APPENDIX A

MAIDSTONE BOROUGH COUNCIL

REVENUE AND CAPITAL ESTIMATES

2021/22

APPENDIX A

INDEX

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 2021/22 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 Covid-19 pandemic has illustrated in the strongest possible way the potential impact of risk and uncertainty. In preparing the estimates, every effort has been made to consider the risks, drawing on the lessons of the last year and seeking to take into account all relevant factors.

2.2 A structured approach has been taken to preparing the budget estimates. They 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 21 July 2020. 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 income and expenditure are likely to change and the potential sources of new pressures. There is of course considerable uncertainty about the future financial position. This arises firstly because of uncertainty about the pace of recovery from the Covid-19 pandemic. In 2020/21, Covid-19 had an enormous impact on the Council's finances. Substantial additional expenditure was incurred and income from Council Tax, Business Rates and other sources was seriously affected. Whilst these pressures have been mitigated by government support and a reduction in Council expenditure, there is likely still to be a net adverse impact on the Council's financial position, which will continue into 2021/22. In the medium term, there remains uncertainty about the impact of the new local government funding regime that is due to be implemented in 2022/23.

2.4 Where possible, 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. Where appropriate, allowance has been included in respect of additional expenditure and shortfalls in income where these are likely to continue into 2021/22.

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 2021/22 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. As explained in the MTFS, members have considered how to re-prioritise the strategic priorities in the light of financial constraints.
Consultation with Council Taxpayers	The results of the 2020 Residents' Budget Survey have been taken into account when developing the budget proposals.
Consultation with Business Ratepayers	Consultation has taken place through the Maidstone Economic Business Partnership. Business ratepayers may also 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 and their responses were considered at its meeting on 10 February 2020.
The level of funding likely from Central Government towards the costs of local services	The Council no longer receives Revenue Support Grant. It has received additional funding in 2020/21 to assist with the response to Covid-19 and further funding is due to be received in 2021/22, but as this funding is one-off in nature and is intended to allow the Council to respond to Covid-19, it has not been applied to address ongoing budget pressures in the budget.

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.
Council Tax Base	The recommended council tax base for 2021/22 is 63,550.10, an 0.36% increase in the tax base over the 2020/21 figure. This is a smaller increase than in recent years, owing to the level of irrecoverable debt and increased demand for local council tax support.
Level of Council Tax	The level of Council Tax is an important determinant of the Council's financial resilience. A low Council Tax base and/or a low level of Council Tax have been demonstrated from analysis of local authority accounts to signal lack of resilience. It is therefore appropriate for the Council to maximise Council Tax income within the constraints imposed by the government's referendum limits. The recommended £5.31 increase in Band D Council Tax does this.
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. Following a review by HM Treasury, a prohibition was introduced in November 2020 on PWLB borrowing for the purchase of assets for yield (Commercial Investments). It is not considered that the Council's capital programme will be affected by this prohibition.
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 recently. Maidstone Borough Council is in a strong financial position and holds adequate reserves, as is evidenced by its score in CIPFA's latest Financial Resilience Index, which gives the Council an average position of 8 amongst a comparator group of 15 (ie exactly at the mid-point for its peer group).
Adequacy of Balances	At the start of 2021/22 it is anticipated that the uncommitted general fund balance will be £7.7 million. This is equivalent to 39% of net income.
Earmarked Reserves	The Council maintains a series of Earmarked Reserves to manage the resources set aside for specific activities. At the start of 2021/22 these reserves are projected to be £37.3 million. Excluding a reserve in respect of a Section 31 grant for rates relief to businesses in the retail, leisure and hospitality sectors, which will be offset by a corresponding shortfall in rates income from those businesses in the Collection Fund, the amount of Earmarked Reserves is £7.8 million. 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 2021/22 budget where these have been proposed and subsequently agreed by Members.
Growth Pressures	The Budget for 2021/22 and the projections within the MTFS for the revenue budget reflect an estimate of potential additional expenditure and shortfalls in income to the extent that the Council is aware of these at the present time. New 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. Officers and members are fully engaged in the budget setting process. Financial performance is reported promptly to officers and members. Where variances arise, prompt action is taken to address them 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 2019/20 Accounts. It is anticipated that a similar position will be reported for future years.

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 previously 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. In light of the heightened level of risk faced by the Council, and demonstrated by the Covid-19 pandemic, Council is asked to increase this minimum level to £4 million.

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

- Contraction in retail and leisure sectors
- Financial restrictions
- Environmental damage
- Brexit /EU transition
- Major unforeseen emergency
- Covid-19: Restrictions to Council operations
- Covid-19: Community & business recovery
- Housing pressures increasing
- ICT security failure
- Not fulfilling residential property responsibilities
- Major contractor failure

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

3.4 Specific financial risks facing the Council include the following:

- Financial impact from resurgence of Covid-19 virus
- Fees and Charges fail to deliver sufficient income
- Collection targets for Council Tax and Business Rates missed
- Commercialisation fails to deliver additional income
- Adverse impact from changes in local government funding
- Adverse financial consequences from a disorderly Brexit
- Capital programme cannot be funded
- Planned savings are not delivered
- Constraints on council tax increases
- Inflation rate predictions in MTFS are inaccurate
- Failure to contain expenditure within agreed budgets
- Litigation costs exceed budgeted provisions.
- Business Rates pool fails to generate sufficient growth
- Shared services fail to meet budget
- Council holds insufficient balances
- Increased complexity of government regulation

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 2021 is projected to be £7.7 million. Other earmarked balances (excluding S 31 Rates Relief reserve) total £7.8 million. An in year budget deficit of £1.6 million is projected for the the coming year (2021/22), which will be charged against the uncommitted General Fund balance. However, as outlined in the MTFS, this deficit can be covered by deploying earmarked balances, in particular the contingency for future funding pressures. In this way, the uncommitted General Fund balance can be maintained at £7.7 million in 2021/22.

3.7 It is not sustainable to continue drawing on reserves to meet in-year budget deficits. The five-year savings plan therefore sets out proposals which will eliminate the ongoing revenue budget gap by 2023/24. The Council's track record of delivering savings provides assurance that this programme can be delivered and the ongoing budget deficit eliminated within a reasonable time-frame.

3.8 In the meantime, the Council has sufficient revenue reserves to ensure that the level of uncommitted General Fund balances remains well above the minimum of £4 million at all times. The level of reserves will remain under regular review and is reported to Members as part of the quarterly budget monitoring process.

3.9 Taking into account the risks that the Council faces, and the overall scale and scope of the Council's activities, I therefore consider the level of reserves to be adequate but not excessive.

4. Conclusion

4.1 I am of the opinion that the approach taken in developing the 2021/22 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: 24 February 2021

REVENUE ESTIMATE 2021/22 to 2025/26
STRATEGIC REVENUE PROJECTION

2020/21 £000		2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
16,817	COUNCIL TAX	17,216	17,823	18,453	19,104	19,778
3,260	RETAINED BUSINESS RATES	3,430	3,498	3,568	3,640	3,713
1,210	BUSINESS RATES GROWTH	620	0	180	362	546
	COLLECTION FUND ADJUSTMENT (COUNCIL TAX)	-114	-164	-164		
	COLLECTION FUND ADJUSTMENT (BUSINESS RATES)	-13,243	-585	-585		
	SECTION 31 GRANT	11,786				
21,287	**PROJECTED NET BUDGET**	**19,695**	**20,572**	**21,452**	**23,106**	**24,037**
21,709	OTHER INCOME	21,924	18,738	20,991	22,226	23,801
	FORECAST CHANGE IN INCOME	-3,186	2,253	1,235	1,575	1,271
	SALES FEES & CHARGES COMPENSATION	84				
42,996	**TOTAL RESOURCES AVAILABLE**	**38,517**	**41,563**	**43,677**	**46,907**	**49,109**
41,314	CURRENT SPEND	42,996	41,058	42,162	43,537	45,533
	INFLATION & CONTRACT INCREASES					
1,013	PAY, NI & INFLATION INCREASES	850	1,004	1,035	1,066	1,099
	EXTERNAL BUDGET PRESSURES					
150	PENSION DEFICIT FUNDING	40	40	150	150	150
	LOCAL PRIORITIES					
24	GROWTH TO MEET STRATEGIC PRIORITIES					
10	ADDITIONAL GROWTH AGREED BY P&R	-10				
	REPROFILE LOCAL PLAN REVIEW		100	-280	60	120
	OTHER SERVICE PRESSURES					
	PROVISION FOR MAJOR CONTRACTS			500		
1,870	REVENUE COSTS OF CAPITAL PROGRAMME	221	837	630	834	453
	CONTINGENCY FOR FUTURE PRESSURES	-1,589				
50	GENERAL GROWTH PROVISION	50	50	50	50	50
44,431	**TOTAL PREDICTED REQUIREMENT**	**42,559**	**43,089**	**44,247**	**45,698**	**47,404**
-1,435	**SAVINGS REQUIRED**	**-4,042**	**-1,526**	**-570**	**1,209**	**1,704**
1,611	**EXISTING SAVINGS**	**860**	**603**	**200**	**0**	**0**
-89	**NEW AND AMENDED SAVINGS / (GROWTH)**	**641**	**324**	**510**	**165**	**0**
87	**SURPLUS / (DEFICIT)**	**-2,541**	**-599**	**140**	**1,374**	**1,704**
87	**CUMULATIVE SURPLUS / (DEFICIT)**	**-2,454**	**-1,483**	**-593**	**1,530**	**3,234**

