580
Waste Collection Total	1,183,080	1,183,080	1,403,260	-154,680	1,248,580
Communities, Housing & Environment	**8,511,490**	**8,436,980**	**14,423,110**	**-5,917,730**	**8,505,380**

COMMUNITIES, HOUSING & ENVIRONMENT COMMITTEE

Subjective Analysis	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 £
Agency & Contractor	4,244,030	4,392,740	4,358,510
Employee Direct	5,142,720	5,614,580	5,531,150
Employee Other	60,300	243,610	145,590
Equipment & Furniture	391,960	426,020	382,190
Fees & Charges	-2,839,190	-2,909,400	-2,913,810
General Insurances	13,670	12,500	11,640
Grants & Contributions Paid	349,480	401,900	345,100
Grants & Contributions Received	-304,990	-1,627,710	-563,210
Income Other	-1,292,570	-1,431,460	-1,396,540
Information & Communications	46,020	47,560	48,510
Premises Other	387,800	475,020	409,360
Printing & Stationery	13,050	15,560	15,850
Professional Services	1,161,980	1,235,700	1,127,410
Rent	-796,260	-1,103,070	-1,044,170
Repairs & Maintenance	430,400	660,270	673,820
Security & Protection	46,680	90,920	87,790
Subsistence & Training	200	43,170	200
Supplies & Services Other	794,050	1,199,850	667,980
Utilities	162,180	176,370	156,280
Vehicle & Transport	499,980	472,850	461,730
Communities, Housing & Environment	**8,511,490**	**8,436,980**	**8,505,380**

SUMMARY ESTIMATE 2020/21 - BY COMMITTEE

Cost Centre/Service	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 (Expenditure) £	Estimate 2020/21 (Income) £	Estimate 2020/21 £
Economic Regeneration & Leisure					
Sandling Road Site	17,220	22,920	23,810		23,810
Business Support & Enterprise	0	3,970	0		0
Town Centre Management Sponsorship	0	6,750	0		0
Business Terrace	76,730	73,790	172,370	-95,010	77,360
Business Terrace Expansion (Phase 3)	900	28,500	203,370	-216,830	-13,460
Business Support Total	94,850	135,930	399,550	-311,840	87,710
Leisure Services Section	30,800	63,550	96,260	-44,520	51,740
Cultural Services Section	522,170	506,610	501,040		501,040
Visitor Economy Section	111,240	113,080	116,710		116,710
Economic Development Section	279,170	271,350	293,420	-13,630	279,790
Market Section	79,290	77,210	81,570		81,570
Head of Regeneration & Economic Development	80,220	86,110	95,260	-1,310	93,950
Salary Slippage	-54,010	-26,050	-31,510		-31,510
Corporate Support Services Total	1,048,880	1,091,860	1,152,750	-59,460	1,093,290
Cultural Development Arts	13,720	15,250	12,020		12,020
Museum	-35,580	13,020	109,330	-97,840	11,490
Carriage Museum	3,690	3,410	5,310	-1,600	3,710
Museum-Grant Funded Activities	0	2,180	30	0	30
Museum Cafe	-2,760	-3,540	0	0	0
Hazlitt Arts Centre	279,460	277,400	283,860		283,860
Festivals and Events	-20,980	-25,980	19,430	-50,030	-30,600
Culture & Heritage Total	237,550	281,740	429,980	-149,470	280,510
Market	-68,060	-56,440	109,640	-168,090	-58,450
Economic Dev - Promotion & Marketing	1,510	25,070	4,600	-177,500	-172,900
Economic Development Total	-66,550	-31,370	114,240	-345,590	-231,350
Mote Park Adventure Zone	-112,550	-106,660	7,340	-114,000	-106,660
Mote Park Cafe	-49,570	-52,260	8,310	-60,490	-52,180
Maintenance of Closed Churchyards	5,700	2,700	2,700		2,700
Open Spaces Total	-156,420	-156,220	18,350	-174,490	-156,140
Lettable Halls	-3,070	-3,700	7,350	-10,900	-3,550
Community Halls	76,030	72,620	91,950	-16,710	75,240
Leisure Centre	-180,050	-148,050	19,480	-200,000	-180,520
Cobtree Golf Course	-35,000	-35,000		-35,000	-35,000
Recreation & Sport Total	-142,090	-114,130	118,780	-262,610	-143,830
Tourism	26,270	31,070	42,540	-15,450	27,090
Museum Shop	-19,110	-19,110	26,940	-45,530	-18,590
Tourism Total	7,160	11,960	69,480	-60,980	8,500
Economic Regeneration & Leisure	**1,023,380**	**1,219,770**	**2,303,130**	**-1,364,440**	**938,690**

ECONOMIC REGENERATION & LESIURE COMMITTEE

Subjective Analysis	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 £
Agency & Contractor	261,970	264,360	270,620
Employee Direct	1,112,080	1,176,160	1,134,160
Employee Other	20,460	20,610	20,540
Equipment & Furniture	36,370	27,250	29,810
Fees & Charges	-357,600	-477,140	-502,250
General Insurances	31,710	37,390	37,680
Grants & Contributions Paid	15,910	21,100	17,490
Grants & Contributions Received	0	-111,220	0
Income Other	-705,330	-640,380	-797,280
Information & Communications	38,510	52,530	39,270
Premises Other	254,830	321,810	329,580
Printing & Stationery	6,090	6,690	6,610
Professional Services	62,830	64,680	25,290
Rent	-64,910	-64,910	-64,910
Repairs & Maintenance	112,770	134,430	131,050
Subsistence & Training	800	12,650	810
Supplies & Services Other	116,580	292,860	180,100
Utilities	61,420	59,180	60,400
Vehicle & Transport	18,890	21,720	19,720
Economic Regeneration & Leisure	**1,023,380**	**1,219,770**	**938,690**

MAIDSTONE BOROUGH COUNCIL REVENUE ESTIMATES

REVISED ESTIMATE 2019/20 AND ESTIMATE 2020/21

PRIORITY SUMMARY

Cost Centre/Service	Original Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 £
Safe, Clean and Green	6,203,140	6,257,420	6,330,550
Homes and Communities	1,997,660	2,002,460	1,918,940
Thriving Place	1,239,230	1,412,460	1,126,340
Embracing Growth and Enabling Infrastructure	-1,417,670	-1,164,600	-1,235,090
Central and Democratic	6,412,600	6,896,920	6,321,900
	14,434,960	**15,404,660**	**14,462,640**
Invest to Save Contributions	10,000	10,000	10,000
Transfers to Reserves	6,030,180	5,146,980	6,814,090
Net Revenue Expenditure	**20,475,140**	**20,561,640**	**21,286,730**

SUMMARY ESTIMATE 2020/21 - BY PRIORITY

Cost Centre/Service	Original Approved Estimate 2019/20	Revised Estimate 2019/20	Estimate 2020/21 (Expenditure)	Estimate 2020/21 (Income)	Estimate 2020/21
Safe, Clean and Green	**£**	**£**	**£**	**£**	**£**
Mote Park Adventure Zone	-112,550	-106,660	7,340	-114,000	-106,660
Parks & Open Spaces	889,480	958,530	1,040,370	-48,600	991,770
Playground Maintenance & Improvements	144,080	144,160	148,870		148,870
Parks Pavilions	25,000	39,490	39,730	-10	39,720
Mote Park	208,440	259,920	286,450	-15,970	270,480
Mote Park Cafe	-49,570	-52,260	8,310	-60,490	-52,180
Parks & Open Spaces Leisure Activities	0	-5,830		-5,830	-5,830
Mote Park Leisure Activities	0	-38,310		-38,310	-38,310
Allotments	11,990	12,090	12,900	0	12,900
Cemetery	43,430	49,540	193,750	-139,380	54,370
National Assistance Act	-480	-480	2,120	-2,560	-440
Crematorium	-786,430	-810,400	498,120	-1,317,780	-819,660
Maintenance of Closed Churchyards	5,700	2,700	2,700		2,700
Community Safety	44,150	45,190	46,140	0	46,140
PCC Grant - Building Safer Communities	0	0	31,250	-31,250	0
C C T V	208,130	207,300	57,020	0	57,020
Drainage	31,740	31,740	32,380		32,380
Licences	-5,260	-6,300	23,150	-28,890	-5,740
Licensing Statutory	-66,000	-66,000	77,200	-141,320	-64,120
Licensing Non Chargeable	7,530	7,530	7,720		7,720
Dog Control	28,565	28,600	32,970	-3,900	29,070
Health Improvement Programme	9,160	9,160	9,340		9,340
Pollution Control - General	26,160	45,060	21,390	-9,360	12,030
Contaminated Land	40	40	1,060	-1,000	60
Waste Crime	8,900	280	104,350	-98,080	6,270
Food Hygiene	9,280	2,280	12,140	-3,350	8,790
Sampling	3,440	3,440	3,510		3,510
Occupational Health & Safety	24,760	24,760	16,750	-6,370	10,380
Infectious Disease Control	1,030	1,070	1,070		1,070
Noise Control	1,200	1,200	1,210		1,210
Pest Control	-12,200	-11,840	160	-12,000	-11,840
Public Conveniences	160,470	203,280	199,710		199,710
Licensing - Hackney & Private Hire	-64,380	-64,380	76,360	-139,020	-62,660
Street Cleansing	1,186,410	1,130,670	1,185,680	-20,390	1,165,290
Household Waste Collection	1,183,080	1,183,080	1,403,260	-154,680	1,248,580
Commercial Waste Services	-64,230	-64,040	167,030	-228,170	-61,140
Recycling Collection	712,570	712,570	2,125,630	-1,315,680	809,950
Medway Conservancy	115,400	115,400	120,070		120,070
Head of Environment and Public Realm	97,660	97,770	106,950		106,950
Bereavement Services Section	180,630	205,520	217,070		217,070
Community Partnerships & Resilience Section	502,430	478,930	450,120		450,120
Licensing Section	108,490	110,080	113,430		113,430
Environmental Protection Section	246,420	260,640	267,160		267,160
Food and Safety Section	255,370	255,370	261,750		261,750
Depot Services Section	691,140	750,050	833,620	-42,040	791,580
Fleet Workshop & Management	274,955	257,900	259,670		259,670
MBS Support Crew	-61,200	-65,220	112,280	-175,250	-62,970
Grounds Maintenance - Commercial	-21,790	-86,200	155,940	-290,970	-135,030
Safe, Clean and Green	**6,203,140**	**6,257,420**	**10,775,200**	**-4,444,650**	**6,330,550**

SUMMARY ESTIMATE 2020/21 - BY PRIORITY

Subjective Analysis	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 £
Agency & Contractor	4,212,180	4,348,670	4,341,570
Employee Direct	3,844,790	3,688,980	3,856,050
Employee Other	34,650	171,720	110,750
Equipment & Furniture	387,110	410,130	369,210
Fees & Charges	-2,750,610	-2,820,820	-2,823,090
General Insurances	14,550	18,540	17,170
Grants & Contributions Paid	26,060	77,720	26,210
Grants & Contributions Received	-30,640	-64,260	-31,250
Income Other	-1,531,990	-1,541,840	-1,537,370
Information & Communications	29,880	31,420	32,050
Premises Other	268,090	257,110	261,030
Printing & Stationery	12,900	15,410	15,700
Professional Services	224,680	228,010	233,030
Rent	-57,660	-52,940	-52,940
Repairs & Maintenance	270,030	416,650	421,360
Security & Protection	46,680	32,150	32,790
Subsistence & Training	200	26,320	200
Supplies & Services Other	484,470	349,190	397,240
Utilities	242,730	236,820	234,110
Vehicle & Transport	475,040	428,440	426,730
Safe, Clean & Green	**6,203,140**	**6,257,420**	**6,330,550**

SUMMARY ESTIMATE 2020/21 - BY PRIORITY

Cost Centre/Service Homes & Communities	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 (Expenditure) £	Estimate 2020/21 (Income) £	Estimate 2020/21 £
Social Inclusion	0	3,570	0		0
Public Health - Misc Services	0	2,380	0	0	0
Grants	184,270	184,270	176,950		176,950
Delegated Grants	2,100	2,100	2,140		2,140
Parish Services	127,320	127,320	129,880		129,880
Member's Community Grant	60,000	60,000	0		0
Parks Dwellings	-43,420	22,090	22,230	0	22,230
Chillington House	-25,200	0	0	0	0
MPH Residential Properties	-187,700	-161,590	4,150	-284,240	-280,090
General Fund Residential Properties	0	-102,760	19,340	-121,460	-102,120
Strategic Housing Role	14,040	14,040	14,320	0	14,320
Housing Register & Allocations	10,400	10,400	10,610		10,610
Private Sector Renewal	-47,270	-47,270	2,780	-50,000	-47,220
HMO Licensing	-20,380	-20,380		-20,380	-20,380
Homeless Temporary Accommodation	576,830	532,130	869,500	-320,470	549,030
Homelessness Prevention	261,760	261,760	267,000	0	267,000
Predictive Analysis & Preventing Homelessness			510		510
Aylesbury House	2,540	7,830	53,150	-69,140	-15,990
Magnolia House	-18,280	-26,700	23,520	-49,760	-26,240
St Martins House	0	0	17,280	-17,280	0
Marsham Street	34,950	32,640	138,830	-104,220	34,610
Sundry Temporary Accomm (TA) Properties	-34,370	-37,830	13,510	-50,930	-37,420
2 Bed Property - Temporary Accommodation	-66,160	-52,870	48,930	-104,960	-56,030
3 Bed Property - Temporary Accommodation	-65,590	-52,780	53,440	-100,100	-46,660
4 bed Property - Temporary Accommodation	-17,640	-5,010	13,130	-19,400	-6,270
1 Bed Property- Temporary Accommodation	140	-2,250	3,750	-5,920	-2,170
Melville Road Supported Accommodation	0	-8,500	53,810	-61,250	-7,440
Marden Caravan Site (Stilebridge Lane)	19,100	19,070	49,570	-30,340	19,230
Ulcombe Caravan Site (Water Lane)	6,980	6,940	46,560	-40,000	6,560
Homechoice Section	206,140	204,190	263,560	-49,740	213,820
Housing & Inclusion Section	517,530	515,590	757,280	-206,330	550,950
Housing & Health Section	252,770	254,760	492,050	-225,890	266,160
Housing Management	246,800	252,950	298,950	0	298,950
Homelessness Outreach	0	6,370	4,020	0	4,020
Homes & Communities	**1,997,660**	**2,002,460**	**3,850,750**	**-1,931,810**	**1,918,940**

SUMMARY ESTIMATE 2020/21 - BY PRIORITY

Subjective Analysis	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 £
Agency & Contractor	31,850	44,070	16,940
Employee Direct	1,370,020	1,945,840	1,719,310
Employee Other	24,880	70,220	33,080
Equipment & Furniture	8,440	15,790	12,880
Fees & Charges	-88,580	-88,580	-90,720
General Insurances	120	150	660
Grants & Contributions Paid	323,000	323,760	318,460
Grants & Contributions Received	-274,350	-1,563,450	-531,960
Income Other	-26,700	-33,510	-3,060
Information & Communications	16,140	16,140	16,460
Premises Other	129,010	224,690	155,420
Printing & Stationery	150	150	150
Professional Services	937,300	1,007,690	894,380
Rent	-1,046,410	-1,246,240	-1,306,070
Repairs & Maintenance	211,880	273,770	282,730
Security & Protection	0	58,770	55,000
Subsistence & Training	0	16,250	0
Supplies & Services Other	318,770	840,710	270,210
Utilities	40,430	55,060	43,360
Vehicle & Transport	21,710	41,180	31,710
Homes & Communities	**1,997,660**	**2,002,460**	**1,918,940**