NEW SAVINGS	641
COLLECTION FUND ADJUSTMENTS	-1,571
2021/22 BUDGET GAP EXCLUDING COLLECTION FUND ADJUSTMENTS	**-1,611**

THE MAIDSTONE BOROUGH COUNCIL

STATEMENT OF COUNCIL TAX REQUIREMENT - 2021/22

			BAND D
	£	£	£
MAIDSTONE BOROUGH COUNCIL NET SPEND		19,694,841	309.91
ADD:			
Parish Precepts		2,240,136	35.25
Collection Fund Adjustment (Council Tax)	114,055		
Collection Fund Adjustment (Business Rates)	13,242,787	13,356,842	210.18
DEDUCT:			
Retained Business Rates	-3,429,829		
Retained Business Rates Growth	-619,838		
Section 31 Grant	-11,786,294	-15,835,961	-249.19
TOTAL COUNCIL TAX REQUIREMENT		19,455,858	306.15
ADD PRECEPTS			
Kent County Council Precept		80,050,248	1259.64
Kent County Council Adult Social Care Charge		10,112,092	159.12
Kent Police & Crime Commissioner Precept		13,863,454	218.15
Kent & Medway Fire & Rescue Authority Precept		5,136,119	80.82
TOTAL COUNCIL TAX REQUIREMENT		128,617,771	2,023.88
MAIDSTONE BOROUGH COUNCIL (EXCLUDING PARISH PRECEPTS)			270.90
TOTAL COUNCIL TAX (EXCLUDING PARISH PRECEPTS)			1,988.63
TAX BASE			63,550.1

REVENUE ESTIMATES

MAIDSTONE BOROUGH COUNCIL REVENUE ESTIMATES

REVISED ESTIMATE 2020/21 AND ESTIMATE 2021/22

COMMITTEE SUMMARY

Cost Centre/Service	Original Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 £
Policy & Resources	6,360,770	6,922,090	7,235,330
Strategic Planning & Infrastructure	-1,327,200	-1,059,420	-508,250
Communities, Housing & Environment	8,490,380	8,542,550	8,182,870
Economic Regeneration & Leisure	938,690	1,053,780	967,450
	14,462,640	**15,459,000**	**15,877,401**
Invest to Save Contributions	10,000	10,000	10,000
Transfers to Reserves	6,814,090	5,817,730	3,807,440
Net Revenue Expenditure	**21,286,730**	**21,286,730**	**19,694,841**

POLICY & RESOURCES COMMITTEE

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Contingency	266,470	330,450	386,480	-84,370	302,110
Unapportionable Central Overheads	1,419,050	1,419,050	1,459,050		1,459,050
Non Service Related Government Grants	-4,472,240	-4,472,240		-3,995,240	-3,995,240
Appropriation Account	1,030,360	1,094,410	1,106,340		1,106,340
Pensions Fund Appropriation	0	0	0		0
Balances, Pensions & Appropriation To	-1,756,360	-1,628,330	2,951,870	-4,079,610	-1,127,740
Council Tax Collection	53,850	53,850	92,840	-37,790	55,050
Council Tax Collection - Non Pooled	-364,400	-357,590	66,330	-423,340	-357,010
Council Tax Benefits Administration	-152,120	-152,120		-152,120	-152,120
NNDR Collection	1,480	1,480	2,700	-1,180	1,520
NNDR Collection - Non Pooled	-234,210	-234,210	15,310	-249,230	-233,920
MBC- BID	330	330	17,590	-16,920	670
Registration Of Electors	49,000	49,000	52,250	-2,390	49,860
Elections	168,480	168,480	143,740	-430	143,310
External Interest Payable	2,061,790	2,061,790	2,262,550		2,262,550
Interest & Investment Income	-100,000	-100,000		-100,000	-100,000
Central Services to the Public Total	1,484,200	1,491,010	2,653,310	-983,400	1,669,910
Palace Gatehouse	-8,300	-8,300	3,000	-10,300	-7,300
Archbishops Palace	-96,980	-95,970	45,960	-141,280	-95,320
Parkwood Industrial Estate	-311,080	-311,440	13,870	-291,410	-277,540
Industrial Starter Units	-29,140	-28,100	28,950	-41,460	-12,510
Parkwood Equilibrium Units	-218,860	-80,010	53,130	-118,330	-65,200
Sundry Corporate Properties	-385,860	-375,190	36,190	-588,270	-552,080
Parks Dwellings	22,230	0	0		0
Phoenix Park Units	-215,890	-215,030	46,230	-239,820	-193,590
Granada House - Commercial	-109,250	-109,920	10,890	-105,530	-94,640
MPH Residential Properties	-280,090	-278,550	6,380	-843,440	-837,060
Heronden Road Units	-151,160	-161,750	11,570	-162,990	-151,420
Boxmend Industrial Estate	-100,680	-93,020	26,780	-113,790	-87,010
Lockmeadow	-72,300	-72,300	76,570	-148,870	-72,300
NEW Lockmeadow Complex	-1,096,000	-812,250	122,760	-1,204,250	-1,081,490
Wren Industrial Estate	0	-143,010	53,530	-181,810	-128,280
Commercial Investments Total	-3,053,360	-2,784,840	535,810	-4,191,550	-3,655,740
Performance & Development	7,630	13,710	13,140		13,140
Corporate Projects	6,820	39,070	6,200		6,200
Press & Public Relations	31,130	24,170	24,670		24,670
Corporate Management	94,230	94,230	600,520		600,520
Corporate Management Total	139,810	171,180	644,530	0	644,530
Innovation Centre Section	0	117,390	57,540	-60,490	-2,950
Democratic Services Section	188,630	185,840	190,840	-1,730	189,110
Mayoral & Civic Services Section	114,550	115,130	115,780		115,780
Chief Executive	184,960	184,520	183,830		183,830
Communications Section	186,280	184,630	188,860	-390	188,470
Policy & Information Section	270,550	235,420	239,810	0	239,810
Head of Policy and Communications	114,310	122,370	113,730		113,730
Registration Services Section	141,570	135,780	114,640		114,640
Director of Finance & Business Improvemer	145,850	144,430	145,170		145,170
Accountancy Section	730,840	731,980	748,870	-22,900	725,970
Director of Regeneration & Place	144,820	143,400	145,270	-1,100	144,170
Procurement Section	140,880	118,530	122,850	-13,100	109,750
Property & Projects Section	420,140	460,810	475,130	-5,750	469,380
Corporate Support Section	244,230	243,950	245,860		245,860
Improvement Section	344,980	350,290	375,680	-25,500	350,180
Executive Support Section	172,710	171,230	172,690		172,690
Head of Commissioning and Business Impro	103,230	102,280	107,190	0	107,190
Customer Services Section	667,710	671,750	686,610	0	686,610
Emergency Planning & Resilience	0	20,850	25,740		25,740
Salary Slippage 1PR	-261,000	-212,220	-248,930		-248,930
Corporate Support Services Total	4,055,240	4,110,970	4,149,620	-70,470	4,079,150
Civic Occasions	42,060	42,020	42,750		42,750
Members Allowances	389,300	389,300	396,290		396,290
Members Facilities	29,060	29,060	29,610		29,610
Democratic Representation Total	460,420	460,380	468,650	0	468,650
Emergency Centre	25,590	25,920	26,040		26,040
Emergency Planning Total	25,590	25,920	26,040	0	26,040
Housing Benefits Administration	-357,610	-353,730	14,460	-368,190	-353,730
Housing Benefit Administration Total	-357,610	-353,730	14,460	-368,190	-353,730
Medway Conservancy	120,070	120,070	126,080		126,080
Levies Total	120,070	120,070	126,080	0	126,080
Town Hall	100,000	100,810	111,120	-1,500	109,620
South Maidstone Depot	152,800	152,150	152,350		152,350
The Link	101,510	86,280	362,980	-264,420	98,560
Maidstone House	1,060,510	1,084,280	1,307,480	-224,910	1,082,570