SUMMARY ESTIMATE 2020/21 - BY PRIORITY

Cost Centre/Service Thriving Place	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 (Expenditure) £	Estimate 2020/21 (Income) £	Estimate 2020/21 £
Cultural Development Arts	13,720	15,250	12,020		12,020
Museum	-35,580	13,020	109,330	-97,840	11,490
Carriage Museum	3,690	3,410	5,310	-1,600	3,710
Museum-Grant Funded Activities	0	2,180	30	0	30
Museum Cafe	-2,760	-3,540	0	0	0
Hazlitt Arts Centre	279,460	277,400	283,860		283,860
Festivals and Events	-20,980	-25,980	19,430	-50,030	-30,600
Lettable Halls	-3,070	-3,700	7,350	-10,900	-3,550
Community Halls	76,030	72,620	91,950	-16,710	75,240
Leisure Centre	-180,050	-148,050	19,480	-200,000	-180,520
Cobtree Golf Course	-35,000	-35,000		-35,000	-35,000
Tourism	26,270	31,070	42,540	-15,450	27,090
Museum Shop	-19,110	-19,110	26,940	-45,530	-18,590
Leisure Services Other Activities	5,420	10,420	0		0
Sandling Road Site	17,220	22,920	23,810		23,810
Business Support & Enterprise	0	3,970	0		0
Town Centre Management Sponsorship	0	6,750	0		0
Business Terrace	76,730	73,790	172,370	-95,010	77,360
Business Terrace Expansion (Phase 3)	900	28,500	203,370	-216,830	-13,460
Market	-68,060	-56,440	109,640	-168,090	-58,450
Economic Dev - Promotion & Marketing	1,510	25,070	4,600	-177,500	-172,900
Leisure Services Section	30,800	63,550	96,260	-44,520	51,740
Cultural Services Section	522,170	506,610	501,040		501,040
Visitor Economy Section	111,240	113,080	116,710		116,710
Economic Development Section	279,170	271,350	293,420	-13,630	279,790
Market Section	79,290	77,210	81,570		81,570
Head of Regeneration and Economic Development	80,220	86,110	95,260	-1,310	93,950
Thriving Places	**1,239,230**	**1,412,460**	**2,316,290**	**-1,189,950**	**1,126,340**

SUMMARY ESTIMATE 2020/21 - BY PRIORITY

Subjective Analysis	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 £
Agency & Contractor	261,970	264,360	270,620
Employee Direct	1,091,700	1,202,210	1,165,670
Employee Other	19,900	20,610	20,540
Equipment & Furniture	32,680	27,250	29,810
Fees & Charges	-357,600	-477,140	-502,250
General Insurances	30,680	31,140	31,430
Grants & Contributions Paid	15,910	21,100	17,490
Grants & Contributions Received	0	-111,220	0
Income Other	-462,850	-496,490	-653,390
Information & Communications	38,510	52,530	39,270
Premises Other	249,670	318,610	326,300
Printing & Stationery	6,090	6,690	6,610
Professional Services	62,830	64,680	25,290
Rent	-34,310	-34,310	-34,310
Repairs & Maintenance	98,550	125,610	122,230
Subsistence & Training	800	12,650	810
Supplies & Services Other	106,870	302,290	180,100
Utilities	58,940	60,170	60,400
Vehicle & Transport	18,890	21,720	19,720
Thriving Place	**1,239,230**	**1,412,460**	**1,126,340**

SUMMARY ESTIMATE 2020/21 - BY PRIORITY

Cost Centre/Service	Original Approved Estimate 2019/20	Revised Estimate 2019/20	Estimate 2020/21 (Expenditure)	Estimate 2020/21 (Income)	Estimate 2020/21
Embracing Growth & Enabling Infrastructure	**£**	**£**	**£**	**£**	**£**
Building Regulations Chargeable	-324,890	-324,890	7,100	-391,850	-384,750
Building Control	-1,030	-1,030	2,090	-3,080	-990
Street Naming & Numbering	-69,000	-69,000		-81,500	-81,500
Development Management Advice	-67,380	-210,970	85,600	-251,160	-165,560
Development Management Appeals	124,240	124,240	86,730		86,730
Development Management Majors	-695,610	-684,620	20,940	-590,960	-570,020
Development Management - Other	-836,820	-836,820	6,210	-717,720	-711,510
Development Management Enforcement	67,130	67,130	68,470		68,470
Planning Policy	196,320	305,810	200,250	0	200,250
Neighbourhood Planning	0	25,000	0		0
Conservation	-11,470	-11,470	4,210	-15,600	-11,390
Town Centre Opportunity Area Project	0	0	0		0
Community Environmental Engagement	0	420	440		440
Land Charges	-297,460	-297,010	39,160	-335,550	-296,390
Environment Improvements	17,460	24,880	24,880	0	24,880
Name Plates & Notices	18,310	18,310	18,680		18,680
Arterial Route Improvements	0	0	0		0
On Street Parking	-350,820	-361,020	410,600	-813,540	-402,940
Residents Parking	-259,240	-253,190	96,460	-347,750	-251,290
Pay & Display Car Parks	-1,913,310	-1,895,960	555,880	-2,418,380	-1,862,500
Non Paying Car Parks	10,910	11,210	11,450	-10	11,440
Off Street Parking - Enforcement	-69,600	-82,610	109,750	-190,220	-80,470
Mote Park Pay & Display	-174,270	-189,260	32,770	-221,380	-188,610
Sandling Road Car Park	2,870	3,140	156,090	-152,530	3,560
Park & Ride	179,980	189,600	165,920	0	165,920
Socially Desirable Buses	32,590	32,590	0		0
Other Transport Services	-10,260	-10,260	26,370	-36,110	-9,740
Development Management Section	912,110	1,045,370	937,330		937,330
Spatial Policy Planning Section	499,020	550,690	557,970	-20,000	537,970
Head of Planning and Development	106,420	106,360	111,380		111,380
Development Management Enforcement Section	174,220	201,360	185,030		185,030
Building Surveying Section	374,880	375,590	443,720		443,720
Mid Kent Planning Support Service	397,320	397,690	618,470	-223,900	394,570
Heritage Landscape and Design Section	184,000	212,130	207,560		207,560
Mid Kent Local Land Charges Section	31,740	45,270	145,970	-104,780	41,190
Parking Services Section	333,970	326,720	470,670	-127,220	343,450
Embracing Growth & Enabling Infrastructure	**-1,417,670**	**-1,164,600**	**5,808,150**	**-7,043,240**	**-1,235,090**

SUMMARY ESTIMATE 2020/21 - BY PRIORITY

Subjective Analysis	**Original Approved Estimate 2019/20 £**	**Revised Estimate 2019/20 £**	**Estimate 2020/21 £**
Agency & Contractor	602,330	579,330	587,980
Employee Direct	3,176,390	3,294,420	3,375,420
Employee Other	121,280	204,390	97,510
Equipment & Furniture	78,160	88,290	90,070
Fees & Charges	-6,464,740	-6,639,240	-6,427,580
General Insurances	11,470	12,220	12,240
Grants & Contributions Paid	50,030	64,870	40,270
Grants & Contributions Receive	-455,420	-491,200	-465,690
Income Other	-83,880	-142,390	-142,800
Information & Communications	190	190	190
Premises Other	293,170	314,510	320,810
Printing & Stationery	29,930	29,930	30,510
Professional Services	547,540	716,750	566,350
Rent	-7,170	-7,170	-7,170
Repairs & Maintenance	201,780	227,960	218,860
Security & Protection	73,870	54,140	35,350
Subsistence & Training	2,630	13,000	2,670
Supplies & Services Other	301,940	297,390	325,250
Utilities	15,790	15,790	16,120
Vehicle & Transport	87,040	202,220	88,550
Embracing Growth	**-1,417,670**	**-1,164,600**	**-1,235,090**

SUMMARY ESTIMATE 2020/21 - BY PRIORITY

Cost Centre/Service Central & Democratic	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 (Expenditure) £	Estimate 2020/21 (Income) £	Estimate 2020/21 £
Civic Occasions	42,310	41,330	42,060		42,060
Members Allowances	379,970	379,970	389,300		389,300
Members Facilities	40,520	28,520	29,060		29,060
Contingency	183,420	63,970	250,000		250,000
Performance & Development	7,480	7,480	7,630		7,630
Corporate Projects	40,450	89,450	6,820		6,820
Press & Public Relations	35,450	30,530	31,130	0	31,130
Corporate Management	92,380	92,380	94,230		94,230
Mid Kent Improvement Partnership	750	80	0	0	0
Unapportionable Central Overheads	1,783,370	1,783,370	1,419,050		1,419,050
Council Tax Collection	-370,600	52,740	91,020	-37,170	53,850
Council Tax Collection - Non Pooled	57,780	-365,560	58,940	-423,340	-364,400
Council Tax Benefits Administration	-152,120	-152,120		-152,120	-152,120
NNDR Collection	-244,910	-880	2,650	-1,170	1,480
NNDR Collection - Non Pooled	-72,160	-149,200	15,020	-249,230	-234,210
MBC- BID	0	0	17,250	-16,920	330
Registration Of Electors	47,790	47,790	51,340	-2,340	49,000
Elections	163,910	162,890	168,910	-430	168,480
European Elections	0	0	0	0	0
Emergency Centre	33,140	25,090	25,590		25,590
External Interest Payable	310,310	310,310	2,061,790		2,061,790
Interest & Investment Income	-100,000	-100,000		-100,000	-100,000
Palace Gatehouse	-5,300	-8,300	2,000	-10,300	-8,300
Archbishops Palace	-98,390	-97,740	44,300	-141,280	-96,980
Parkwood Industrial Estate	-309,850	-311,250	11,970	-323,050	-311,080
Industrial Starter Units	-28,950	-29,540	23,570	-52,710	-29,140
Parkwood Equilibrium Units	-72,050	-76,560	43,390	-262,250	-218,860
Sundry Corporate Properties	-344,860	-362,180	36,480	-422,340	-385,860
Phoenix Park Units	-234,320	-216,560	37,590	-253,480	-215,890
Granada House - Commercial	-107,770	-109,540	11,280	-120,530	-109,250
Heronden Road Units	-153,170	-151,570	13,960	-165,120	-151,160
Boxmend Industrial Estate	-102,830	-101,100	17,410	-118,090	-100,680
Lockmeadow	-67,850	-75,950	76,570	-148,870	-72,300
NEW Lockmeadow Complex	0	0	57,430	-1,153,430	-1,096,000
Lenworth House	3,770	0	0		0
Non Service Related Government Grants	-3,880,840	-3,729,760	0	-4,472,240	-4,472,240
Rent Allowances	-161,160	-146,790	37,400,740	-37,547,530	-146,790
Non HRA Rent Rebates	-6,710	-8,490	840,370	-848,860	-8,490
Discretionary Housing Payments	1,680	1,450	300,700	-299,250	1,450
Housing Benefits Administration	-389,520	-357,890	14,280	-371,890	-357,610
Democratic Services Section	165,270	180,220	190,430	-1,800	188,630
Mayoral & Civic Services Section	109,550	109,960	114,550		114,550
Chief Executive	176,790	176,680	184,960		184,960
Communications Section	199,870	204,240	186,650	-370	186,280
Policy & Information Section	222,100	249,150	270,550	0	270,550
Head of Policy and Communications	109,290	111,250	114,310		114,310
Revenues Section	475,240	471,940	833,940	-331,820	502,120
Registration Services Section	137,300	134,530	141,570		141,570
Head of Housing & Community Services	106,750	107,290	111,720		111,720
Benefits Section	448,340	457,340	761,930	-278,980	482,950
Fraud Section	42,330	45,790	239,170	-209,240	29,930
Mid Kent Audit Partnership	211,440	211,710	723,440	-510,750	212,690
Director of Finance & Business Improvement	139,180	139,260	145,850		145,850
Accountancy Section	716,060	704,430	757,560	-21,720	735,840
Legal Services Section	511,140	503,140	571,250	-69,000	502,250
Director of Regeneration & Place	137,630	138,240	145,910	-1,090	144,820
Procurement Section	134,310	129,810	153,980	-13,100	140,880
Property & Projects Section	400,480	399,680	426,170	-6,030	420,140
Facilities & Corporate Support Section	266,140	232,300	244,230		244,230
Improvement Section	322,470	335,180	369,980	-25,000	344,980
Executive Support Section	164,330	144,760	172,710		172,710
Head of Commissioning and Business Improvement	101,470	98,970	103,230		103,230
Mid Kent ICT Services	535,890	535,790	1,580,240	-964,520	615,720
GIS Section	108,890	109,150	192,610	-77,080	115,530
Customer Services Section	638,860	643,020	667,710	0	667,710
Director of Mid Kent Services	42,770	42,770	139,210	-92,800	46,410
Mid Kent HR Services Section	386,970	380,410	664,530	-263,640	400,890
MBC HR Services Section	178,080	94,010	182,180	-2,060	180,120
Head of Revenues & Benefits	65,070	67,600	111,780	-39,280	72,500
Revenues & Benefits Business Support	153,920	109,060	357,560	-246,740	110,820
Dartford HR Services Section	-17,600	-19,130	51,970	-71,700	-19,730
IT Support for Revenues and Benefits	0	31,030	65,720	-26,610	39,110
Salary Slippage 1PR	-247,100	-200,910	-261,000		-261,000
Salary Slippage 2SPI	-81,570	-70,750	-90,200		-90,200

SUMMARY ESTIMATE 2020/21 - BY PRIORITY

Cost Centre/Service	Original Approved Estimate 2019/20	Revised Estimate 2019/20	Estimate 2020/21 (Expenditure)	Estimate 2020/21 (Income)	Estimate 2020/21
Salary Slippage 3CHE	-98,820	-121,350	-150,200		-150,200
Salary Slippage 4ERL	-54,010	-26,050	-31,510		-31,510
Town Hall	98,630	98,090	101,500	-1,500	100,000
South Maidstone Depot	140,600	164,940	152,800		152,800
The Link	101,660	91,410	345,400	-243,890	101,510
Maidstone House	1,146,970	1,140,440	1,285,950	-225,440	1,060,510
Museum Buildings	298,160	267,490	274,190	-1,110	273,080
I.T. Operational Services	326,900	531,920	532,560		532,560
Central Telephones	14,620	14,620	14,910		14,910
Mid Kent ICT Software	197,860	0	0	0	0
Apprentices Programme	48,460	48,500	49,910	0	49,910
Internal Printing	-32,820	-6,070	51,680	-56,920	-5,240
Debt Recovery Service	-10,170	-13,090	1,112,310	-1,147,960	-35,650
Debt Recovery MBC Profit Share	-127,100	-143,280		-144,100	-144,100
Appropriation Account	978,880	1,275,060	1,030,360		1,030,360
Pensions Fund Appropriation	0	0	0		0
Central & Democratic	**6,412,600**	**6,896,920**	**59,090,090**	**-52,768,190**	**6,321,900**

SUMMARY ESTIMATE 2020/21 - BY PRIORITY

Subjective Analysis	Original Approved Estimate 2019/20 £	Revised Estimate 2019/20 £	Estimate 2020/21 £
Agency & Contractor	1,028,180	1,152,170	1,057,870
Allowances	369,920	369,920	379,050
Benefits	44,030,190	38,541,810	38,541,810
Employee Direct	8,858,130	9,041,690	9,310,080
Employee Other	1,949,720	2,260,380	1,518,950
Equipment & Furniture	1,156,400	891,740	897,800
Fees & Charges	-1,049,300	-1,167,810	-1,209,370
General Insurances	15,850	17,840	18,050
Grants & Contributions Paid	425,630	424,820	2,178,530
Grants & Contributions Received	-52,198,610	-46,923,500	-47,047,500
Income Other	-1,159,330	-1,146,580	-1,142,160
Information & Communications	4,310	4,310	4,390
Leasing & Capital Charges	978,880	1,275,060	1,030,360
Premises Other	1,495,800	1,592,070	1,623,950
Printing & Stationery	149,210	153,430	137,920
Professional Services	381,680	504,850	416,420
Rent	-2,014,880	-2,005,160	-3,369,160
Repairs & Maintenance	556,340	514,820	512,720
Security & Protection	38,590	39,630	39,350
Subsistence & Training	172,930	121,050	175,370
Supplies & Services Other	690,870	745,530	754,540
Utilities	349,350	319,630	326,020
Vehicle & Transport	182,740	169,220	166,910
Central & Democratic	**6,412,600**	**6,896,920**	**6,321,900**

Maidstone Borough Council
Medium Term Financial Strategy 2020/21

Estimate of General Fund Balances to 31 March 2021

	Unallocated General Fund	Commercial Risk	Invest to Save	Contingency for Future Funding Pressures	Earmarked Reserves	Grand Total
	£,000	£,000	£,000	£,000	£,000	£,000
Balance as at 31st March 2019	6,169	500	500	1,589	5,480	14,238
2018/19 Carry Forwards Used in 2019/20	810	0	0	0	0	810
Movement in balances during 2019/20	-1,143	0	0	0	-875	-2,018
Estimated Balance as at 31 March 2020	**5,836**	**500**	**500**	**1,589**	**4,605**	**13,030**
Expected movement in balances during 2020/21	87	0	0	0	-834	-747
Estimated Balance as at 31 March 2021	**5,923**	**500**	**500**	**1,589**	**3,771**	**12,283**

Estimate of Earmarked Reserves to 31 March 2021

	31/03/2019	Movement in 2019/20	Est. Balance at 31/3/20	Est. Movement in 2020/21	Est. Balance at 31/3/21
	£,000	£,000	£,000	£,000	£,000
Capital Support	0	0	0	0	0
Local Plan Review	200	-65	145	200	345
Neighbourhood Planning	64	0	64	-24	40
Planning Appeals	300	-80	220	0	220
Civil Parking Enforcement	431	-260	171	-171	-0
Business Rates Growth	1,749	-220	1,529	-89	1,440
Financial Sustainability Fund Reserve	485	0	485	0	485
HCGF Reserve	1,090	-250	840	-750	90
Homelessness Prevention & TA Reserve	700	0	700	0	700
Trading Accounts	30	0	30	0	30
Future Capital Expenditure	430		430		430
Total	**5,480**	**-875**	**4,615**	**-834**	**3,781**

ESTIMATED CAPITAL PROGRAMME RESOURCES 2020/21 - 2024/25

Source of Funding	Estimate 20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	Total £000
New Homes Bonus	3,881	4,472	2,601	1,373	1,373	13,700
Capital Grants (Disabled Facilities)	800	800	800	800	800	4,000
External Capital Grants	0	4,840	0	0	0	4,840
S 106	57	63	480	59	69	728
Internal Borrowing	530	517	537	568	580	2,732
Prudential Borrowing	32,997	11,604	13,262	12,284	12,272	82,418
TOTAL	**38,265**	**22,296**	**17,680**	**15,084**	**15,094**	**108,418**

Proposed Capital Programme 2020/21 to 2024/25

	19/20	Five Year Plan					Total
	Projected £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	£000
Brunswick Street - Net Cost	2,514	-230	-579				-809
Union Street - Net Cost	975	-550	-2,141				-2,691
Springfield Mill	2,275	1,077	36				1,112
Granada House extension	0	1,664					1,664
Indicative Schemes	0	8,042	11,212	6,796			26,050
Sub-total Housing Development and Regeneration	*5,765*	*10,002*	*8,528*	*6,796*	*0*	*0*	*25,326*
Affordable Housing Programme	1,040	275	5,075	5,175	10,175	10,175	30,875
Acquisitions Officer	0	80	80	80	80	80	400
Disabled Facilites Grant	1,570	800	800	800	800	800	4,000
Temporary Accommodation	3,236	2,190					2,190
Flood Action Plan	100	300	300	300			900
Crematorium and Cemetery Development Plan	140	130					130
Electric Operational Vehicles		100					100
Housing IT System		50					50
Street Scene Investment	147	25					25
Installation of Public Water Fountains		15					15
Gypsy Site Improvement Works	42						0
CCTV Upgrade and Relocation	150						0
Commercial Waste	180						0
Sub-total Communities, Housing & Environment	12,371	13,967	14,783	13,151	11,055	11,055	64,011
Mote Park Visitor Centre and Estate Services Building	156	2,000	740				2,740
Mote Park Dam Works	267	1,650	100				1,750
Improvements to Play Areas	422						0
Other Parks Improvements	100						0
Museum Development Plan	11	125	225	39			389
Sub-total Economic Regeneration and Leisure	957	3,775	1,065	39	0	0	4,879
Acquisition of Commercial Assets	24,850	2,500	2,500	2,500	2,500	2,500	12,500
Kent Medical Campus - Innovation Centre	649	8,250	1,500				9,750
Lockmeadow Ongoing Investment	0	4,000	1,000				5,000
Garden Community	200	1,665	340	465	425	425	3,320
Infrastructure Delivery	1,200	600	600	600	600	600	3,000
Asset Management / Corp Property	1,017	1,430	175	175	175	175	2,130
Biodiversity and Climate Change	0	1,000					1,000
Software / PC Replacement	124	200	200	200	200	200	1,000
Feasibility Studies	113	50	50	50	50	50	250
Digital Projects	20	20	20	20	20	20	100
High Street Regeneration	547						0
Sub-total Policy & Resources	28,720	19,715	6,385	4,010	3,970	3,970	38,050
Mall Bus Station Redevelopment	250	750					750
Bridges Gyratory Scheme	121						0
Sub-total Strategic Planning & Infrastructure	371	750	0	0	0	0	750
Sub-Total	**42,419**	**38,208**	**22,233**	**17,200**	**15,025**	**15,025**	**107,690**
Section 106 Contributions	28	57	63	480	59	69	728
TOTAL	**42,447**	**38,265**	**22,296**	**17,680**	**15,084**	**15,094**	**108,418**

MAIDSTONE BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2020/21 – 2024/25

CONTENTS

1. OVERVIEW AND SUMMARY OF MEDIUM TERM FINANCIAL STRATEGY

Background

1.1 The Medium Term Financial Strategy (MTFS) sets out in financial terms how the Council will deliver its Strategic Plan over the next five years. The Council agreed a new Strategic Plan in December 2018 which describes and prioritises our corporate objectives. The MTFS sets out how these objectives will be delivered, given the resources available.

1.2 Resources depend first of all on the broad economic environment. The overall picture for the economy is one of slower growth, but it is hoped that growth will resume as the uncertainties around Brexit are resolved. The present government has responded to lower growth and the reaction against austerity by announcing significant new spending initiatives. These initiatives have been in other areas from the public sector from District Councils, so there is not expected to be a direct benefit to this Council. To the extent that the Council wishes to fund new initiatives, it is likely to have to rely on self-generated resources.

1.3 Most of the Council's income already comes from Council Tax and other local sources, including parking, planning fees and property income. This relative self-sufficiency provides a level of reassurance, but there is considerable uncertainty about the position for 2021/22 onwards. The Government offered a four year funding settlement to local authorities in 2016, covering the years 2016/17 to 2019/20, and for 2020/21 the funding arrangements have been rolled forward without significant changes, but the future position is very uncertain.

1.4 Capital investment faces a different set of constraints. As set out in section 6 below, funds have been set aside for capital investment and further funding is available, in principle, through prudential borrowing. The challenge is to ensure that capital investment is affordable and sustainable, given the return on investment and the cost of finance, and that the overall scale of the capital programme remains proportionate to the Council's overall budget.

Revenue Projections

1.5 The strategic revenue projections underlying the MTFS 2019/20 – 2023/24 suggested that there would be a budget gap of £400,000 in 2020/21, increasing to £2.2 million by the end of the five year period, as follows. The projections were based on a 'neutral' scenario.

<u>Table 1: Current MTFS Revenue Projections 2019/20 – 2023/24</u>

	19/20	20/21	21/22	22/23	23/24
	£m	£m	£m	£m	£m
Council Tax	16.2	16.8	17.5	18.2	18.9
Retained Business Rates	3.2	1.7	0.4	0.5	0.6

Business Rates Growth	1.1	0.0	0.2	0.4	0.7
Budget requirement	20.5	18.5	18.1	19.1	20.2
Fees and Charges	20.8	21.0	21.2	21.4	21.6
Total Funding Available	41.3	39.5	39.3	40.5	41.8
Predicted Expenditure	42.5	41.5	41.2	41.1	42.6
Budget Gap	1.2	2.0	1.9	0.6	0.8
Required Savings – Cumulative	1.2	3.2	5.1	5.7	6.5
Savings identified – Cumulative	1.2	2.8	3.7	4.3	4.3
Still to be identified	0.0	0.4	1.4	1.4	2.2

1.6 The MTFS 2020/21 – 2024/25 sets out an updated set of financial projections in section 7. However, it is important to note that projections like these can only represent a best estimate of what will happen. In updating the projections, various potential scenarios have been modelled – adverse, neutral and favourable.

1.7 In accordance with legislative requirements the Council must set a balanced budget. The MTFS sets out a proposed approach that seeks to address this.

2. CORPORATE OBJECTIVES AND KEY PRIORITIES

2.1 The Council has developed a new Strategic Plan which was approved by Council in December 2018. The development of a new Strategic Plan was brought forward in order to inform the refresh of the Local Plan, which sets out the framework for development in the borough and is due to be completed by April 2022. The new Strategic Plan likewise informs the whole range of other Council strategies and policies.

2.2 The new Strategic Plan went through a thorough process of discussion and refinement over the period June – October 2018 and was approved by Council on 12 December 2018. It sets out four key priorities, as follows:

- Embracing Growth and Enabling Infrastructure
- Homes and Communities
- A Thriving Place
- Safe, Clean and Green.

'Embracing growth and enabling infrastructure' recognises the Council's role in leading and shaping the borough as it grows. This means taking an active role in policy and master planning for key sites in the borough, and where appropriate, investing directly ourselves.

'Homes and communities' expresses the objective of making Maidstone a place where people love to live and can afford to live. This means providing a range of different types of housing, including affordable housing, and meeting our statutory obligations to address homelessness and rough sleeping.

'A thriving place' is a borough that is open for business, attractive for visitors and an enjoyable and prosperous place to live for our residents. We will work to regenerate the County town and rural service centres and will continue to grow our leisure and cultural offer.

A 'safe, clean and green' place is one where the environment is protected and enhanced, where parks, green spaces, streets and public areas are looked after, well-managed and respected, and where people are and feel safe.

2.3 Since the adoption of the Strategic Plan in December 2018, the priority of 'Embracing growth and enabling infrastructure' has been made more explicit through our developing plans for an Innovation Centre, for Maidstone East and a new Garden Community. Investment plans have been approved by Policy and Resources Committee which seek to promote Maidstone as a 'Thriving Place', as well as generating a positive financial return for the Council. The priority of a 'Safe, Clean and Green' place has been emphasised by Council's decision to declare its recognition of global climate and biodiversity emergencies, and to consider adopting a target date of 2030 for the whole of the Borough of Maidstone to be carbon neutral.

2.4 The purpose of the MTFS is to describe the how the outcomes associated with these objectives and priorities can be delivered, given the financial resources available to the Council, and bearing in mind the prioritisation of objectives. 'Financial resources' include both revenue resources, for day-to-day expenditure, and capital resources, for one-off investment that will deliver benefits over more than a year.

2.5 Resources are described in section 4 below. It will be seen that there are constraints on the funding available for the revenue budget, and there are in any case service pressures which must be accommodated. This implies a process of matching resources against the objectives in the Strategic Plan.

2.6 Capital investment has hitherto been funded from the New Homes Bonus, internal revenue resources and third party contributions such as Section 106 payments on new developments. From 2019/20 onwards capital investment will increasingly be funded by external borrowing. The constraints on capital expenditure are different from those facing revenue expenditure, because the current local authority funding regime does not set cash limits for borrowing. However, borrowing must be sustainable in terms of the Council's ability to fund interest payments and ultimately repayment of capital. Capital investment plans also depend on having the capacity, in terms of internal resources, to develop projects, work effectively with partners, and secure third party funding.

3. NATIONAL CONTEXT

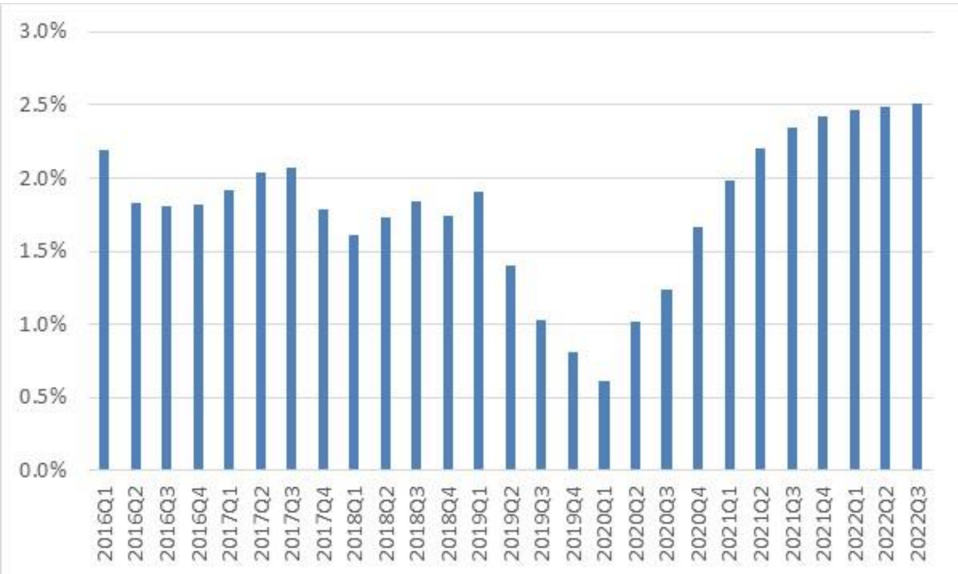
Economic Outlook 2020 – 2025

3.1 The prospects for the national economy depend both on global economic prospects and on the consequences of Brexit. Growth projections in most leading economies, as expressed in Purchasing Managers' Indices, have been falling, particularly where growth is heavily dependent on international trade. The Bank of England has pointed out that UK's composite output PMI is now at the bottom of a range of advanced economies, indicating that the prospects for the UK are further exacerbated by Brexit-related uncertainties.

3.2 So far, these uncertainties have led to volatility in economic growth, with businesses stocking up in anticipation of Brexit in March 2019, followed by a slowdown. This has not yet pushed the economy into recession, which is defined as two successive quarters of negative growth: output grew in the three months to the end of August by 0.3% after a contraction of 0.2% in the three months to the end of June.

3.3 It remains to be seen whether recession can be avoided in the short term. In the medium term, the Office of Budget Responsibility expects growth in 2019 and 2020 to be slightly below potential, as Brexit uncertainty weighs on the economy. From 2021 onwards, it assumes that Brexit uncertainty will begin to fade and potential productivity growth will pick up, which means that GDP growth would rise[1]. Bank of England projections show a similar picture – see graph below.