POLICY & RESOURCES COMMITTEE

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Museum Buildings	273,080	286,820	296,650	-1,110	295,540
Office Accommodation Total	1,687,900	1,710,340	2,230,580	-491,940	1,738,640
Rent Allowances	-146,790	-124,720	36,067,150	-36,191,870	-124,720
Non HRA Rent Rebates	-8,490	-10,770	1,066,750	-1,077,520	-10,770
Discretionary Housing Payments	1,450	1,450	300,700	-299,250	1,450
Rent Rebates Total	-153,830	-134,040	37,434,600	-37,568,640	-134,040
Revenues Section	502,120	501,930	886,860	-377,040	509,820
Benefits Section	482,950	487,320	772,380	-282,290	490,090
Fraud Section	29,930	33,270	234,440	-203,720	30,720
Mid Kent Audit Partnership	212,690	233,680	742,820	-510,310	232,510
Legal Services Section	507,250	507,250	552,100	-69,000	483,100
Mid Kent ICT Services	615,720	563,520	1,553,640	-1,002,780	550,860
GIS Section	115,530	114,800	194,000	-77,600	116,400
Director of Mid Kent Services	46,410	44,350	138,650	-92,800	45,850
Mid Kent HR Services Section	400,890	390,700	662,010	-272,230	389,780
MBC HR Services Section	180,120	110,920	179,190	-2,090	177,100
Head of Revenues & Benefits	72,500	67,760	111,670	-38,990	72,680
Revenues & Benefits Business Support	110,820	110,010	320,160	-232,490	87,670
Dartford HR Services Section	-19,730	-36,360	53,190	-76,650	-23,460
IT Support for Revenues and Benefits	39,110	39,090	66,640	-27,040	39,600
I.T. Operational Services	532,560	570,780	582,680		582,680
Central Telephones	14,910	14,910	15,210		15,210
Shared Services Total	3,843,780	3,753,930	7,065,640	-3,265,030	3,800,610
Apprentices Programme	49,910	49,930	50,160		50,160
Internal Printing	-5,240	-5,240	52,290	-56,920	-4,630
Debt Recovery Service	-35,650	-38,750	772,120	-788,630	-16,510
Debt Recovery MBC Profit Share	-144,100	-144,100		-73,100	-73,100
Trading Accounts Total	-135,080	-138,160	874,570	-918,650	-44,080
Policy & Resources	**6,360,770**	**6,922,090**	**59,233,300**	**-51,997,970**	**7,235,330**

POLICY & RESOURCES COMMITTEE - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 £
Agency & Contractor	1,057,870	668,110	966,730
Allowances	379,050	384,680	392,000
Benefits	38,541,810	37,434,600	37,434,600
Employee Direct	9,476,000	9,431,080	9,352,490
Employee Other	1,517,600	1,586,810	1,548,890
Equipment & Furniture	897,700	906,520	906,650
Fees & Charges	-1,209,370	-541,900	-850,040
General Insurances	18,020	15,210	13,900
Grants & Contributions Paid	2,178,100	2,177,900	2,380,340
Grants & Contributions Receive	-47,047,500	-46,152,910	-45,604,360
Income Other	-1,142,160	-1,993,070	-1,117,760
Information & Communication	4,390	4,390	4,470
Leasing & Capital Charges	1,030,360	1,094,410	1,106,340
Premises Other	1,627,760	1,703,300	1,737,900
Printing & Stationery	137,920	128,740	131,390
Professional Services	416,420	1,202,970	465,690
Rent	-3,653,400	-3,471,990	-4,365,320
Repairs & Maintenance	534,170	534,470	552,160
Security & Protection	39,350	39,350	40,140
Subsistence & Training	175,370	145,520	178,290
Supplies & Services Other	770,480	929,560	1,329,590
Utilities	447,210	447,210	468,340
Vehicle & Transport	163,620	157,130	162,900
Policy & Resources	**6,360,770**	**6,832,090**	**7,235,330**

STRATEGIC PLANNING & INFRASTRUCTURE COMMITTEE

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Building Regulations Chargeable	-384,750	-384,750	7,240	-354,160	-346,920
Building Control	-990	-990	0	-990	-990
Street Naming & Numbering	-81,500	-81,500		-73,350	-73,350
Building Control Total	-467,240	-467,240	7,240	-428,500	-421,260
Land Charges	-297,860	-297,870	25,450	-290,400	-264,950
Central Services to the Public Total	-297,860	-297,870	25,450	-290,400	-264,950
Development Management Section	967,330	0	0		0
Spatial Policy Planning Section	408,080	517,140	421,770	0	421,770
Head of Planning and Development	111,380	116,640	110,760		110,760
Development Management Enforcement Section	185,030	181,900	185,030		185,030
Building Surveying Section	443,720	437,520	446,150		446,150
Heritage Landscape and Design Section	207,560	221,130	209,240		209,240
CIL Management Section	129,890	72,800	75,210	-30,000	45,210
Development Management Section – Majors	0	284,710	282,700		282,700
Development Management Section – Others	0	677,300	683,040		683,040
Parking Services Section	343,450	309,510	472,280	-130,580	341,700
Salary Slippage 2SPI	-90,200	-72,070	-85,050		-85,050
Corporate Support Services Total	2,706,240	2,746,580	2,801,130	-160,580	2,640,550
Development Control Advice	-235,560	-250,560	34,610	-272,550	-237,940
Development Control Appeals	126,730	126,730	129,260		129,260
Development Control Majors	-570,020	-556,340	21,300	-532,320	-511,020
Development Control - Other	-711,510	-711,510	6,290	-646,790	-640,500
Development Control Enforcement	68,470	68,470	69,840		69,840
Development Control Total	-1,321,890	-1,323,210	261,300	-1,451,660	-1,190,360
Environment Improvements	24,880	3,890	6,440		6,440
Name Plates & Notices	18,680	18,680	19,060		19,060
Network & Traffic Management Total	43,560	22,570	25,500	0	25,500
On Street Parking	-402,940	-380,640	407,250	-729,700	-322,450
Residents Parking	-251,290	-207,430	54,580	-261,280	-206,700
Pay & Display Car Parks	-1,862,500	-1,840,340	514,720	-1,754,040	-1,239,320
Non Paying Car Parks	11,440	16,440	16,700	-10	16,690
Off Street Parking - Enforcement	-80,470	-116,340	162,460	-276,690	-114,230
Mote Park Pay & Display	-188,610	-188,730	47,360	-233,380	-186,020
Sandling Road Car Park	3,560	3,270	155,810	-152,530	3,280
Parking Services Total	-2,770,810	-2,713,770	1,358,880	-3,407,630	-2,048,750
Planning Policy	200,250	349,280	200,000	0	200,000
Neighbourhood Planning	0	25,000	0		0
Conservation	-11,390	-11,190	4,390	-15,600	-11,210
Planning Policy Total	188,860	363,090	204,390	-15,600	188,790
Park & Ride	165,920	165,740	162,390		162,390
Socially Desirable Buses	0	0	0		0
Other Transport Services	-9,740	-4,680	31,580	-36,110	-4,530
Public Transport Total	156,180	161,060	193,970	-36,110	157,860
Mid Kent Planning Support Service	394,570	350,990	512,160	-198,310	313,850
Mid Kent Local Land Charges Section	41,190	98,380	191,680	-101,160	90,520
Shared Services Total	435,760	449,370	703,840	-299,470	404,370
Strategic Planning & Infrastructure	**-1,327,200**	**-1,059,420**	**5,581,700**	**-6,089,950**	**-508,250**