Figure 1: Real UK gross domestic project (GDP) growth rate assuming constant interest rates
(Source – Bank of England Quarterly Inflation Report August 2019)



3.4 The most recent Consumer Price Inflation (CPI) data shows 1.7% for the year to August 2019. The Bank of England projects inflation of 1.92% for

[1] https://obr.uk/forecasts-in-depth/the-economy-forecast/real-gdp-growth/

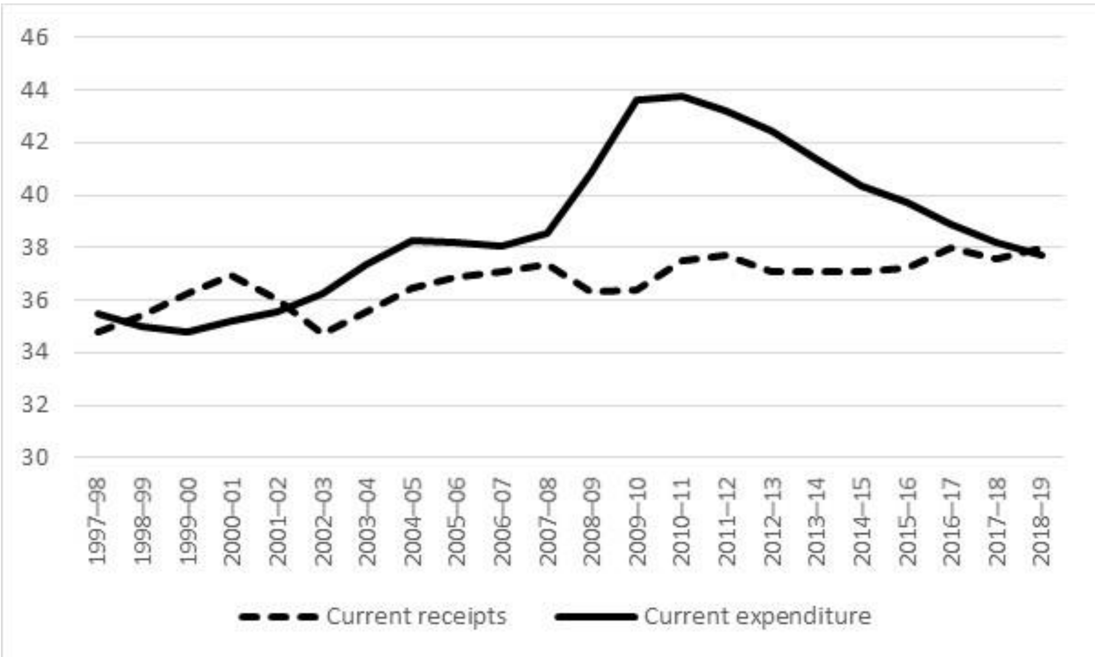
quarter 1 of 2020 assuming constant interest rates. Thereafter, inflation is judged likely to rise slightly above the target inflation rate of 2%, based on domestic inflationary pressures. Over the longer term, policy action will be designed to ensure inflation remains within 1% above or below the target of 2%.

3.5 The overall picture for the national economy is therefore for slower growth in the short term before resuming a moderate rate of growth in the medium term. Inflation is projected to increase to above the Bank of England target of 2% next year, but with the expectation that policy action will bring it back in line with target in the longer term.

Public Finances

3.6 After a period of austerity between 2010 and 2017, government spending has come back into line with receipts.

Figure 2: Current receipts and expenditure as % of national income

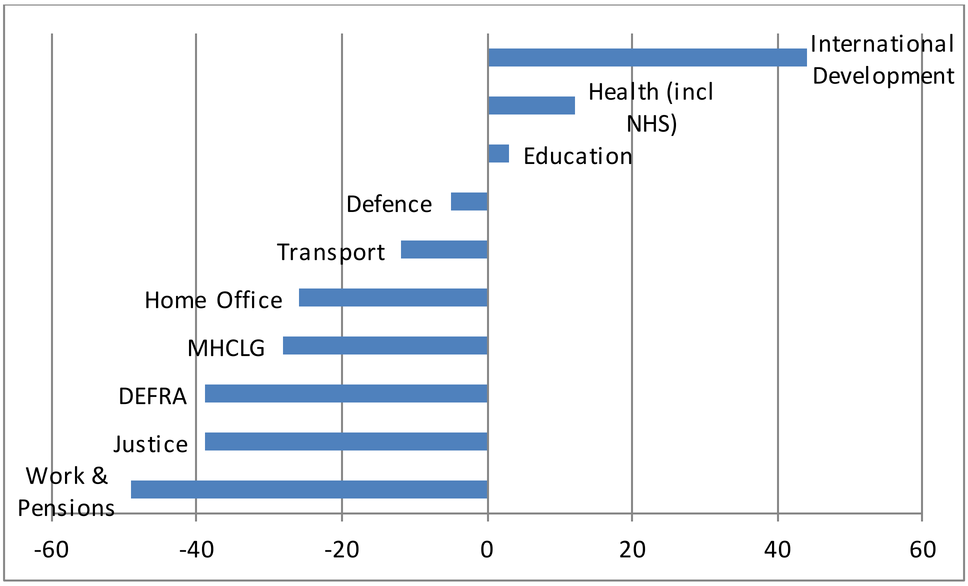


However, the cumulative deficit is at its highest ever level in relation to GDP, at 82% of national income. The government has also now rapidly changed direction following the long period of austerity, with a number of increasingly generous public spending commitments over the past twelve months. This will increase the level of borrowing as a percentage of GDP, even under a smooth Brexit scenario[2].

3.7 Within the overall reduction in public expenditure, there has been a widely disparate pattern between different government departments.

[2] IFS, Green Budget 2019

Figure 3: Planned real change to Departmental Expenditure Limits 2010-11 – 2019-20 (per cent)



3.8 MHCLG, which provides central government funding for local authorities, has seen some of the biggest cuts. Although the policy of austerity has now been reversed, it is unlikely that local government will see significant benefits given the pressures elsewhere on the public purse, in particular from the NHS.

3.9 The effects of austerity in local government have not been spread evenly between authorities. The increasing costs of adult social care and children's social care – services delivered by the upper tier of local government - contribute by far the majority of the funding gap faced by the sector. When local government spending needs are assessed against resources in the planned 2020 Spending Review, it is likely that any rebalancing of public spending will benefit the upper tier authorities that deliver these services, rather than District Councils like Maidstone.

3.10 The Queen's Speech on 14 October 2019 announced a White Paper on devolution. This may be the first step towards local government reorganisation, but at this stage it is appropriate to plan on the basis of the Council retaining its current level of autonomy.

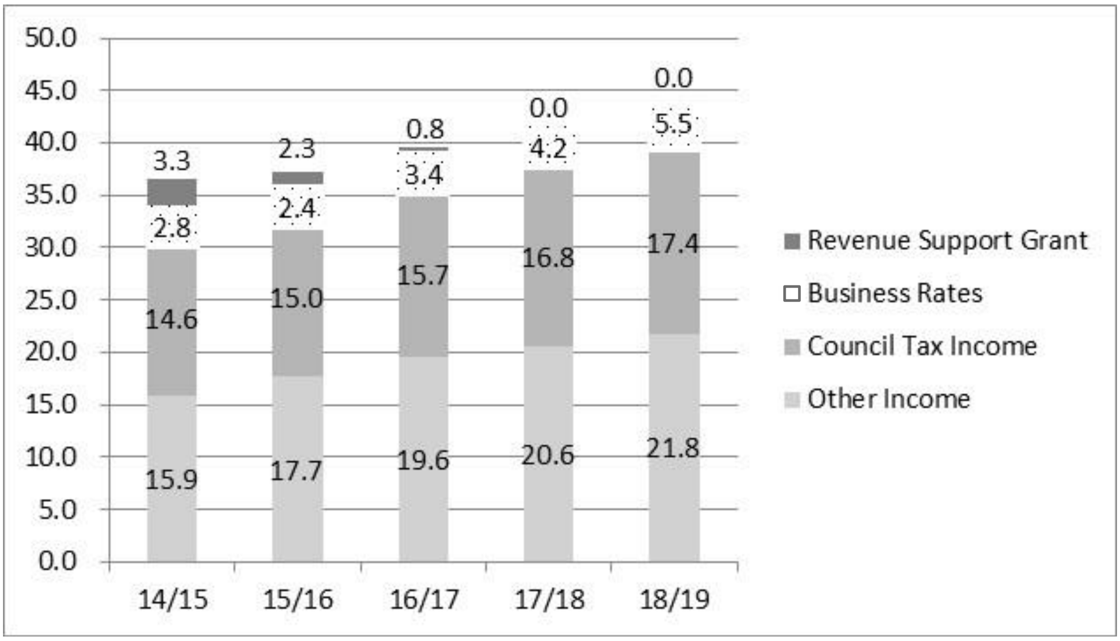
Conclusion

3.11 Growth in the national economy is slowing, and is vulnerable to Brexit related uncertainty. Although the government plans aggressive public expenditure which would counter-act any downturn in the economy, there is unlikely to be much direct benefit to District Councils. This Council is already largely self-sufficient, so for financial planning purposes, it needs to assume a continued reliance on self-generated resources, and to maintain a level of reserves that will allow it to withstand external shocks.

4. FINANCIAL RESOURCES

4.1 The Council's main sources of income are Council Tax and self-generated income from a range of other sources, including parking, planning fees and property investments. It no longer receives direct government support in the form of Revenue Support Grant; although it collects around £60 million of business rates annually, it retains only a small proportion of this.

Figure 4: Sources of Income (£m)



Council Tax

4.2 Council Tax is a product of the tax base and the level of tax set by Council. The tax base is a value derived from the number of chargeable residential properties within the borough and their band, which is based on valuation ranges, adjusted by all discounts and exemptions.

4.3 The tax base has increased steadily in recent years, reflecting the number of new housing developments in the borough. See table below.

Table 2: Number of Dwellings in Maidstone

	2015	2016	2017	2018	2019
Number of dwellings	67,721	68,519	69,633	70,843	71,917
% increase compared with previous year	0.81%	1.18%	1.63%	1.74%	1.52%

Note: Number of dwellings is reported each year based on the position shown on the valuation list in September.

4.4 The level of council tax increase for 2020/21 is a decision that will be made by Council based on a recommendation made by Policy and Resources Committee. The Council's ability to increase the level of council tax is limited by the requirement to hold a referendum for increases over a government set limit. The referendum limit for 2019/20 was the greater of 3% or £5.00 for Band D tax payers. Council Tax was increased by the maximum possible, ie £7.56 (3%).

4.5 In the Medium Term Financial Strategy 2019/20 – 2023/24, it was assumed that the Council Tax base would increase by 2% per annum for the MTFS period, and Band D Council Tax increases would revert to 2% per annum after 2019/20. Given the risk of an economic slowdown, and the fact that growth of 2% per annum has never actually been achieved, a more prudent assumption for increases in the Council Tax base would be 1.5%.

Other income

4.6 Other income is an increasingly important source of funding for the Council. It includes the following sources of income:

- Parking
- Shared services
- Commercial property
- Planning fees
- Cremations
- Garden waste collection
- Income generating activity in parks

Where fees and charges are not set by statute, we apply a policy that guides officers and councillors in setting the appropriate level based on demand, affordability and external factors. Charges should be maximised within the limits of the policy, but customer price sensitivity must be taken into account, given that in those areas where we have discretion to set fees and charges, customers are not necessarily obliged to use our services.

4.7 In developing the strategic revenue projection for 2020/21 a broad assumption of a 2% increase in future fees and charges has been used for the development of the MTFS, in line with overall inflation assumptions.

Business Rates

4.8 Under current funding arrangements, local government retains 50% of the business rates it collects. The aggregate amount collected by local government is redistributed between individual authorities on the basis of perceived need, so that in practice Maidstone Borough Council receives only around 7% of the business rates that it collects.

4.9 Prior to the 2017 General Election, the Government was preparing to move to 100% business rates retention with effect from 2020. The additional income would have been accompanied by devolution of further responsibilities to local government. However, the need to accommodate Brexit legislation meant that there was no time to legislate for this. Government now intends to increase the level of business rates retention to the extent that it is able to do within existing legislation, and plans to introduce 75% business rates retention with effect from 2021/22.

4.10 In the meantime, the Autumn 2019 Spending Round announcement assumes a 'roll-forward' settlement for 2020/21, with the existing 50% scheme retained and the amounts retained by individual local authorities increased in line with inflation.

4.11 As with 50% business rates retention, the new 75% business rates retention regime will be linked to a mechanism for rates equalisation to reflect local authorities' needs. These will be assessed based on a 'Fair Funding Review'. The overall amounts to be allocated as part of the Fair Funding Review are also subject to a planned Spending Review which is now expected to take place in 2020. It is therefore difficult to predict with any degree of accuracy whether the proportion of business rates retained by Maidstone will remain the same, increase or decrease from 2021/22 onwards.

4.12 The current local government funding regime gives authorities the opportunity to pool their business rates income and retain a higher share of growth as compared with a notional baseline set in 2013/14. Maidstone has been a member of the Kent Business Rates pool since 2014/15. Its 30% share of the growth arising from membership of the pool is allocated to a reserve which is used for specific projects that form part of the Council's economic development strategy. A further 30% represents a Growth Fund, spent in consultation with Kent County Council. This has been used to support the Maidstone East development.

4.13 It should be noted that in 2021, the baseline will be reset, so all growth accumulated to that point will be reallocated between local authorities as described in paragraph 4.11 above.

4.14 A further element of growth was retained locally for one year only in 2018/19 as a result of Maidstone's participation in the Kent & Medway 100% Business Rates Retention pilot. Kent & Medway local authorities were successful in bidding for pilot status, which meant that 100% of business rates growth, rather than 50%, was retained locally. The additional growth was split between a Financial Sustainability Fund (70%) and a Housing and Commercial Growth Fund (30%).

4.15 Unfortunately, Kent & Medway was unsuccessful with its bid to form a pilot again in 2019/20, and no further pilots are planned for 2020/21.

4.16 Total projected business rates income for 2019/20 and the uses to which it will be put are summarised in the table below.

Table 3: Projected Business Rates Income 2019/20

	£000	
Business Rates baseline income	3,208	Included in base budget
Growth in excess of the baseline	1,129	Included in base budget
Pooling gain (MBC share)	315	Funds Economic Development projects
Pooling gain (Growth Fund)	315	Spent in consultation with KCC, eg on Maidstone East
Total	4,967	

4.17 Whilst the proportion of total business rates income retained by the Council is relatively small, the amounts retained have grown significantly since the introduction of 50% business rates retention. Pressure on the government to reduce the burden of business rates and the unpredictability of future arrangements for equalising business rates income between Councils place future income growth from this source at risk.

Revenue Support Grant

4.18 Maidstone no longer benefits directly from central government support in the form of Revenue Support Grant, as it is considered to have a high level of resources and low needs. In fact, Councils in this situation were due to be penalised by the government under the existing four year funding settlement, through a mechanism to levy a 'tariff / top-up adjustment' – effectively negative Revenue Support Grant. Maidstone was due to pay negative RSG of £1.589 million in 2019/20. However, the government faced considerable pressure to waive negative RSG and removed it in the 2019/20 Local Government Finance Settlement. The government has also stated that it is minded not to levy negative RSG in 2020/21.

4.19 From 2021/22 there will be a new local government funding regime. However, it should be noted that a needs-based distribution of funding will continue to create anomalies like negative RSG, so it cannot be assumed that the threat of losing funding in this way (even if the mechanism is different) has gone away.

4.20 The potential negative RSG of £1.589 million for 2019/20 was held as a contingency for future funding pressures, to be applied to cushion the impact of likely reductions in resources in the future. Given that it appears that negative RSG will not be levied in 2020/21, it is proposed to continue rolling forward this contingency in anticipation of the impact of the new funding regime in 2021/22.

Balances and Earmarked Reserves

4.21 The Council maintains reserves as a safety net to allow for unforeseen circumstances. There is no statutory definition of the minimum level of reserves: the amount required is a matter of judgement. However, the Council has agreed to set £2 million as the minimum General Fund balance.

4.22 Within the General Fund balance, amounts have been allocated for specific purposes. These amounts do not represent formal commitments. Instead, they represent the level of reserves considered to be required for specific purposes, including asset replacement, commercialisation and Invest to Save projects.

4.23 In addition to unallocated General Fund balances, the Council holds reserves that are earmarked for specific purposes. Full details of reserves held are set out below.

Table 4: General Fund balances as at 31 March 2019

	31.3.18 £000	31.3.19 £000
Earmarked Reserves		
New Homes Bonus funding for capital projects	1,404	0
Local Plan Review	200	200
Neighbourhood Plans funding carried forward	70	64
Planning Appeals Contingency	0	300
Accumulated Surplus on Trading Accounts	51	31
Civil Parking Enforcement	481	419
Future Capital Expenditure	0	431
Housing Prevention & Temporary Accommodation	0	700
Unspent Business Rates Growth (Pool and Pilot)	692	3,682
Sub-total Earmarked Reserves	**2,898**	**5,828**
Unallocated Balances	9,022	8,620
Total General Fund balances	**11,920**	**14,448**

4.24 The unallocated balances comfortably exceed the £2 million minimum. They represent around 20% of the gross revenue budget, which is well in excess of the 10% benchmark that is sometimes cited as a reasonable level. It can therefore be seen that the level of reserves is adequate without being excessive.

Capital Funding

4.25 Typically, local authorities fund capital expenditure by borrowing from the Public Works Loan Board, which offers rates that are usually more competitive than those available in the commercial sector. Maidstone Borough Council has so far not borrowed to fund its capital programme, instead relying primarily on New Homes Bonus to fund the capital programme. External borrowing was employed for the first time in 2019/20 and will be the principal source of funding in future years. The cost of future borrowing is factored into the MTFS financial projections.

4.26 Public Works Loan Board funding has for several years offered local authorities a cheap source of finance, which has been used more and more extensively. The amount authorised by the Treasury for PWLB lending is currently capped at £95 billion, and with borrowing reaching £85 billion in October 2019, it was announced that the cost of borrowing would be increased by 100 basis point across the board, with the clear intention of dampening demand for funds. This meant, for example, that the annual interest on a 50 year loan, repayable on maturity, increased from 1.8% to 2.8%. Given that borrowing costs in the market generally remain very low, it is considered likely that local authorities will be able to continue to borrow cheaply from other lenders, if not from the PWLB.

4.27 There has been a reduction of the period for which New Homes Bonus would be paid from six years to five in 2017/18 and then to four in 2018/19 and 2019/20. The government has announced its intention of paying New Homes in 2020/21, but under the new Local Government funding regime to be implemented from 2021/22 a new, unspecified mechanism for incentivising housebuilding is envisaged.

4.28 External funding is sought wherever possible and the Council has been successful in obtaining Government Land Release Funding for its housing developments and ERDF funding for the Kent Medical Campus Innovation Centre.

4.29 Funding is also available through developer contributions (S 106) and the Community Infrastructure Levy (CIL). The Community Infrastructure Levy was introduced in Maidstone in October 2018.

4.30 The current funding assumptions used in the programme are set out in the table below.

Table 5: Capital Programme Funding

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	Total £000
External sources	6,901	9,179	3,253	2,782	860	22,975
Own resources	15,185	1,082	1,277	1,485	1,682	20,712
Debt	29,667	8,644	9,153	8,371	9,338	65,173
TOTAL	**51,754**	**18,905**	**13,683**	**12,638**	**11,880**	**108,860**

A review of the schemes in the capital programme will take place during the course of Autumn 2019. Proposals will also be considered for new schemes to be added to the capital programme. The affordability of the capital programme will be considered as part of this review, as it is essential that any borrowing to fund the capital programme is sustainable and affordable in terms of its revenue costs.

4.31 Under CIPFA's updated Prudential Code, the Council is now required to produce a Capital Strategy, which is intended to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. A Capital Strategy was approved by Council at its meeting on 25 September 2019.

4.32 The outcome of the capital programme review and an updated Capital Strategy were considered by Policy and Resources Committee in January 2020 and an updated capital programme recommended to Council for approval.

5. SCENARIO PLANNING

5.1 Owing to uncertainty arising from the economic environment, and from the lack of clarity about what the government's plans for local government funding will mean for the Council, financial projections have been prepared for three different scenarios, as follows.

1. Favourable

Brexit is accompanied by a government-induced stimulus to the economy, which provides more funding for local government. In the medium term, this generates higher economic growth which more than offsets any potential negative Brexit impacts.

2. Neutral

Current trends are maintained. The Council is able to maintain existing service levels and to fund inflationary increases in expenditure thanks to a steadily growing Council Tax base and regular annual increases in Council Tax. However, without any overall increase in local government spending, new spending pressures have to be funded from within existing resources.

3. Adverse

An adverse outcome from Brexit leads to recession, reducing Council income but increasing service pressures in areas like homelessness, requiring spending cuts in order to ensure that statutory services are maintained.

Details of key assumptions underlying each of these scenarios are set out below.

Council Tax

5.2 It is assumed that the Council will take advantage of any flexibility offered by central government and will increase Council Tax up to the referendum limit. The government plans to set a referendum limit of 2% for 2020/21. It is not known at this stage what the referendum limit will be for subsequent years, but it is assumed to be 2%, to align with the government's inflation target. This assumption applies to all three scenarios, as Council Tax is the authority's principal and most reliable source of income, and it would not be prudent to fail to maximise income from this source.

5.3 The other key assumption regarding Council Tax is the number of new properties. The number of new properties has been increasing in recent years, from a low of 0.38% in 2014, peaking at 1.74% in 2018. The rate of increase nevertheless remains lower than that implied by Local Plan new homes targets. Assumptions are as follows:

Favourable – 2%
Neutral – 1.5%
Adverse – 1%

5.4 The target collection rate for Council Tax is 98%. Current indications are that the actual collection rate for 2019/20 will be at, or very close to, this level. However, in the event of a recession, residents will be under greater financial pressure and this could lead to a lower collection rate. A further 0.5% of income is therefore assumed to be lost in this scenario.

Business Rates

5.5 The Council receives only a small proportion of the business rates that it actually collects. In 2020/21, the Government indicated in its Spending Round announcement in September 2019 that it would roll forward the existing arrangements, with an increase in the business rates baseline to reflect inflation.

5.6 After 2021, the proportion of business rates retained by the authority will be adjusted to reflect the findings of the Fair Funding Review and the Spending Review. It is very difficult to predict what this will mean in practice. However, for the purposes of revenue projections, a number of assumptions have been made.

5.7 The starting point in the government's calculations will be Maidstone's perceived level of need, which in the current four year funding settlement led to the Council being faced with a negative revenue support grant payment of £1.589 million in 2019/20. In the event, this was not levied on the Council, following concerted lobbying by Maidstone and other authorities that faced negative RSG. The amount of negative RSV thus avoided in 2019/20 is being held in reserve to address likely future funding pressures.

5.8 The starting point for future business rates income is therefore assumed to be the current baseline share of business rates income, as adjusted for inflation in 2020/21, less £1.589 million. It is not accepted that this would be a fair allocation of business rates income but it is nevertheless prudent to make this assumption for forecasting purposes.

5.9 A further factor to be considered is the resetting of the government's business rates baseline in 2021/22. This represents the level above which the Council benefits from a share in business rates growth. It is likely that the government will reset the baseline in order to redistribute resources from those areas that have benefitted most from business rates growth in the years since the current system was introduced in 2013, to those areas that have had lower business rates growth. Accordingly, cumulative business rates growth has been removed from the projections for 2021/22, then is gradually reinstated from 2022/23.

5.10 The target collection rate for Business Rates is 98.6%. Current indications are that the actual collection rate for 2019/20 will be closer to 98%. In the event of a recession, businesses will be under greater financial pressure and the number of businesses failures will be higher, leading to a still lower collection rate. A further 2% of income is therefore assumed to be lost in this scenario.

5.11 Given these assumptions, the specific assumptions for business rates growth in each scenario are as follows:

Favourable –2% increase in multiplier plus 2% growth in base
Neutral – 2% increase in multiplier plus 1% growth in base
Adverse – 3% increase in multiplier, 0% growth in base and 2% losses from lower collection rate

Inflation

5.12 The most recent Bank of England inflation report recognised an inconsistency between market expectations of inflation, which assume very low interest rates in the near term, and the Bank's own inflation forecasts, which align with its more aggressive assumptions about interest rates. A further potential factor is the impact of any sterling depreciation on input prices, which could push up inflation rates.

5.13 For the purpose of forecasting, it is assumed that the government's target rate of inflation is 2% is achieved in the favourable and neutral scenarios. A higher rate of 3% is assumed in the adverse scenario, reflecting the risk of increases in input prices pushing up inflation rates.

Pay inflation

5.14 Pay is the Council's single biggest item of expenditure, accounting for around 50% of total costs. Although the Council sets pay rates independently of any national agreements, in practice it has to pay attention to overall public sector and local authority pay settlements, as these affect the labour market in which the Council operates. It will be difficult for the Council to ignore this, so the assumption about pay inflation in all scenarios is that it will be in line with general inflation assumptions. Furthermore, an additional 0.5% has to be allowed for in pay inflation assumptions arising from the annual cost of performance related incremental increases for staff.

Fees and charges

5.15 The projections imply that fees and charges will increase in line with overall inflation assumptions, to the extent that the Council is able to increase them. In practice, it is not possible to increase all fees and charges by this amount as they are set by statute. Accordingly, the actual increase in income shown in the projections is 50% of the general inflation assumption in each scenario.

5.16 A favourable economic climate could be expected to boost fees and charges income above and beyond the rate of inflation. Conversely, in the event of a recession, as assumed under the adverse scenario, a number of the Council's income streams could suffer. In some cases (eg Planning fees) the Council could eventually cut its costs accordingly, although there would be a time lag. However, this does not apply to all income streams. In particular, Parking income is highly sensitive to the overall economy, and there are few mitigations available if income falls. Accordingly, under the adverse scenario, a 2% year on year loss of income is assumed.

Contract costs

Costs are generally assumed to rise in line with inflation, but a composite rate is applied to take account of higher increases on contracts like waste collection where the growth in the number of households leads to a volume increase as well as an inflation increase.

5.17 Inflation assumptions are summarised as follows.

Table 6: Inflation Assumptions

	Favourable	Neutral	Adverse	Comments
General	2.00%	2.00%	3.00%	2% is the government's target inflation rate but there is a risk of higher inflation if sterling depreciates following Brexit
Employee Costs	2.00%	2.00%	3.00%	Neutral assumption is in line with the most recent pay settlement and government inflation targets
	0.50%	0.50%	0.50%	The annual cost of performance related incremental increases for staff
Contract costs	2.00% - 5.00%	2.00% - 5.00%	2.00% - 8.00%	A composite rate is applied, reflecting different pressures on individual contracts
Fees and charges - price	2.00%	2.00%	3.00%	In line with general inflation assumptions
Fees and charges - volume	2.00%	0.00%	-2.00%	Reflects overall economic conditions

Service Spend

5.18 Strategic Revenue Projections under all scenarios assume that service spend will remain as set out in the previous MTFS, so savings previously agreed by Council will be delivered and no further growth arising from the new Strategic Plan is incorporated. In practice, it is likely that service spending would need to be reduced if the adverse scenario were likely to arise.

5.19 The projections include provision for the revenue cost of the capital programme, comprising interest costs (2.5%) and provision for repayment of borrowing (2%).

Summary of Projections

5.20 A summary of the financial projections under each of the scenarios is set out in section 7.

6. SPENDING PLANS – REVENUE AND CAPITAL

6.1 This section sets out current revenue and capital spending plans, so that an assessment can be made as to whether the plans support the Council's strategic priorities, and therefore whether resources are employed appropriately.

Revenue

Table 7: 2018/19 Revenue Outturn and 2019/20 Savings and Growth

Committee	Service	2018/19			2019/20	
		Final adjusted budget	Actual outturn for the year	Variance (-Adverse/ Favourable)	Budget savings	Budget growth
		£000	**£000**	**£000**	**£000**	**£000**
CHE	Communities & Housing	4,444	4,089	355	119	0
CHE	Environment & Public Realm	4,244	4,539	-295	116	-30
ERL	Heritage, Culture & Leisure	1,852	1,951	-99	167	0
ERL	Economic Development	614	576	38	7	0
S P I	Planning Services	1,291	1,507	-216	60	-24
S P I	Parking & Transportation	-1,939	-1,978	39	271	0
P & R	Property & Investment	-79	-300	221	291	0
P & R	Corporate and Shared Services	9,022	8,911	111	151	-27
	Total	**19,449**	**19,294**	**154**	**1,182**	**-81**

Details by service area are set out below.

Communities and Housing

6.2 This service area supports the corporate priority 'Housing and Communities'. The Housing Service has been successful in managing an increasing workload over the past couple of years, thanks in part to one-off government grant funding, and to local initiatives such as the purchase of property to provide temporary accommodation. The service remains demand-driven, so whilst the number of families in temporary accommodation appears currently to have stabilised at around 100, this could change. Current budgets however assume that the status quo is maintained.

6.3 Our project with EY Xantura, funded via the Business Rates Retention pilot one-off resources, seeks to target homelessness prevention interventions and reduce the risks and incidence of homelessness in the medium term.

6.4 The capital budget for 2019/20 includes provision for phase 3 of the temporary accommodation investment programme and ongoing expenditure on the Brunswick Street and Union Street developments, both of which are currently in progress.

6.5 In the longer term, the Housing Development and Redevelopment Investment Plan and our plans for Council affordable housing are designed to contribute towards meeting housing need across a range of different tenures.

Environment & Public Realm

6.6 These services support the 'clean and green' agenda, as they include street cleaning, grounds maintenance in parks and open spaces, and household waste collection. Waste collection is outsourced and the cost of the service is directly linked to inflation indices. The adverse variance in 2018/19 was owing to a one-off change in accounting treatment of Garden Waste income and has no ongoing implications.

6.7 Budgets assume that current service levels are maintained. However, a provision has been included in the MTFS for a potential annual increase in costs of £500,000 when the existing contract with Biffa comes to an end.

Heritage, Culture & Leisure

6.8 This service area helps to make Maidstone a 'thriving place'. It includes the museum, leisure services and bereavement services. Leisure services are seeing significant capital investment at Mote Park with the Adventure Zone and the forthcoming Visitor Centre. This forms part of a long term strategy for Mote Park whereby self-sufficiency is achieved by investment in income generating activities, so the Adventure Zone is projected to deliver £114,000 additional income annually which will contribute towards the running costs of the park. However, it is clear that new visitors also create additional spending pressures in Mote Park generally, highlighting the need for careful forecasting when planning future investment.

6.9 The Bereavement service continues to be successful in exceeding its income targets. The business case for further investment in the service is therefore strong.

Economic Development

6.10 Economic Development likewise supports the priority of making Maidstone a thriving place. The Council has a small ongoing revenue budget for economic development, supplemented by funding from the Business Rates Pool. The service also plays a key role in major capital-funded projects including the Kent Medical Campus Innovation Centre and Maidstone East.

Planning Services

6.11 Planning Services provide the essential framework for 'embracing growth and enabling infrastructure'. These services include spatial planning, and specifically the Local Plan review, infrastructure planning, liaison with developers on major applications, and day-to-day development management and processing of planning applications. The Planning Service is subject to some volatility in income, particularly with major applications, which led to a budget shortfall in 2019/20. This will require careful management. The current MTFS allows for £800,000 to be spent over the next four years on the Local Plan refresh.

6.12 There remains a risk of costs in relation to planning appeals, but known likely costs have been provided for in the accounts as at the end of 2018/19.

Parking & Transportation

6.13 Parking and Transportation likewise support growth and infrastructure, as well as serving the priority of making Maidstone a thriving place. The Parking Service traditionally out-performed its income budgets, and budgets were increased accordingly. 2018/19 saw a budget surplus, but the margin was smaller than in previous years, reflecting the fact that more income has been built into the base budget. Future years' income will be heavily dependent on performance of the wider economy and specifically on Maidstone Town Centre's success in attracting visitors.