STRATEGIC PLANNING & INFRASTRUCTURE COMMITTEE - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 £
Agency & Contractor	587,980	570,640	576,690
Employee Direct	3,285,220	3,222,670	3,226,100
Employee Other	97,100	311,150	97,580
Equipment & Furniture	90,070	90,070	91,640
Fees & Charges	-6,462,580	-6,462,580	-5,477,730
General Insurances	12,210	16,230	16,400
Grants & Contributions Paid	40,270	44,090	19,380
Grants & Contributions Received	-465,690	-530,400	-426,400
Income Other	-142,800	-161,420	-178,650
Information & Communications	190	190	190
Premises Other	320,810	334,950	341,410
Printing & Stationery	30,510	30,270	30,490
Professional Services	529,880	728,900	502,430
Rent	-7,170	-7,170	-7,170
Repairs & Maintenance	218,860	212,930	203,890
Security & Protection	75,350	74,000	76,850
Subsistence & Training	2,670	11,120	2,690
Supplies & Services Other	355,250	402,400	292,250
Utilities	16,120	16,120	16,870
Vehicle & Transport	88,550	86,720	86,840
Strategic Planning & Infrastructure	**-1,327,200**	**-1,009,120**	**-508,250**

COMMUNITIES, HOUSING & ENVIRONMENT COMMITTEE

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Cemetery	54,370	62,050	204,310	-139,380	64,930
National Assistance Act	-440	-440	2,160	-2,560	-400
Crematorium	-819,660	-842,980	493,850	-1,332,780	-838,930
Bereavement Services Total	-765,730	-781,370	700,320	-1,474,720	-774,400
Grants	176,950	176,950	165,950		165,950
Delegated Grants	2,140	2,140	2,140		2,140
Parish Services	129,880	129,880	129,880		129,880
Central Services to the Public Total	308,970	308,970	297,970	0	297,970
Community Environmental Engagement	440	560	0		0
Community Hub	0	170	0	0	0
Community Development Total	440	730	0	0	0
Community Safety	46,140	27,820	28,420	0	28,420
PCC Grant - Building Safer Communities	0	0	31,250	-31,250	0
C C T V	57,020	76,880	77,250		77,250
Community Safety Total	103,160	104,700	136,920	-31,250	105,670
Head of Environment and Public Realm	106,950	105,860	110,340		110,340
Bereavement Services Section	217,070	249,660	254,960		254,960
Community Partnerships & Resilience Section	450,120	443,420	390,910		390,910
Licensing Section	113,430	113,350	114,320		114,320
Environmental Protection Section	267,160	267,160	272,240		272,240
Food and Safety Section	261,750	261,750	266,720		266,720
Depot Services Section	791,580	803,520	842,660	-41,300	801,360
Biodiversity & Climate Change	0	30,440	61,780		61,780
Head of Housing & Community Services	111,720	110,620	111,200		111,200
Homechoice Section	213,820	213,420	266,080	-49,800	216,280
Housing & Inclusion Section	550,950	591,290	707,270	-290,560	416,710
Housing & Health Section	266,160	268,560	501,200	-227,380	273,820
Housing Management	298,950	271,330	317,210	-43,840	273,370
Homelessness Outreach	4,020	5,280	52,400	-48,470	3,930
Salary Slippage 3CHE	-150,200	-133,460	-151,110		-151,110
Corporate Support Services Total	3,503,480	3,602,200	4,118,180	-701,350	3,416,830
Drainage	32,380	32,380	32,400		32,400
Flood Defences & Land Drainage Total	32,380	32,380	32,400	0	32,400
Homeless Temporary Accommodation	549,030	409,030	667,990	-270,470	397,520
Homelessness Prevention	267,000	311,080	191,900	0	191,900
Predictive Analysis and Preventing Homelessne	510	56,250	0		0
Aylesbury House	-15,990	13,370	84,080	-69,140	14,940
Magnolia House	-26,240	7,970	57,490	-49,760	7,730
St Martins House	0	0	12,300	-12,240	60
Marsham Street	34,610	58,880	164,870	-104,220	60,650
Sundry Temporary Accomm (TA) Properties	-37,420	1,910	60,060	-56,850	3,210
Pelican Court (Leased TA Property)	0	0	0	0	0
2 Bed Property - Temporary Accommodation	-56,030	-58,870	74,060	-131,200	-57,140
3 Bed Property - Temporary Accommodation	-46,660	-37,710	79,680	-115,500	-35,820
4 bed Property - Temporary Accommodation	-6,270	-1,050	18,730	-19,400	-670
1 Bed Property- Temporary Accommodation	-2,170	3,120	9,110	-5,920	3,190
Melville Road Supported Accommodation	-7,440	-28,310	33,650	-61,250	-27,600
Homelessness Total	652,930	735,670	1,453,920	-895,950	557,970
Housing Register & Allocations	10,610	10,610	10,820		10,820
Housing Advice Total	10,610	10,610	10,820	0	10,820
General Fund Residential Properties	-102,120	-92,420	18,240	-119,590	-101,350
Strategic Housing Role	14,320	14,320	14,610		14,610
Housing Strategy Total	-87,800	-78,100	32,850	-119,590	-86,740
Parks & Open Spaces	991,770	1,000,720	1,046,350	-50,610	995,740
Playground Maintenance & Improvements	148,870	136,230	138,520		138,520
Parks Pavilions	39,720	32,180	36,750	-10	36,740
Mote Park	270,480	255,540	273,810	-16,570	257,240
Parks & Open Spaces Leisure Activities	-5,830	-4,820		17,180	17,180
Mote Park Leisure Activities	-38,310	-37,710		-37,710	-37,710
Allotments	12,900	12,900	13,120		13,120
Open Spaces Total	1,419,600	1,395,040	1,508,550	-87,720	1,420,830
Marden Caravan Site (Stilebridge Lane)	19,230	19,250	49,670	-30,340	19,330
Ulcombe Caravan Site (Water Lane)	6,560	6,540	46,590	-40,000	6,590
Other Council Properties Total	25,790	25,790	96,260	-70,340	25,920
Private Sector Renewal	-47,220	-47,220	2,840	-50,000	-47,160
HMO Licensing	-20,380	-20,380		-20,380	-20,380
Private Sector Housing Renewal Total	-67,600	-67,600	2,840	-70,380	-67,540
Public Health - Obesity	0	0	0	0	0
Public Health - Misc Services	0	0	0	0	0
Public Health Total	0	0	0	0	0
Recycling Collection	809,950	788,250	2,174,400	-1,461,090	713,310
Recycling Total	809,950	788,250	2,174,400	-1,461,090	713,310

COMMUNITIES, HOUSING & ENVIRONMENT COMMITTEE

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Licences	-5,740	-5,740	23,590	-28,890	-5,300
Licensing Statutory	-64,120	-64,120	78,670	-141,320	-62,650
Licensing Non Chargeable	7,720	7,720	7,870		7,870
Dog Control	29,070	29,780	34,380	-3,900	30,480
Health Improvement Programme	9,340	9,340	9,520		9,520
Pollution Control - General	12,030	1,330	22,290	-10,060	12,230
Contaminated Land	60	560	1,080	-500	580
Waste Crime	6,270	36,210	106,430	-67,560	38,870
Food Hygiene	8,790	9,070	12,380	-3,070	9,310
Sampling	3,510	3,510	3,580		3,580
Occupational Health & Safety	-4,620	-6,450	0	-6,450	-6,450
Infectious Disease Control	1,070	1,130	1,150		1,150
Noise Control	1,210	1,210	1,210		1,210
Pest Control	-11,840	-11,840	160	-12,000	-11,840
Public Conveniences	199,710	199,950	197,210		197,210
Licensing - Hackney & Private Hire	-62,660	-62,660	77,820	-139,020	-61,200
Regulatory Services Total	129,800	149,000	577,340	-412,770	164,570
Street Cleansing	1,165,290	1,132,000	1,163,220	-20,390	1,142,830
Street Cleansing Total	1,165,290	1,132,000	1,163,220	-20,390	1,142,830
Commercial Waste Services	-61,140	-59,230	195,470	-251,170	-55,700
Trade Waste Total	-61,140	-59,230	195,470	-251,170	-55,700
Fleet Workshop & Management	259,670	241,170	244,990		244,990
MBS Support Crew	-62,970	-62,740	135,480	-195,470	-59,990
Grounds Maintenance - Commercial	-135,030	-134,540	138,940	-290,970	-152,030
Trading Accounts Total	61,670	43,890	519,410	-486,440	32,970
Household Waste Collection	1,248,580	1,199,620	1,400,130	-154,970	1,245,160
Waste Collection Total	1,248,580	1,199,620	1,400,130	-154,970	1,245,160
Communities, Housing & Environment	**8,490,380**	**8,542,550**	**14,421,000**	**-6,238,130**	**8,182,870**

COMMUNITIES, HOUSING & ENVIRONMENT COMMITTEE - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 £
Agency & Contractor	4,358,510	4,282,440	4,412,300
Employee Direct	5,531,150	6,043,020	5,811,780
Employee Other	146,070	319,690	-22,650
Equipment & Furniture	382,190	404,090	415,090
Fees & Charges	-2,913,810	-2,931,050	-3,054,050
General Insurances	11,160	14,240	14,420
Grants & Contributions Paid	345,100	345,100	334,470
Grants & Contributions Received	-563,210	-2,245,890	-741,300
Income Other	-1,396,540	-1,408,980	-1,406,960
Information & Communications	48,510	48,820	49,790
Premises Other	409,360	541,340	471,510
Printing & Stationery	15,850	16,600	16,900
Professional Services	1,122,410	1,062,720	942,020
Rent	-1,044,170	-1,111,230	-1,035,820
Repairs & Maintenance	673,820	767,040	762,600
Security & Protection	77,790	84,130	78,470
Subsistence & Training	200	26,700	200
Supplies & Services Other	667,980	1,722,910	569,890
Utilities	156,280	172,130	168,600
Vehicle & Transport	461,730	428,430	395,610
Communities, Housing & Environment	**8,490,380**	**8,582,250**	**8,182,870**

ECONOMIC REGENERATION & LEISURE COMMITTEE

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Sandling Road Site	23,810	25,290	26,290		26,290
Business Support & Enterprise	0	5,000	0		0
Town Centre Management Sponsorship	0	6,950	0		0
Business Terrace	77,360	78,490	176,900	-95,010	81,890
Business Terrace Expansion (Phase 3)	-13,460	-13,710	186,290	-196,830	-10,540
Business Support Total	87,710	102,020	389,480	-291,840	97,640
Leisure Services Section	51,740	53,140	98,820	-43,200	55,620
Cultural Services Section	501,040	541,780	370,910		370,910
Visitor Economy Section	116,710	116,120	116,960		116,960
Economic Development Section	279,790	283,840	228,840	-51,630	177,210
Market Section	81,570	85,600	86,600		86,600
Head of Regeneration and Economic Development	93,950	100,140	98,640	-1,630	97,010
Salary Slippage 4ERL	-31,510	-27,680	-30,210		-30,210
Corporate Support Services Total	1,093,290	1,152,940	970,560	-96,460	874,100
Cultural Development Arts	12,020	11,860	11,840		11,840
Museum	11,490	13,030	108,640	-94,300	14,340
Carriage Museum	3,710	3,690	5,790	-1,600	4,190
Museum-Grant Funded Activities	30	20	0	0	0
Hazlitt Arts Centre	283,860	284,350	292,470		292,470
Festivals and Events	-30,600	-30,600	4,950	-30,020	-25,070
Culture & Heritage Total	280,510	282,350	423,690	-125,920	297,770
Market	-58,450	-56,810	112,560	-168,090	-55,530
Economic Dev - Promotion & Marketing	-172,900	-133,480	4,980	-18,500	-13,520
Economic Development Total	-231,350	-190,290	117,540	-186,590	-69,050
Mote Park Adventure Zone	-106,660	-107,810	6,200	-78,000	-71,800
Mote Park Cafe	-52,180	-55,690	7,200	-40,030	-32,830
Maintenance of Closed Churchyards	2,700	4,200	11,000		11,000
Open Spaces Total	-156,140	-159,300	24,400	-118,030	-93,630
Lettable Halls	-3,550	-3,540	7,390	-10,900	-3,510
Community Halls	75,240	76,900	92,730	-16,710	76,020
Leisure Centre	-180,520	-180,800	23,870	-200,000	-176,130
Cobtree Golf Course	-35,000	-35,000		-35,000	-35,000
Recreation & Sport Total	-143,830	-142,440	123,990	-262,610	-138,620
Tourism	27,090	27,090	43,390	-25,450	17,940
Museum Shop	-18,590	-18,590	21,830	-40,530	-18,700
Tourism Total	8,500	8,500	65,220	-65,980	-760
Economic Regeneration & Leisure	**938,690**	**1,053,780**	**2,114,880**	**-1,147,430**	**967,450**

ECONOMIC REGENERATION & LEISURE COMMITTEE - SUBJECTIVE ANALYSIS

Subjective Analysis	**Original Approved Estimate 2020/21 £**	**Revised Estimate 2020/21 £**	**Estimate 2021/22 £**
Agency & Contractor	270,620	270,620	278,350
Employee Direct	1,134,160	1,233,610	1,144,900
Employee Other	20,540	22,490	-179,250
Equipment & Furniture	29,810	31,300	31,870
Fees & Charges	-502,250	-481,510	-481,510
General Insurances	37,680	37,250	37,540
Grants & Contributions Paid	17,490	21,340	17,840
Grants & Contributions Received	0	-114,000	0
Income Other	-797,280	-832,470	-631,610
Information & Communications	39,270	39,520	40,050
Premises Other	329,580	332,180	340,780
Printing & Stationery	6,610	7,810	6,920
Professional Services	25,290	75,210	12,860
Rent	-64,910	-64,910	-34,310
Repairs & Maintenance	131,050	137,900	142,160
Subsistence & Training	810	9,110	810
Supplies & Services Other	180,100	247,410	157,530
Utilities	60,400	60,310	62,800
Vehicle & Transport	19,720	20,610	19,720
Economic Regeneration & Leisure	**938,690**	**1,053,780**	**967,450**

MAIDSTONE BOROUGH COUNCIL REVENUE ESTIMATES

REVISED ESTIMATE 2020/21 AND ESTIMATE 2021/22

COMMITTEE SUMMARY

Cost Centre/Service	Original Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 £
Safe, Clean and Green	6,315,550	6,209,770	6,270,940
Homes and Communities	1,918,940	2,006,840	1,085,450
Thriving Place	1,126,340	1,240,760	1,091,290
Embracing Growth and Enabling Infrastructure	-1,236,560	-986,790	-423,200
Central and Democratic	6,338,370	6,988,420	7,852,920
	14,462,640	**15,459,000**	**15,877,401**
Invest to Save Contributions	10,000	10,000	10,000
Transfers to Reserves	6,814,090	5,817,730	3,807,440
Net Revenue Expenditure	**21,286,730**	**21,286,730**	**19,694,841**