6.14 A saving has been achieved by re-commissioning the Park and Ride service.

Property & Investment

6.15 This service is responsible for the Council's own property and investments. The Council's commercial property investment strategy both generates a financial return and supports the regeneration agenda by investing in the local economy. In recent years the Council has been able successfully to generate additional income from commercial investments. Further capital investment has been undertaken in 2019/20 and is planned in the future.

Corporate & Shared Services

6.16 Corporate services provide the essential support structure to enable all the corporate priorities to be realised. They include central staffing budgets and office accommodation. The Council's future office accommodation needs are under review, with its lease on Maidstone House expiring in 2023. In the meantime, we will seek to maximise value from the space occupied.

6.17 Shared Services continue to provide resilience and offer the potential for additional income, eg from lending Internal Audit staff to other authorities and from our debt collection service.

Summary - Revenue

6.18 Most service areas are already scheduled to deliver savings in 2020/21 following previous Council decisions. To the extent that savings cannot be delivered, or additional revenue growth is required in order to meet strategic priorities, further savings will need to be identified so as to remain within the constraint of an overall standstill budget.

Capital

6.19 In drawing up the capital programme, there has been a focus on schemes that both meet strategic priorities and are self-funding. Major initiatives include the following.

- The Housing Development and Regeneration Investment Plan provides for the Council to develop housing ourselves, following on from the developments at Brunswick Street and Union Street, thereby addressing the need for new homes in the borough and generating long term revenue returns through developing homes for market rent.

- The Affordable Housing programme envisages the acquisition of up to 200 social rented homes on smaller developments, to be managed by a Registered Provider (RP).

- The Commercial Investment Strategy builds on the Council's existing commercial investment property portfolio and assumes that we will continue to expand the portfolio, subject to opportunities arising that generate the required rate of return and support the priority of making Maidstone a thriving place.

- The Kent Medical Campus Innovation Centre, part-funded by the ERDF, will bring new businesses and jobs into the area.

Table 8: Capital Programme 2019/20 to 2023/24

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	Total £000
Brunswick Street - Net Cost	3,441	-100				3,341
Union Street - Net Cost	2,085	-1,843				242
Indicative Schemes	4,124	5,426	3,750	3,750		17,050
Council Affordable Housing			3,750	3,750	7,500	15,000
Disabled Facilities Grants	1,570	800	800	800	800	4,770
Temporary Accommodation	3,236					3,236
Housing Incentives	1,040	175	175	175	175	1,740
Gypsy Site Improvement Works	42					42
CCTV Upgrade and Relocation	150					150
Commercial Waste	180					180
Street Scene Investment	147	25				172
Flood Action Plan	1,000	63				1,063
Communities, Housing & Environment Total	17,015	4,546	8,475	8,475	8,475	46,986
Improvements to Play Areas	422					422

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	Total £000
Crematorium and Cemetery Projects	140	130				270
Mote Park Improvements	374					374
Mote Park Visitor Centre	2,122					2,122
Mote Park Lake - Dam Works	267	1,650	100			2,017
Other Parks Improvements	100					100
Museum Development Plan	11	125	200	64		401
Economic Regeneration & Leisure Total	3,437	1,905	300	64		5,706
High Street Regeneration	547					547
Asset Management / Corporate Property	1,417	467	175	175	175	2,409
Feasibility Studies	113	50	50	50	50	313
Infrastructure Delivery	1,200	600	600	600	600	3,600
Software / PC Replacement	124	287				411
Digital Projects	20	20	20	20	20	100
Acquisition of Commercial Assets	24,850	2,500	2,500	2,500	2,500	34,850
Kent Medical Campus-Innovation Centre	649	8,250	1,500			10,399
Maidstone East	520					520
Policy & Resources Total	29,440	12,174	4,845	3,345	3,345	53,149
Mall Bus Station Redevelopment	1,540					1,540
Bridges Gyratory Scheme	121					121
Strategic Planning & Infrastructure Total	1,661					1,661
Sub-Total	**51,553**	**18,625**	**13,620**	**11,884**	**11,820**	**107,502**
Section 106 Contributions / CIL	201	280	63	754	60	1,358
TOTAL	**51,754**	**18,905**	**13,683**	**12,638**	**11,880**	**108,860**

6.20 A review of the schemes in the capital programme took place in Autumn 2019 and proposals were considered for new schemes to be added to the capital programme, whilst ensuring that the overall capital programme is sustainable and affordable in terms of its revenue costs. An updated capital programme was considered by Policy and Resources Committee in January 2020 and recommended to Council for approval.

7. REVENUE PROJECTIONS

7.1 It is inherent in the Medium Term Financial Strategy that the Council matches available resources to strategic objectives, such that income and expenditure are balanced and any budget gap is eliminated. In addition to the legal requirement to set a balanced budget for 2020/21, the Council needs to have credible plans in place to address any budget gap in subsequent years. In the interests of prudence, these plans need to address not only a neutral set of projections but also the potential adverse scenario outlined above.

7.2 Based on the assumptions set out in Section 5, and including updates to take account of further developments up to the end of January 2020, financial projections indicate a revenue budget position as follows under the different scenarios.

Table 9: Projected Budget Gap 2020/21 – 2024/25

	20/21	21/22	22/23	23/24	24/25
	£m	£m	£m	£m	£m
Scenario 1 – Favourable					
Budget gap / (surplus)	**-0.1**	**1.2**	**1.8**	**1.6**	**1.1**
Scenario 2 – Neutral					
Budget gap / (surplus)	**-0.1**	**1.3**	**2.1**	**2.2**	**2.0**
Scenario 3 – Adverse					
Budget gap	**0.4**	**2.3**	**3.8**	**4.6**	**5.3**

7.3 Current spending plans, as set out in the previous section, have been reviewed for feasibility, affordability and consistency with strategic objectives. As the financial projections indicate a broadly balanced position for 2020/21, no specific targets were set for savings or increased income generation in this year. Any service pressures, or initiatives with revenue expenditure implications, have been funded from within the overall budget envelope, meaning savings or additional income growth to offset the expenditure growth.

7.4 Detailed budget proposals were developed and considered by Service Committees and the wider stakeholder group in January 2020.

7.5 In subsequent years, the projections indicate a likely requirement either to make savings or generate increased income. By planning a build up in reserves that can be released in 2021/22, the MTFS avoids a potential cliff-edge where savings need to be made at short notice.

7.6 The following table compares the position in the neutral scenario for a 2% Council Tax increase with that for a Council Tax freeze, as requested by Members at the meeting of Policy and Resources Committee on 23 July 2019.

Table 10: Projected Budget Gap with Council Tax freeze

	20/21	21/22	22/23	23/24	24/25
	£m	£m	£m	£m	£m
Neutral Scenario – Council Tax increase 2% per annum					
Budget gap	**-0.1**	**1.3**	**2.1**	**2.2**	**2.0**
Neutral Scenario – Council Tax freeze					
Budget gap	**0.2**	**2.0**	**3.2**	**3.6**	**3.9**

Assuming all other factors remained unchanged, freezing Council Tax would lead to a budget gap of £200,000 in 2020/21. Over the longer term, it can be seen that not increasing Council Tax in line with inflation increases the budget gap to a level which risks being unmanageable.

8. RISK MANAGEMENT

8.1 As indicated in the previous sections, the Council's MTFS is subject to a high degree of risk and certainty. In order to address this in a structured way and to ensure that appropriate mitigations are developed, the Council has developed a budget risk register. This seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.

8.2 The major risk areas that have been identified as potentially threatening the Medium Term Financial Strategy are as follows.

- Failure to contain expenditure within agreed budgets
- Fees and Charges fail to deliver sufficient income
- Commercialisation fails to deliver additional income
- Planned savings are not delivered
- Shared services fail to meet budget
- Council holds insufficient balances
- Inflation rate predictions in MTFS are inaccurate
- Adverse impact from changes in local government funding
- Constraints on council tax increases
- Capital programme cannot be funded
- Increased complexity of government regulation
- Collection targets for Council Tax and Business Rates missed
- Business Rates pool fails to generate sufficient growth
- Adverse financial consequences from a disorderly Brexit
- Litigation costs exceed budgeted provisions

8.3 It is recognised that this is not an exhaustive list. By reviewing risks on a regular basis, it is expected that any major new risks will be identified and appropriate mitigations developed.

8.4 An assessment of the relative impact and likelihood of the risks identified is set out below.

Table 11: Budget Risk Matrix

Likelihood					
5					
4			L		
3		M	G,H, I,N	B	
2		E	C	A,D, O	J
1		K	F		
	1	2	3	4	5
	Impact				

Black – Top risk

Red – High risk

Amber – Medium risk

Green – Low risk

Blue – Minimal risk

Key

A. Failure to contain expenditure within agreed budgets
B. Fees and Charges fail to deliver sufficient income
C. Commercialisation fails to deliver additional income
D. Planned savings are not delivered
E. Shared services fail to meet budget
F. Council holds insufficient balances
G. Inflation rate predictions in MTFS are inaccurate
H. Adverse impact from changes in local government funding
I. Constraints on council tax increases
J. Capital programme cannot be funded
K. Increased complexity of government regulation
L. Collection targets for Council Tax and Business Rates missed
M. Business Rates pool fails to generate sufficient growth
N. Adverse financial impact from a disorderly Brexit
O. Litigation costs exceed budgeted provisions

8.5 For all risks shown on the Budget Risk Register, appropriate controls have been identified and their effectiveness is monitored on a regular basis.

9. CONSULTATION

9.1 Each year the Council carries out consultation as part of the development of the MTFS. A Residents' Survey was carried out in Autumn 2019 and the results were taken into account by Members when they considered detailed budget proposals in January 2020.

9.2 Consultation also took place in January 2020 on the detailed budget proposals. Individual Service Committees considered the budget proposals relating to the services within their areas of responsibility. Full details of the proposals were published and residents' and businesses' views welcomed.

Document History

Date	Description	Details of changes
21.10.19	Draft to Service Committees	
18.12.19	Final draft to Council	
12.02.20	Updated MTFS to P & R Committee	Minor updates to take account of further developments up to the end of January 2020.

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2020/21

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1.INTRODUCTION

1.1 Background

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.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

A Revised Capital Strategy which relates to the Council's priorities was agreed by Council on 25th September 2019.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

The following reports are not required to be approved by Council but are to be reported and scrutinised to the relevant Committee. The Council has delegated this function to the Audit, Governance and Standards Committee.

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

A quarterly update on the Council's treasury management position is also provided through budget monitoring reports presented to Policy & Resources Committee.

1.3 Treasury Management Strategy for 2020/21

The strategy for 2020/21 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;

- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training has been planned for Members prior to the Audit Governance and Standards Committee meeting on the 13th January 2020. The Council's Treasury Advisors, Link Asset Services, will be providing this training with reference to this Strategy.

Staff regularly attend training courses, seminars and conferences provided by the Council's Treasury Consultants and CIPFA. Relevant staff are also encouraged to study professional qualifications delivered by CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Staff training needs are assessed regularly both as part of the appraisal process and when the responsibilities of individual members of staff change.

1.5 Treasury management consultants

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2022/23

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need. 2018/19 Actual was funded through internal borrowing.

Financing of capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital receipts	0.000	0.000	0.000	0.000	0.000	0.000
Capital grants	1.368	2.251	6.080	0.863	1.554	1.554
Capital reserves	0.000	0.000	0.000	0.000	0.000	0.000
Revenue (incl MRP)	4.623	4.364	6.367	5.505	4.891	5.300
Net financing need for the year	**10.141**	**35.804**	**25.760**	**15.864**	**10.755**	**8.171**

2.1.1 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £3.5m relating to Serco Pasia within the CFR.

The Council is asked to approve the CFR projections below:

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement						
Total CFR	12.097	47.380	72.610	87.958	98.175	105.778
Movement in CFR	8.87	35.28	25.23	15.35	10.22	7.60

Movement in CFR represented by						
Net financing need for the year	8.870	35.767	27.126	18.252	13.736	11.530
Less MRP/VRP and other financing movements	0.000	-0.484	-1.895	-2.904	-3.518	-3.927
Movement in CFR	**8.870**	**35.283**	**25.230**	**15.347**	**10.218**	**7.603**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

2.2 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

No borrowing was undertaken for capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or finance leases are applied as MRP.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2019 and for the position as at 31st December 2019 is shown below.

Date	Ref	Lender	Amount £m	Rate %	Start	End
22/11/2019	62	North Somerset District Council Council	3.000	0.8	22/11/2019	30/04/2020
22/11/2019	63	North Yorkshire County Council	4.000	0.97	22/11/2019	20/11/2020
		TOTAL	**7.000**			

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt						
Debt at 1 April	0.000	0.000	31.725	56.437	71.270	80.953
Expected change in Debt	0.000	28.678	22.185	12.823	8.210	6.127
Other long-term liabilities (OLTL)	4.033	3.568	3.047	2.527	2.010	1.473
Expected change in OLTL	-0.465	-0.521	-0.520	-0.517	-0.537	-0.568
Actual gross debt at 31 March	**3.568**	**31.725**	**56.437**	**71.270**	**80.953**	**87.985**
The Capital Financing Requirement	**12.097**	**47.380**	**72.610**	**87.958**	**98.175**	**105.778**
Under / (over) borrowing	**8.529**	**15.655**	**16.173**	**16.688**	**17.222**	**17.793**

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Finance and Business Improvement reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Borrowing	3.986	28.678	53.910	69.260	79.480
Other Long Term Liabilities	3.568	3.047	2.527	2.010	1.473
Total	7.554	31.725	56.437	71.270	80.953

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Borrowing	10.418	48.678	73.910	89.260	99.480
Other Long Term Liabilities	3.568	3.047	2.527	2.010	1.473
Total	13.986	51.725	76.437	91.270	100.953

3.3 Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. Given the current level of uncertainties around the result of the general election due on 12 December and then subsequent developments, this is a major assumption and so forecasts may need to be materially reassessed in the light of events over the coming weeks or months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and more recently, due to the impending general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then it is likely the MPC would cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were an eventual Brexit with no agreement on the terms of trade between the UK and EU, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.

Bond yields / PWLB rates. There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. *(See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.)* There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this and how strong the correlation is likely to be is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government’s bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%, it is unlikely that this authority will do any longer term borrowing for the next three years, or until such time as the extra 100 bps margin is removed.
- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, , there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Director of Finance and Business Improvement will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Audit Governance and Standards Committee body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated, and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 New financial institutions as a source of borrowing and / or types of borrowing

Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

3.7 Approved Sources of Long and Short term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being X% of the total investment portfolio, (see paragraph 4.3).

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in 4.2.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2019/20 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18). The Council does not have any of these investments at this time.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.

The above criteria is unchanged from last year.