SAFE, CLEAN & GREEN

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Mote Park Adventure Zone	-106,660	-107,810	6,200	-78,000	-71,800
Parks & Open Spaces	991,770	1,000,720	1,046,350	-50,610	995,740
Playground Maintenance & Improvements	148,870	136,230	138,520		138,520
Parks Pavilions	39,720	32,180	36,750	-10	36,740
Mote Park	270,480	255,540	273,810	-16,570	257,240
Mote Park Cafe	-52,180	-55,690	7,200	-40,030	-32,830
Parks & Open Spaces Leisure Activities	-5,830	-4,820		17,180	17,180
Mote Park Leisure Activities	-38,310	-37,710		-37,710	-37,710
Allotments	12,900	12,900	13,120		13,120
Cemetery	54,370	62,050	204,310	-139,380	64,930
National Assistance Act	-440	-440	2,160	-2,560	-400
Crematorium	-819,660	-842,980	493,850	-1,332,780	-838,930
Maintenance of Closed Churchyards	2,700	4,200	11,000		11,000
Community Safety	46,140	27,820	28,420	0	28,420
PCC Grant - Building Safer Communities	0	0	31,250	-31,250	0
C C T V	57,020	76,880	77,250		77,250
Drainage	32,380	32,380	32,400		32,400
Licences	-5,740	-5,740	23,590	-28,890	-5,300
Licensing Statutory	-64,120	-64,120	78,670	-141,320	-62,650
Licensing Non Chargeable	7,720	7,720	7,870		7,870
Dog Control	29,070	29,780	34,380	-3,900	30,480
Health Improvement Programme	9,340	9,340	9,520		9,520
Pollution Control - General	12,030	1,330	22,290	-10,060	12,230
Contaminated Land	60	560	1,080	-500	580
Waste Crime	6,270	36,210	106,430	-67,560	38,870
Food Hygiene	8,790	9,070	12,380	-3,070	9,310
Sampling	3,510	3,510	3,580		3,580
Occupational Health & Safety	-4,620	-6,450	0	-6,450	-6,450
Infectious Disease Control	1,070	1,130	1,150		1,150
Noise Control	1,210	1,210	1,210	0	1,210
Pest Control	-11,840	-11,840	160	-12,000	-11,840
Public Conveniences	199,710	199,950	197,210		197,210
Licensing - Hackney & Private Hire	-62,660	-62,660	77,820	-139,020	-61,200
Street Cleansing	1,165,290	1,132,000	1,163,220	-20,390	1,142,830
Household Waste Collection	1,248,580	1,199,620	1,400,130	-154,970	1,245,160
Commercial Waste Services	-61,140	-59,230	195,470	-251,170	-55,700
Recycling Collection	809,950	788,250	2,174,400	-1,461,090	713,310
Medway Conservancy	120,070	120,070	126,080		126,080
Head of Environment and Public Realm	106,950	105,860	110,340		110,340
Bereavement Services Section	217,070	249,660	254,960		254,960
Community Partnerships & Resilience Section	450,120	443,420	390,910		390,910
Licensing Section	113,430	113,350	114,320		114,320
Environmental Protection Section	267,160	267,160	272,240		272,240
Food and Safety Section	261,750	261,750	266,720		266,720
Depot Services Section	791,580	803,520	842,660	-41,300	801,360
Fleet Workshop & Management	259,670	241,170	244,990		244,990
MBS Support Crew	-62,970	-62,740	135,480	-195,470	-59,990
Grounds Maintenance - Commercial	-135,030	-134,540	138,940	-290,970	-152,030
Safe, Clean & Green	**6,315,550**	**6,209,770**	**10,810,790**	**-4,539,850**	**6,270,940**

SAFE, CLEAN & GREEN - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 £
Agency & Contractor	4,341,570	4,282,110	4,411,970
Employee Direct	3,856,050	3,893,940	3,944,980
Employee Other	110,750	105,630	50,660
Equipment & Furniture	369,210	363,110	377,470
Fees & Charges	-2,823,090	-2,840,330	-2,963,330
General Insurances	17,170	20,160	20,410
Grants & Contributions Paid	26,210	26,210	26,380
Grants & Contributions Received	-31,250	-45,440	-31,250
Income Other	-1,537,370	-1,553,350	-1,521,930
Information & Communications	32,050	32,360	33,000
Premises Other	261,030	247,830	253,600
Printing & Stationery	15,700	16,450	16,750
Professional Services	228,030	242,710	246,200
Rent	-52,940	-53,940	-23,340
Repairs & Maintenance	421,360	430,050	445,910
Security & Protection	22,790	21,930	22,370
Subsistence & Training	200	16,700	200
Supplies & Services Other	397,240	401,020	359,980
Utilities	234,110	231,110	244,040
Vehicle & Transport	426,730	371,510	356,870
Safe, Clean & Green	**6,315,550**	**6,209,770**	**6,270,940**

HOMES & COMMUNITIES

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Community Hub	0	170	0	0	0
Public Health - Obesity	0	0	0	0	0
Public Health - Misc Services	0	0	0	0	0
Grants	176,950	176,950	165,950		165,950
Delegated Grants	2,140	2,140	2,140		2,140
Parish Services	129,880	129,880	129,880		129,880
Parks Dwellings	22,230	0	0		0
MPH Residential Properties	-280,090	-278,550	6,380	-843,440	-837,060
General Fund Residential Properties	-102,120	-92,420	18,240	-119,590	-101,350
Strategic Housing Role	14,320	14,320	14,610		14,610
Housing Register & Allocations	10,610	10,610	10,820		10,820
Private Sector Renewal	-47,220	-47,220	2,840	-50,000	-47,160
HMO Licensing	-20,380	-20,380		-20,380	-20,380
Homeless Temporary Accommodation	549,030	409,030	667,990	-270,470	397,520
Homelessness Prevention	267,000	311,080	191,900	0	191,900
Predictive Analysis and Preventing Homelessne	510	56,250	0		0
Aylesbury House	-15,990	13,370	84,080	-69,140	14,940
Magnolia House	-26,240	7,970	57,490	-49,760	7,730
St Martins House	0	0	12,300	-12,240	60
Marsham Street	34,610	58,880	164,870	-104,220	60,650
Sundry Temporary Accomm (TA) Properties	-37,420	1,910	60,060	-56,850	3,210
Pelican Court (Leased TA Property)	0	0	0	0	0
2 Bed Property - Temporary Accommodation	-56,030	-58,870	74,060	-131,200	-57,140
3 Bed Property - Temporary Accommodation	-46,660	-37,710	79,680	-115,500	-35,820
4 bed Property - Temporary Accommodation	-6,270	-1,050	18,730	-19,400	-670
1 Bed Property- Temporary Accommodation	-2,170	3,120	9,110	-5,920	3,190
Melville Road Supported Accommodation	-7,440	-28,310	33,650	-61,250	-27,600
Marden Caravan Site (Stilebridge Lane)	19,230	19,250	49,670	-30,340	19,330
Ulcombe Caravan Site (Water Lane)	6,560	6,540	46,590	-40,000	6,590
Homechoice Section	213,820	213,420	266,080	-49,800	216,280
Housing & Inclusion Section	550,950	591,290	707,270	-290,560	416,710
Housing & Health Section	266,160	268,560	501,200	-227,380	273,820
Housing Management	298,950	271,330	317,210	-43,840	273,370
Homelessness Outreach	4,020	5,280	52,400	-48,470	3,930
Homes & Communities	**1,918,940**	**2,006,840**	**3,745,200**	**-2,659,750**	**1,085,450**

HOMES & COMMUNITIES - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 £
Agency & Contractor	16,940	330	330
Employee Direct	1,719,310	2,147,620	1,930,750
Employee Other	33,560	179,780	-154,660
Equipment & Furniture	12,880	40,880	37,520
Fees & Charges	-90,720	-90,720	-90,720
General Insurances	180	180	150
Grants & Contributions Paid	318,460	318,460	307,650
Grants & Contributions Receiv	-531,960	-2,200,450	-710,050
Income Other	-3,060	-3,060	-3,060
Information & Communication	16,460	16,460	16,790
Premises Other	155,420	300,280	225,770
Printing & Stationery	150	150	150
Professional Services	894,380	820,010	695,820
Rent	-1,306,070	-1,372,130	-1,855,920
Repairs & Maintenance	282,730	348,450	333,410
Security & Protection	55,000	62,200	56,100
Subsistence & Training	0	10,000	0
Supplies & Services Other	270,210	1,313,680	209,330
Utilities	43,360	61,090	50,640
Vehicle & Transport	31,710	53,630	35,450
Homes & Communities	**1,918,940**	**2,006,840**	**1,085,450**

THRIVING PLACE

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Cultural Development Arts	12,020	11,860	11,840	0	11,840
Museum	11,490	13,030	108,640	-94,300	14,340
Carriage Museum	3,710	3,690	5,790	-1,600	4,190
Museum-Grant Funded Activities	30	20	0	0	0
Hazlitt Arts Centre	283,860	284,350	292,470		292,470
Festivals and Events	-30,600	-30,600	4,950	-30,020	-25,070
Lettable Halls	-3,550	-3,540	7,390	-10,900	-3,510
Community Halls	75,240	76,900	92,730	-16,710	76,020
Leisure Centre	-180,520	-180,800	23,870	-200,000	-176,130
Cobtree Golf Course	-35,000	-35,000		-35,000	-35,000
Tourism	27,090	27,090	43,390	-25,450	17,940
Museum Shop	-18,590	-18,590	21,830	-40,530	-18,700
Sandling Road Site	23,810	25,290	26,290		26,290
Business Support & Enterprise	0	5,000	0		0
Town Centre Management Sponsorship	0	6,950	0		0
Business Terrace	77,360	78,490	176,900	-95,010	81,890
Business Terrace Expansion (Phase 3)	-13,460	-13,710	186,290	-196,830	-10,540
Market	-58,450	-56,810	112,560	-168,090	-55,530
Economic Dev - Promotion & Marketing	-172,900	-133,480	4,980	-18,500	-13,520
Leisure Services Section	51,740	53,140	98,820	-43,200	55,620
Cultural Services Section	501,040	541,780	370,910		370,910
Visitor Economy Section	116,710	116,120	116,960		116,960
Economic Development Section	279,790	283,840	228,840	-51,630	177,210
Market Section	81,570	85,600	86,600		86,600
Head of Regeneration and Economic Developm	93,950	100,140	98,640	-1,630	97,010
Thriving Place	**1,126,340**	**1,240,760**	**2,120,690**	**-1,029,400**	**1,091,290**

THRIVING PLACE - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 £
Agency & Contractor	270,620	270,620	278,350
Employee Direct	1,165,670	1,261,290	1,185,030
Employee Other	20,540	22,490	-189,170
Equipment & Furniture	29,810	31,300	31,870
Fees & Charges	-502,250	-481,510	-481,510
General Insurances	31,430	31,060	31,340
Grants & Contributions Paid	17,490	21,340	17,840
Grants & Contributions Received	0	-114,000	0
Income Other	-653,390	-685,040	-513,580
Information & Communications	39,270	39,520	40,050
Premises Other	326,300	330,760	339,300
Printing & Stationery	6,610	7,810	6,920
Professional Services	25,290	75,210	12,860
Rent	-34,310	-34,310	-34,310
Repairs & Maintenance	122,230	126,780	125,440
Subsistence & Training	810	9,110	810
Supplies & Services Other	180,100	247,410	157,530
Utilities	60,400	60,310	62,800
Vehicle & Transport	19,720	20,610	19,720
Thriving Place	**1,126,340**	**1,240,760**	**1,091,290**

EMBRACING GROWTH & ENABLING INFRASTRUCTURE

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Building Regulations Chargeable	-384,750	-384,750	7,240	-354,160	-346,920
Building Control	-990	-990	0	-990	-990
Street Naming & Numbering	-81,500	-81,500		-73,350	-73,350
Development Control Advice	-235,560	-250,560	34,610	-272,550	-237,940
Development Control Appeals	126,730	126,730	129,260		129,260
Development Control Majors	-570,020	-556,340	21,300	-532,320	-511,020
Development Control - Other	-711,510	-711,510	6,290	-646,790	-640,500
Development Control Enforcement	68,470	68,470	69,840		69,840
Planning Policy	200,250	349,280	200,000	0	200,000
Neighbourhood Planning	0	25,000	0		0
Conservation	-11,390	-11,190	4,390	-15,600	-11,210
Community Environmental Engagement	440	560	0		0
Land Charges	-297,860	-297,870	25,450	-290,400	-264,950
Environment Improvements	24,880	3,890	6,440		6,440
Name Plates & Notices	18,680	18,680	19,060		19,060
On Street Parking	-402,940	-380,640	407,250	-729,700	-322,450
Residents Parking	-251,290	-207,430	54,580	-261,280	-206,700
Pay & Display Car Parks	-1,862,500	-1,840,340	514,720	-1,754,040	-1,239,320
Non Paying Car Parks	11,440	16,440	16,700	-10	16,690
Off Street Parking - Enforcement	-80,470	-116,340	162,460	-276,690	-114,230
Mote Park Pay & Display	-188,610	-188,730	47,360	-233,380	-186,020
Sandling Road Car Park	3,560	3,270	155,810	-152,530	3,280
Park & Ride	165,920	165,740	162,390		162,390
Socially Desirable Buses	0	0	0		0
Other Transport Services	-9,740	-4,680	31,580	-36,110	-4,530
Development Management Section	967,330	0	0		0
Spatial Policy Planning Section	408,080	517,140	421,770	0	421,770
Head of Planning and Development	111,380	116,640	110,760		110,760
Development Management Enforcement Section	185,030	181,900	185,030		185,030
Building Surveying Section	443,720	437,520	446,150	0	446,150
Mid Kent Planning Support Service	394,570	350,990	512,160	-198,310	313,850
Heritage Landscape and Design Section	207,560	221,130	209,240		209,240
CIL Management Section	129,890	72,800	75,210	-30,000	45,210
Mid Kent Local Land Charges Section	41,190	98,380	191,680	-101,160	90,520
Development Management Section – Majors	0	284,710	282,700	0	282,700
Development Management Section – Others	0	677,300	683,040		683,040
Parking Services Section	343,450	309,510	472,280	-130,580	341,700
Embracing Growth & Enabling Infrastructure	**-1,236,560**	**-986,790**	**5,666,750**	**-6,089,950**	**-423,200**

EMBRACING GROWTH & ENABLING INFRASTRUCTURE - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 £
Agency & Contractor	587,980	570,640	576,690
Employee Direct	3,375,420	3,294,740	3,339,050
Employee Other	97,510	343,700	69,680
Equipment & Furniture	90,070	90,070	91,640
Fees & Charges	-6,462,580	-6,462,580	-5,477,730
General Insurances	12,240	16,260	16,400
Grants & Contributions Paid	40,270	44,090	19,380
Grants & Contributions Received	-465,690	-530,400	-426,400
Income Other	-142,800	-161,420	-178,650
Information & Communications	190	190	190
Premises Other	320,810	334,950	341,410
Printing & Stationery	30,510	30,270	30,490
Professional Services	529,880	728,900	502,430
Rent	-7,170	-7,170	-7,170
Repairs & Maintenance	218,860	212,930	203,890
Security & Protection	75,350	74,000	76,850
Subsistence & Training	2,670	11,120	2,690
Supplies & Services Other	355,250	410,080	292,250
Utilities	16,120	16,120	16,870
Vehicle & Transport	88,550	86,720	86,840
Enabling Growth & Infrastructure	**-1,236,560**	**-896,790**	**-423,200**