4.2 Creditworthiness policy

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

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may 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, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this 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*:*

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it 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 F1 and a long term rating of A-. 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 the Link Asset Services' 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 European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. 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, as well as information on any external support for banks to help support its decision making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	**Money Limit**	**Transaction limit**	**Time Limit**
Banks *	**yellow**	**£5m**	**£5m**	**5yrs**
Banks	**purple**	**£3m**	**£3m**	**2 yrs**
Banks	**orange**	**£3m**	**£3m**	**1 yr**
Banks – part nationalised	**blue**	**£3m**	**£3m**	**1 yr**
Banks	**red**	**£3m**	**£3m**	**6 mths**
Banks	**green**	**£1m**	**£1m**	**100 days**
Banks	**No colour**	**Not to be used**	**£0m**	
Other institutions limit	**-**	**£1m**	**£1m**	**5yrs**
DMADF	**UK sovereign rating**	**unlimited**	**£5m**	**6 months**
Local authorities	**n/a**	**£5m**	**£5m**	**5yrs**
Housing associations	**Colour bands**	**£5m**	**£5m**	**As per colour band**

	Fund rating**	Money Limit		Time Limit
Money Market Funds CNAV	**AAA**	**£8m**	**£8m**	**liquid**
Money Market Funds LVNAV	**AAA**	**£8m**	**£8m**	**liquid**
Money Market Funds VNAV	**AAA**	**£8m**	**£8m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.25	**Dark pink / AAA**	**£8m**	**£8m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.50	**Light pink / AAA**	**£8m**	**£8m**	**liquid**

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Country limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 10% of the total investment portfolio when investments balances are higher, however during periods when balances are run down (e.g. year end) the limt may be higher for a small period of time.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and 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 in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than 25% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.
On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 1.00%
- Q1 2022 1.00%
- Q1 2023 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
	2020/21	**2021/22**	**2022/23**
	£m	**£m**	**£m**
Investments in excess of 1 year maturing in each year	2	2	2

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

4.5 Investment performance / risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio against a rate of 3 month LIBOR plus 10bps.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7 External fund managers

£8.2m of the Council's funds is externally managed within Money Market Funds with following institutions:

- Goldman Sachs Asset Management International
- Aberdeen Standard Investments
- Federated Investors (UK) LLP

The Council's external fund managers will comply with the Annual Investment Strategy. The agreements between the Council and the fund managers additionally stipulate guidelines on duration and other limits in order to contain and control risk.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager.

In addition to formal reports, the Council also meets with representatives of the fund manager on a semi-annual basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

5 APPENDICES

1. Prudential and treasury indicators and MRP statement
2. Interest rate forecasts
3. Economic background
4. Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the section 151 officer

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2020/21 – 2022/23 AND MRP STATEMENT

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

5.1.1 Capital expenditure

2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
16.132	42.419	38.208	22.233	17.200	15.025	15.025

5.1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

5.1.3 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

2018/19 %	2019/20 %	2020/21 %	2021/22 %	2022/23 %	2023/24 %	2024/25 %
-1.1	-0.7	3.5	4.9	5.4	6.0	6.6

2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
-0.220	-0.155	0.659	0.889	1.042	1.156	1.266

The estimates of financing costs include current commitments and the proposals in this budget report.

5.1.4 Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	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 within 20 years	100	0
20 years and within 30 years	100	0
30 years and within 40 years	100	0
40 years and within 50 years	100	0
50 years and within 60 years	100	0
70 years and within 80 years	100	0

5.1.5. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 INTEREST RATE FORECASTS 2019 – 2021

Please see 3.3 of this report.

5.3 ECONOMIC BACKGROUND

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January; however, even if a Conservative Government gains an overall majority in the general election on 12 December, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020.

While the Bank of England went through the routine of producing another quarterly Inflation Report, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers are worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that is worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence the MPC views inflation as causing little concern in the near future.

If economic growth were to weaken considerably,, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and both of the largest parties have made significant promises in their election manifestos to increase government spending. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure. In addition, it has to be borne in mind that even if the post-election Parliament agrees the deal on 31 January 2020, the current transition period for negotiating the details of the terms of a trade deal with the EU only runs until 31 December 2020. This could prove to be an unrealistically short timetable for such major negotiations which leaves open two possibilities; one the need for an extension of negotiations, probably two years, or a no deal Brexit in December 2020.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in October to 1.5%. It is likely to remain close to or under 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, this was about half of what had been expected. The unemployment rate fell back again to a 44 year low of 3.8% on the Independent Labour Organisation measure in September, despite the fall in numbers employed, due to numbers leaving the work force. Wage inflation has been edging down from a high point of 3.9% in July to 3.8% in August and now 3.6% in September, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 1.9%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

In the **political arena**, a general election could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 1.9% in quarter 3; it is expected to fall further. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening; CPI inflation fell from 2.3% to 2.0% in September.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market.

Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn , whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt).

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.
However, in early November, a phase one deal was agreed between the US and China to roll back some of the tariffs which gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period;** (at its October meeting it said this would start in November at €20bn per month - a relatively small amount compared to the previous buying programme). It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments will need to help stimulate growth by 'growth friendly' fiscal policy.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support (i.e. subsidies) to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

5.4 INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has diminished.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Use of external fund managers – It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council's investment strategy. The fund managers the Council currently engages with are for Money Market Funds and Enhanced Cash Funds.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager.

5.5 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

AA-

- Belgium
- Qatar

5.6 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Audit Governance & Standards Committee/ Policy & Resources Committee /Full Council

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Governance & Standards Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.7 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;

- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

- Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;

- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Investment Strategy

Maidstone Borough Council
2020/21

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy is new for 2020/21, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £10.8m and £30m during the 2020/21 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2020/21 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council lends money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. The Council has made loans to Kent Savers for £25k in 2017/18 which is repayable in 2022/23 at an interest rate of 1% and an interest free loan to One Maidstone CIC Limited with a current amount owing of £48,000. A loan to Cobtree Manor Estates Trust has been agreed in 2019/20 for an amount of £323,000 repayment over 5 years at an annual interest rate of 3%. However, a loan to Maidstone Property Holdings Limited may also be made in the near future for which the interest rate applicable would be at commercial rates. There is a provision for this service loans of £1 million.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2019 actual			2020/21
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries				1.000
Local businesses	0.073		0.073	0.073
Local charities				0.323
TOTAL	**0.073**	**0.000**	**0.073**	**1.396**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans by assessing the borrower's ability to repay the loan, based on past financial performance. This is monitored over the period of the loan in line with the agreed repayment terms.

Commercial Investments: Property

Contribution: The Council does not currently have any investments in property that are considered to be purely commercial in nature. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects.

Third Party Loan Commitments and Financial Guarantees

The Authority has contractually committed to repay the loan on behalf of Serco Paisa for works to the leisure Centre which has a balance as at 31st March 2019 of £2.527m.

Capacity, Skills and Culture

Elected members and statutory officers: The Section 151 Officer has ultimate decision making powers on investment decisions and has a number of key officers with the necessary skills to assess such projects, including the Corporate Property Manager, Head of Finance, as well as the use of external consultants.

Each project is evaluated on its affordability and prudence to bear additional future revenue cost associated with each investment. It is established if the use of new or existing revenue resources to finance capital investment over competing needs for revenue expenditure and the scope for capital investment to generate future revenue savings or income, taking into account the risks associated with each proposal.

Commercial deals: The Section 151 Officer is involved with all decision making for capital projects and is aware of the core principles of the prudential framework in regard to the following:

- ☐*service objectives, eg strategic planning for the authority*
- ☐*stewardship of assets, eg asset management planning*
- ☐*value for money, eg option appraisal*
- *prudence and sustainability, eg implications for external debt and whole life costing*
- ☐*affordability, eg implications for council tax*
- ☐*practicality, eg achievability of the forward plan.*

Corporate governance: The investment strategy is reviewed by Audit, Governance and Standards Committee prior to approval by full Council. Investment opportunities will be considered on a case by case basis with reference to the strategy, and a mid-year report will be provided during the year to ensure that the strategy remains fit for purpose.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 2: Total investment exposure in £millions

Total investment exposure	**31.03.2019 Actual**	**31.03.2020 Forecast**	**31.03.2021 Forecast**
Treasury management investments	15.000	2.000	2.000
Service investments: Loans	0.073	0.061	1.049
TOTAL INVESTMENTS	15.073	2.061	1.473
Commitments to lend (Serco Loan – Leisure Centre)	2.527	2.010	2.010
TOTAL EXPOSURE	17.600	4.071	3.483

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 3: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2019 Actual	31.03.2020 Forecast	31.03.2021 Forecast
Treasury management investments	0.000	0.000	0.000
Service investments: Loans	0.000	0.000	1.000
TOTAL FUNDED BY BORROWING	0.000	0.000	1.000

The above table does not include investments funded by borrowing which form part of the Council's capital programme. Details of this expenditure are included within the Capital Strategy.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Maidstone Borough Council's treasury management loans interest will outweigh investments, hence is why there is a negative figure forecasted for 2020/21.

Table 4: Investment rate of return (net of all costs)

Investments net rate of return	2018/19 Actual	2019/20 Forecast	2020/21 Forecast
Treasury management investments	0.73%	0.78%	-3.29%
Service investments: Loans	1.00%	2.86%	2.96%
ALL INVESTMENTS	0.73%	0.82%	-2.90%

MAIDSTONE BOROUGH COUNCIL

CAPITAL STRATEGY

CONTENTS

1. INTRODUCTION

1.1 CIPFA's Prudential Code, which governs the Council's capital investment and borrowing, introduced a new requirement in 2019/20 for a Capital Strategy. The intention was to ensure that councils provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with a description of how associated risk is managed and the implications for future financial sustainability.

1.2 Accordingly, the Capital Strategy articulates in a single place a number of strategies and policies that the Council already addresses elsewhere: it is an overarching document linking the Strategic Plan, the Medium Term Financial Strategy, the Treasury Management Strategy and the Asset Management Plan.

2. CAPITAL EXPENDITURE AND LINKS TO OTHER CORPORATE STRATEGIES

Strategic Plan

2.1 Capital expenditure at Maidstone Borough Council plays a vital part in the Council's Strategic Plan, since long term investment is required to deliver many of the objectives of the plan.

2.2 The current Strategic Plan went through a thorough process of discussion and refinement over the period June – October 2018 and was approved by Council on 12 December 2018. It sets out four objectives, as follows:

- Embracing Growth and Enabling Infrastructure
- Homes and Communities
- A Thriving Place
- Safe, Clean and Green.

The ways in which capital expenditure can support these priorities are described below.

Embracing Growth and Enabling Infrastructure

The Council has a vital role in leading and shaping our borough as it grows. This means being proactive in policy and master planning for key sites in the borough, and where appropriate, investing directly ourselves.

Separate objectives, set out below, address specifically the development of new housing, and other investments intended to make Maidstone a thriving place. In order to enable these developments to take place, investment in infrastructure will be needed. In general, infrastructure schemes are funded from the benefits gained from the development. To address any potential funding gap, the Council will enable infrastructure spending, to the extent that it meets our strategic priorities.

Accordingly, £3 million has been set aside within the current capital programme to contribute towards provision of local infrastructure, and to indicate our intention to invest to unlock development and attract matching funding.

Homes and Communities

The Strategic Plan seeks to make Maidstone a place where people love to live and can afford to live. This means a range of different types of homes, including affordable housing.

The Council plans to developing new housing, providing a mixture of tenures, under the Housing Development and Regeneration Investment Plan agreed by Policy and Resources Committee in July 2017. Developments are under way at Brunswick Street and Union Street. Lenworth House was acquired in 2018/19, and further developments are envisaged. The Council is seeking partnerships to enable further development to take place.

In total, £40 million has been provided in the capital programme for the Housing Development and Regeneration Investment Plan.

We aim, and are required by law, to address homelessness and rough sleeping. The Council has invested in temporary accommodation for homeless families, thereby ensuring a good standard of accommodation and providing a more cost-effective solution than is offered by the private sector. In 2018/19 we acquired 17 homes for use as temporary accommodation and we have purchased a further 10 units in 2019/20, for which £5 million has been provided in the capital programme.

The Council also works with Kent County Council Social Services to deliver adaptations and facilities to enable disabled people to remain at home. This work forms part of the capital programme, although it is funded directly by central government grant. £4 million has been provided in the capital programme for Disabled Facilities Grants.

A Thriving Place

The Strategic Plan seeks to make Maidstone a borough that is open for business, attractive for visitors and is an enjoyable and prosperous place to live for our residents. This can be achieved through investment in the County town and rural service centres.

There are a number of ways in which the Council will take the lead, including working with partners and through direct investment ourselves. The Council has a successful track record of acquiring property as part of its Commercial Investment Strategy. These acquisitions both generate a return that supports the revenue budget and contribute to making Maidstone a thriving place. we will continue to seek good quality investment opportunities.

Where appropriate, we will seek to achieve the necessary scale of investment by identifying joint venture partners. The amount available for direct investment by Maidstone Council is governed by the overall size of the capital programme, but we will adopt a flexible approach within this constraint in order to take advantage of investment opportunities that meet our criteria.

Specific projects that will contribute to a Thriving Place include Maidstone East, where the Council is working in partnership with Kent County Council to redevelop a key site next to the railway station, and the Kent Medical Campus, where the Council has secured external funding to match the Council's own funds to provide £10.5 million in total to create an Innovation Centre for growing businesses in the life science, heathcare and med-tech sectors.

The Council has already made a significant investment in improving the public realm in the Town Centre. The current capital programme includes a further investment of £1.5 million, including partner contributions, in the bus station to improve its efficiency and attractiveness to customers.

Safe, Clean and Green

The Council seeks to protect and where possible enhance our environment and to make sure our parks, green spaces, streets and public areas are of a high quality.

Recent investment has included a programme of developments in our flagship local park, Mote Park. An Adventure Zone opened in May 2019 and plans are under way for the construction of a new Visitor Centre. Mote Park Lake is effectively a reservoir, and we are required to reduce the risk of the lake overtopping the dam at its western end. The necessary work is due to take place in Summer 2020 and current estimates are that the total scheme cost will be around £2 million.

The floods of winter 2013/14 highlighted the risks faced by the borough generally. Maidstone Borough Council is part of the Medway Flood Partnership, which includes the Environment Agency and Kent County Council. The Partnership plans to spend at least £19 million over the next five years in the Medway catchment area, of which Maidstone is contributing £1 million.

Medium Term Financial Strategy

2.3 The overall context for the MTFS is one where the Council is increasingly dependent on locally-generated resources, whether from Council Tax or a range of other income streams, including parking income, planning fees and the Council's property portfolio. The MTFS supports the Council's need to become financially self-sufficient.

2.4 In drawing up the capital programme, there is therefore a focus on schemes that both meet strategic priorities and are self-funding. Specifically:

- the Commercial Investment Strategy builds on the Council's existing commercial investment property portfolio and assumes that we will continue to expand the portfolio, subject to opportunities arising that generate the required rate of return.

- the Housing Development and Regeneration Investment Plan provides for the Council to develop housing ourselves, thereby addressing the need for new homes in the borough and generating long term revenue returns through developing homes for market rent.

2.5 Below is a table of the latest capital programme which was discussed at Policy and Resources Committee on 22nd January 2020.

Table 1: Capital Programme 2019/20 to 2024/25

	19/20	Five Year Plan					Total
	Projected	20/21	21/22	22/23	23/24	24/25	
	£000	£000	£000	£000	£000	£000	£000
Brunswick Street - Net Cost	2,514	-230	-579				-809
Union Street - Net Cost	975	-550	-2,141				-2,691
Springfield Mill	2,275	1,077	36				1,112
Granada House extension	0	1,664					1,664
Indicative Schemes	0	8,042	11,212	6,796			26,050
Sub-total Housing Development and Regeneration	5,765	10,002	8,528	6,796	0	0	25,326
Affordable Housing Programme	1,040	275	5,075	5,175	10,175	10,175	30,875
Acquisitions Officer	0	80	80	80	80	80	400
Disabled Facilites Grant	1,570	800	800	800	800	800	4,000
Temporary Accommodation	3,236	2,190					2,190
Flood Action Plan	100	300	300	300			900
Crematorium and Cemetery Development Plan	140	130					130
Electric Operational Vehicles		100					100
Housing IT System		50					50
Street Scene Investment	147	25					25
Installation of Public Water Fountains		15					15
Gypsy Site Improvement Works	42						0
CCTV Upgrade and Relocation	150						0
Commercial Waste	180						0
Sub-total Communities, Housing & Environment	12,371	13,967	14,783	13,151	11,055	11,055	64,011
Mote Park Visitor Centre and Estate Services Building	156	2,000	740				2,740
Mote Park Dam Works	267	1,650	100				1,750
Improvements to Play Areas	422						0
Other Parks Improvements	100						0
Museum Development Plan	11	125	225	39			389
Sub-total Heritage, Culture & Leisure	957	3,775	1,065	39	0	0	4,879
Acquisition of Commercial Assets	24,850	2,500	2,500	2,500	2,500	2,500	12,500
Kent Medical Campus - Innovation Centre	649	8,250	1,500				9,750
Lockmeadow Ongoing Investment	0	4,000	1,000				5,000
Garden Community	200	1,665	340	465	425	425	3,320
Infrastructure Delivery	1,200	600	600	600	600	600	3,000
Asset Management / Corp Property	1,017	1,430	175	175	175	175	2,130
Biodiversity and Climate Change	0	1,000					1,000
Software / PC Replacement	124	200	200	200	200	200	1,000
Feasibility Studies	113	50	50	50	50	50	250
Digital Projects	20	20	20	20	20	20	100
High Street Regeneration	547						0
Sub-total Policy & Resources	28,720	19,715	6,385	4,010	3,970	3,970	38,050
Mall Bus Station Redevelopment	250	750					750
Bridges Gyratory Scheme	121						0
Sub-total Strategic Planning, Sustainability & Transportation	371	750	0	0	0	0	750
Sub-Total	**42,419**	**38,208**	**22,233**	**17,200**	**15,025**	**15,025**	**107,690**
Section 106 Contributions	28	57	63	480	59	69	728
TOTAL	**42,447**	**38,265**	**22,296**	**17,680**	**15,084**	**15,094**	**108,418**

Treasury Management Strategy

2.6 The Treasury Management Strategy sets out how the Council manages its investments and cash flows, including banking, money market and capital market transactions, and how optimum performance is assured whilst managing the risks associated with these activities.

2.7 The specific aspects of the Treasury Management Strategy that are relevant here are how it addresses the Council's capital expenditure plans and how borrowing needs are met. Capital expenditure is funded from the New Homes Bonus, internal resources, borrowing and third party contributions such as Section 106 payments on new developments. The Council has relied primarily on New Homes Bonus and internal resources, but has now entered into a borrowing position with the purchase of the Lockmeadow Leisure Complex. External borrowing will increase owing to the reduction in New Homes Bonus payments and the scale of the capital programme.

2.8 The current local authority funding regime does not set cash limits for borrowing. However, borrowing must be sustainable in terms of the Council's ability to fund interest payments and ultimately repayment of capital.

2.9 Further details are set out in Section 4.

Asset Management Plan

2.10 The longer term maintenance of the Council's capital assets is addressed by the Council's Asset Management Plan. The Asset Management Plan ensures that the Council's assets, as a resource, support the delivery of the Council's objectives by:-

- Providing a suitable standard of accommodation for services including those shared with other authorities
- Maintaining commercial investment assets and ensuring that they deliver the required rate of return
- Providing an asset management service to the property holding company
- Meeting the needs of the local community by maintaining assets in parks and open spaces and other community assets
- Safeguarding local heritage through ownership and preservation of historic and scheduled ancient monuments.

The current capital programme includes a provision of £2 million for Corporate Property Improvements, based on the requirements of the Asset Management Plan.

2.11 The Asset Management Plan is currently under review. An updated Plan is due to be considered by Policy and Resources Committee in early 2020.

3. GOVERNANCE FRAMEWORK

Background

3.1 Capital expenditure proposals are developed in response to the Council's strategic priorities, as described in the previous section. Individual schemes are incorporated in the capital programme, which is included within the Council's Medium Term Financial Strategy.

3.2 The MTFS states that capital schemes will be reviewed and developed so that investment is focused on strategic priorities. The MTFS is updated on an annual basis, as part of the annual budget cycle.

3.3 Subsequent to preparation of the MTFS and its approval by Council each year, capital estimates form part of the annual budget that is submitted to Council for approval.

Developing capital expenditure proposals

3.4 The development of capital expenditure proposals follows certain core principles for the inclusion of schemes within the capital programme. Schemes may be included in the capital programme if they fall within one of the four following categories:

(i) Required for statutory reasons, eg to ensure that Council property meets health and safety requirements;

(ii) Self-funding schemes focused on Strategic Plan priority outcomes;

(iii) Other schemes focused on Strategic Plan priority outcomes; and

(iv) Other priority schemes which will attract significant external funding.

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

(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 service committee.

b) Where schemes can be demonstrated to be commercial in nature and require the use of prudential borrowing, a business case must first be prepared.

3.6 Where schemes do not fit within the criteria above but an appropriate option appraisal has been completed, they may still be included within the programme if they fall within one of the four categories set out above.

3.7 If, following all considerations, there are a number of approved schemes that cannot be accommodated within the current programme, a prioritised list of schemes that can be added to the programme as future resources permit will be created and approved by Policy and Resources Committee, thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.

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

3.9 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 asset sales as identified in the Asset Management Plan and approved for sale by Policy and Resources Committee;

c) The approval of prudential borrowing when the following criteria also apply to the schemes funded 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 objectives of the strategic plan or the medium term financial strategy.

d) The use of New Homes Bonus for capital purposes in line with the Council's strategic plan priorities;

e) The implementation of a community infrastructure levy (CIL) and the management of its use, along with other developer contributions (S106), to deliver the objectives of the infrastructure delivery plan.

3.10 Service managers submit proposals to include projects in the Council's capital programme. Bids are collated by Corporate Finance who calculate the financing cost (which can be nil if the project is fully externally financed). Each Committee appraises the proposals based on a comparison with corporate priorities. Policy & Resources Committee recommends the capital programme which is then presented to Council in March each year.

3.11 Prior to any capital commitment being entered into, a detailed report setting out a full project appraisal and detailed financial projections is considered by the relevant service committee.

3.12 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). Further details are set out in section 4 of the Capital Strategy.

Performance Monitoring

3.13 The Council has a corporate project management framework that applies to most of the projects included within the capital programme. This provides for designation of a project manager and sponsor, and includes a mechanism for progress on corporate projects to be reported quarterly to a Corporate Projects Board.

3.14 Financial monitoring of capital projects is addressed by the Council's Financial Procedure Rules. Individual Member Service Committees receive quarterly reports on capital expenditure for the services for which they are responsible.

Capitalisation

3.15 Accounting principles govern what counts as capital expenditure. Broadly, it must yield benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of non-current assets which are charged directly to service revenue accounts.

3.16 The Council has adopted a minimum threshold of £10,000 for capitalisation.

Asset Disposals

3.17 The Council's policy for asset disposals is set out in a policy adopted by Policy and Resources Committee at its meeting on 25th July 2017.

3.18 The policy distinguishes between the following categories.

- Operational Property held and used by the Council for the direct delivery of services for which it has either a statutory or discretionary responsibility. Assets may be disposed of if they have reached the end of their economic or useful life.

- Investment Property held by the Council for revenue generation purposes, which should be assessed by its potential for improved rates of return by either better asset management, or disposal and re-investment of the receipt.

- Community assets such as open space. The Council will not usually dispose of areas of parks or other areas which are classed as public open space.

3.19 Certain schemes within the capital programme are partially funded through sale of some of the completed asset(s) to partner organisations. In this case, the capital scheme value is shown net of these receipts in the capital programme, as the receipt is ringfenced for this purpose.

4. FINANCING THE CAPITAL PROGRAMME

4.1 Typically, local authorities fund capital expenditure by borrowing from the Public Works Loan Board, which offers rates that are usually more competitive than those available in the commercial sector. Maidstone Borough Council has historically relied primarily on New Homes Bonus to fund the capital programme, but entered into a borrowing position during 2019/20. Further borrowing is likely to be required in future.

Financing Requirement

All capital expenditure must be financed, either from external sources (government grants, including New Homes Bonus, and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and other long term liabilities). The planned financing of the expenditure set out in Table 1 is as follows:

Table 2: Capital Financing

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	Total £000
External sources	6,131	10,552	3,464	2,927	2,927	2,927	28,928
Own resources	15,000	0	0	0	0	0	15,000
Debt	21,288	27,656	18,769	14,273	12,098	12,098	106,182
TOTAL	**42,419**	**38,208**	**22,233**	**17,200**	**15,025**	**15,025**	**150,110**

4.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is set out below; no assumptions have been made here about capital receipts.

Table 3: Replacement of debt finance

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	Total £000
MRP	484	1,895	2,904	3,518	3,927	4,231	16,960
Capital receipts	0	0	0	0	0	0	0
TOTAL	**484**	**1,895**	**2,904**	**3,518**	**3,927**	**4,231**	**16,960**

4.3 The Council's full minimum revenue provision statement is included within the Treasury Management Strategy.

4.4 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £25.23m during 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	19/20	20/21	21/22	22/23	23/24	24/25
	£000	£000	£000	£000	£000	£000
Brought forward	12,097	47,380	72,610	87,958	98,175	105,778
Capital Expenditure	42,419	38,208	22,233	17,200	15,025	15,025
External funding	-6,131	-10,552	-3,464	-2,927	-2,927	-2,927
Own resources	-521	-530	-517	-537	-568	-580
MRP	-484	-1,895	-2,904	-3,518	-3,927	-4,231
TOTAL CFR	**47,380**	**72,610**	**87,958**	**98,175**	**105,778**	**113,065**

Borrowing Strategy

4.5 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, so the Council will seek to strike a balance between cheap short-term loans (currently available at around 1.0%) and long-term fixed rate loans where the future cost is known but higher (currently 3 – 3.4%).

4.6 Projected levels of the Council's total outstanding debt (which comprises borrowing and other long-term liabilities) are shown below, compared with the capital financing requirement.

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.03.19 actual £000	31.03.20 forecast £000	31.03.21 budget £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000
Debt (excl.PFI & leases)	0	21,288	48,944	67,713	81,986	94,084	106,182
Capital Financing Requirement	12,097	47,380	72,610	87,958	98,175	105,778	113,065

4.7 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5, the Council expects to comply with this in the medium term.

4.8 Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances will be fully utilised to fund the capital programme. This benchmark is currently £11m and is forecast to fall to £2m over the next three years.

Table 6: Borrowing and the Liability Benchmark

	31.03.19 actual £000	31.03.20 forecast £000	31.03.21 budget £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000
Outstanding borrowing	0	17,288	44,944	63,713	77,986	90,084	102,182
Liability benchmark	4,000	21,288	48,944	67,713	81,986	94,084	106,182

4.9 The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt

Operational Boundary

	31.03.19 actual £m	31.03.20 forecast £m	31.03.21 budget £m	31.03.22 budget £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m
Borrowing	3.986	28.678	53.910	69.260	79.480	87.080	94.370
Other Long Term Liabilities	3.568	3.047	2.527	2.010	1.473	0.905	0.309
Total	**7.554**	**31.725**	**56.437**	**71.27**	**80.953**	**87.985**	**94.679**

Authorised Limit

	31.03.19 actual £m	31.03.20 forecast £m	31.03.21 budget £m	31.03.22 budget £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m
Borrowing	10.418	48.678	73.910	89.260	99.480	107.080	114.370
Other Long Term Liabilities	3.568	3.047	2.527	2.010	1.473	0.905	0.309
Total	**13.986**	**51.725**	**76.437**	**91.27**	**100.95**	**107.985**	**114.679**

4.10 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

4.11 The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments

	31.03.19 actual £000	31.03.20 forecast £000	31.03.21 budget £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000
Short-term investments	15,014	4,000	4,000	4,000	4,000	4,000	4,000
Longer-term investments	0	2,000	2,000	2,000	2,000	2,000	2,000
Total	**15,014**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**

4.12 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and Business Improvement and staff, who must act in line with the treasury management strategy approved by council. Quarterly reports on treasury management activity are included within the budget monitoring reports which are presented to the council Policy & Resources Committee with the half yearly and annual reviews which are scrutinised by Audit, Governance and Standards Committee then recommending to Full council. The Audit, Governance and Standards Committee is responsible for scrutinising treasury management decisions.

Revenue Budget Implications

4.13 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
Financing costs (£m)	-0.220	-0.155	0.659	0.889	1.042	1.156	1.266
Proportion of net revenue stream (%)	-0.011	-0.007	0.035	0.049	0.054	0.060	0.066

4.14 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend beyond 5 years into the future. The Director of Finance and Business Improvement is satisfied that the proposed capital programme is prudent, affordable and sustainable.

5. OTHER LONG TERM LIABILITIES

5.1 This section deals with other long term liabilities to which the Council has committed itself in order to secure capital investment. The Council has no Private Finance Initiative Schemes, but the following scheme is a similar contract as it is defined as a service concession arrangement.

5.2 The Council entered into an agreement during 2009/10 with Serco, the managing contractor of Maidstone Leisure Centre, to undertake a major refurbishment of the centre. Under the terms of the agreement Serco have initially funded the cost of the works through a loan, and the Council are then repaying this loan over a 15 year term, by equal monthly instalments. The principal element of this loan is reflected on the Council's Balance Sheet, and will be written down annually by the amount of principal repaid. Interest paid on the loan is charged to revenue.

Investments for Service Purposes

5.3 The Council can make investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth, Charities and the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to provide value for money to the tax payer.

5.4 Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and Business Improvement and relevant committee (where appropriate), and must meet the criteria and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme.

6. COMMERCIAL ACTIVITIES

6.1 The Council originally developed a Commercialisation Strategy in 2014, in response to the withdrawal of Revenue Support Grant and the freedoms and flexibilities offered to local authorities through the Localism Act. A review of the Strategy in November 2016 indicated that it had been successful in promoting a more business-like approach to the Council's revenue generating activities, but new initiatives had met with varying degrees of success.

6.2 It was decided by Policy and Resources Committee, on the basis of this review, to refocus the strategy on housing and regeneration, which provided the opportunity both to generate a financial return for the Council and to support its strategic priorities. As a result, a Housing Development and Regeneration Plan, to which reference has already been made here, was developed and adopted in July 2017. Similarly, the Council's Commercial Property Investment Strategy is intended to support the local economy and regeneration objectives, as well as to generate a financial return.

6.3 Accordingly, none of the Council's capital investment is undertaken for purely commercial purposes.

7. KNOWLEDGE AND SKILLS

7.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Director of Finance and Business improvement is a qualified accountant with over 15 years' experience in local government, the Corporate Property Manager and the team are experienced in Property Management and the Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury),and ACCA.

7.2 The Council currently employs Link Asset Services as treasury management advisers and a number of property consultants including Harrisons Property Surveyors Limited and Sibley Pares Limited. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

7.3 The Council carries out consultation as part of the development of the MTFS in order to establish the wider community's priorities for budget spending. In addition, consultation is carried out each year on the detailed budget proposals with individual Service Committees about budget proposals relating to the services within their areas of responsibility.

8. RISK MANAGEMENT

8.1 The capital programme forms an increasingly important part of the Council's strategy for delivering its overall priorities. Accordingly, it is of fundamental importance that the associated risks are managed actively. The Council has a comprehensive risk management framework, through which risk in relation to capital investment is managed at all levels.

Corporate

8.2 Corporate risks are identified and reported on a quarterly basis to the Corporate Leadership Team and twice a year to the Policy and Resources Committee. Risks are owned by named Directors and controls developed to mitigate risk. Risks at this level may be generic, relating to a number of capital projects, although it is possible that a single capital project could pose a corporate risk.

Financial

8.3 A Budget risk register seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.

8.4 Typically, risks in this area would relate to funding of the capital programme and over/underspending on individual capital projects.

8.5 For all risks shown on the Budget Risk Register, appropriate controls have been identified and their effectiveness is monitored on a regular basis.

Service

8.6 Individual service areas maintain risk registers, with identified risk owners and details of controls to mitigate risk.

Project

8.7 The Council's project management framework requires managers to maintain risk registers at a project level.