CENTRAL & DEMOCRATIC

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Civic Occasions	42,060	42,020	42,750	0	42,750
Members Allowances	389,300	389,300	396,290		396,290
Members Facilities	29,060	29,060	29,610		29,610
Contingency	266,470	330,450	386,480	-84,370	302,110
Performance & Development	7,630	13,710	13,140		13,140
Corporate Projects	6,820	39,070	6,200		6,200
Press & Public Relations	31,130	24,170	24,670		24,670
Corporate Management	94,230	94,230	600,520		600,520
Unapportionable Central Overheads	1,419,050	1,419,050	1,459,050		1,459,050
Council Tax Collection	53,850	53,850	92,840	-37,790	55,050
Council Tax Collection - Non Pooled	-364,400	-357,590	66,330	-423,340	-357,010
Council Tax Benefits Administration	-152,120	-152,120		-152,120	-152,120
NNDR Collection	1,480	1,480	2,700	-1,180	1,520
NNDR Collection - Non Pooled	-234,210	-234,210	15,310	-249,230	-233,920
MBC- BID	330	330	17,590	-16,920	670
Registration Of Electors	49,000	49,000	52,250	-2,390	49,860
Elections	168,480	168,480	143,740	-430	143,310
Emergency Centre	25,590	25,920	26,040		26,040
External Interest Payable	2,061,790	2,061,790	2,262,550		2,262,550
Interest & Investment Income	-100,000	-100,000		-100,000	-100,000
Palace Gatehouse	-8,300	-8,300	3,000	-10,300	-7,300
Archbishops Palace	-96,980	-95,970	45,960	-141,280	-95,320
Parkwood Industrial Estate	-311,080	-311,440	13,870	-291,410	-277,540
Industrial Starter Units	-29,140	-28,100	28,950	-41,460	-12,510
Parkwood Equilibrium Units	-218,860	-80,010	53,130	-118,330	-65,200
Sundry Corporate Properties	-385,860	-375,190	36,190	-588,270	-552,080
Phoenix Park Units	-215,890	-215,030	46,230	-239,820	-193,590
Granada House - Commercial	-109,250	-109,920	10,890	-105,530	-94,640
Heronden Road Units	-151,160	-161,750	11,570	-162,990	-151,420
Boxmend Industrial Estate	-100,680	-93,020	26,780	-113,790	-87,010
Lockmeadow	-72,300	-72,300	76,570	-148,870	-72,300
NEW Lockmeadow Complex	-1,096,000	-812,250	122,760	-1,204,250	-1,081,490
Wren Industrial Estate	0	-143,010	53,530	-181,810	-128,280
Non Service Related Government Grants	-4,472,240	-4,472,240		-3,995,240	-3,995,240
Rent Allowances	-146,790	-124,720	36,067,150	-36,191,870	-124,720
Non HRA Rent Rebates	-8,490	-10,770	1,066,750	-1,077,520	-10,770
Discretionary Housing Payments	1,450	1,450	300,700	-299,250	1,450
Housing Benefits Administration	-357,610	-353,730	14,460	-368,190	-353,730
Innovation Centre Section	0	117,390	57,540	-60,490	-2,950
Democratic Services Section	188,630	185,840	190,840	-1,730	189,110
Mayoral & Civic Services Section	114,550	115,130	115,780		115,780
Chief Executive	184,960	184,520	183,830		183,830
Communications Section	186,280	184,630	188,860	-390	188,470
Policy & Information Section	270,550	235,420	239,810	0	239,810
Head of Policy and Communications	114,310	122,370	113,730		113,730
Biodiversity & Climate Change	0	30,440	61,780		61,780
Revenues Section	502,120	501,930	886,860	-377,040	509,820
Registration Services Section	141,570	135,780	114,640		114,640
Head of Housing & Community Services	111,720	110,620	111,200		111,200
Benefits Section	482,950	487,320	772,380	-282,290	490,090
Fraud Section	29,930	33,270	234,440	-203,720	30,720
Mid Kent Audit Partnership	212,690	233,680	742,820	-510,310	232,510
Director of Finance & Business Improvement	145,850	144,430	145,170		145,170
Accountancy Section	730,840	731,980	748,870	-22,900	725,970
Legal Services Section	507,250	507,250	552,100	-69,000	483,100
Director of Regeneration & Place	144,820	143,400	145,270	-1,100	144,170
Procurement Section	140,880	118,530	122,850	-13,100	109,750
Property & Projects Section	420,140	460,810	475,130	-5,750	469,380
Corporate Support Section	244,230	243,950	245,860		245,860
Improvement Section	344,980	350,290	375,680	-25,500	350,180
Executive Support Section	172,710	171,230	172,690		172,690
Head of Commissioning and Business Improven	103,230	102,280	107,190	0	107,190
Mid Kent ICT Services	615,720	563,520	1,553,640	-1,002,780	550,860
GIS Section	115,530	114,800	194,000	-77,600	116,400
Customer Services Section	667,710	671,750	686,610	0	686,610
Director of Mid Kent Services	46,410	44,350	138,650	-92,800	45,850
Mid Kent HR Services Section	400,890	390,700	662,010	-272,230	389,780
MBC HR Services Section	180,120	110,920	179,190	-2,090	177,100

CENTRAL & DEMOCRATIC

Cost Centre/Service	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 (Expenditure) £	Estimate 2021/22 (Income) £	Estimate 2021/22 £
Head of Revenues & Benefits	72,500	67,760	111,670	-38,990	72,680
Revenues & Benefits Business Support	110,820	110,010	320,160	-232,490	87,670
Dartford HR Services Section	-19,730	-36,360	53,190	-76,650	-23,460
IT Support for Revenues and Benefits	39,110	39,090	66,640	-27,040	39,600
Emergency Planning & Resilience	0	20,850	25,740		25,740
Salary Slippage 1PR	-261,000	-212,220	-248,930		-248,930
Salary Slippage 2SPI	-90,200	-72,070	-85,050		-85,050
Salary Slippage 3CHE	-150,200	-133,460	-151,110		-151,110
Salary Slippage 4ERL	-31,510	-27,680	-30,210		-30,210
Town Hall	100,000	100,810	111,120	-1,500	109,620
South Maidstone Depot	152,800	152,150	152,350		152,350
The Link	101,510	86,280	362,980	-264,420	98,560
Maidstone House	1,060,510	1,084,280	1,307,480	-224,910	1,082,570
Museum Buildings	273,080	286,820	296,650	-1,110	295,540
I.T. Operational Services	532,560	570,780	582,680		582,680
Central Telephones	14,910	14,910	15,210		15,210
Apprentices Programme	49,910	49,930	50,160		50,160
Internal Printing	-5,240	-5,240	52,290	-56,920	-4,630
Debt Recovery Service	-35,650	-38,750	772,120	-788,630	-16,510
Debt Recovery MBC Profit Share	-144,100	-144,100		-73,100	-73,100
Appropriation Account	1,030,360	1,094,410	1,106,340		1,106,340
Pensions Fund Appropriation	0	0	0	0	0
Central & Democratic	**6,338,370**	**6,988,420**	**59,007,450**	**-51,154,530**	**7,852,920**

CENTRAL & DEMOCRATIC - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2020/21 £	Revised Estimate 2020/21 £	Estimate 2021/22 £
Agency & Contractor	1,057,870	668,110	966,730
Allowances	379,050	384,680	392,000
Benefits	38,541,810	37,434,600	37,434,600
Employee Direct	9,310,080	9,332,790	9,135,460
Employee Other	1,518,950	1,588,540	1,668,060
Equipment & Furniture	897,800	906,620	906,750
Fees & Charges	-1,209,370	-541,900	-850,040
General Insurances	18,050	15,270	13,960
Grants & Contributions Paid	2,178,530	2,178,330	2,380,780
Grants & Contributions Received	-47,047,500	-46,152,910	-45,604,360
Income Other	-1,142,160	-1,993,070	-1,117,760
Information & Communications	4,390	4,390	4,470
Leasing & Capital Charges	1,030,360	1,094,410	1,106,340
Premises Other	1,623,950	1,697,950	1,731,520
Printing & Stationery	137,920	128,740	131,390
Professional Services	416,420	1,202,970	465,690
Rent	-3,369,160	-3,187,750	-3,521,880
Repairs & Maintenance	512,720	534,130	552,160
Security & Protection	39,350	39,350	40,140
Subsistence & Training	175,370	145,520	178,290
Supplies & Services Other	771,010	930,090	1,330,170
Utilities	326,020	327,140	342,260
Vehicle & Transport	166,910	160,420	166,190
Central & Democratic	**6,338,370**	**6,898,420**	**7,852,920**

Maidstone Borough Council
Medium Term Financial Strategy 2021/22

Estimate of General Fund Balances
& Earmarked Reserves to 31 March 2022

	Unallocated General Fund	Commercial Risk	Invest to Save	Earmarked Reserves	Grand Total
	£,000	£,000	£,000	£,000	£,000
Balance as at 31st March 2020	7,819	500	500	7,820	16,639
Movement in balances during 2020/21	-105	-500	-500	29,448	28,343
Estimated Balance as at 31 March 2021	**7,714**	**0**	**0**	**37,268**	**44,982**
Expected movement in balances during 2021/22	0	0	0	-29,421	-29,421
Estimated Balance as at 31 March 2022	**7,714**	**0**	**0**	**7,847**	**15,561**

Estimate of Earmarked Reserves to 31 March 2022

	31/03/2020	Movement in 2020/21	Est. Balance at 31/3/21	Est. Movement in 2021/22	Est. Balance at 31/3/22
	£,000	£,000	£,000	£,000	£,000
Local Plan Review	309	-309	0	0	0
Neighbourhood Planning	75	-6	69	-40	29
Planning Appeals	286	0	286	0	286
Civil Parking Enforcement	164	-130	34	-34	0
Business Rates Growth (MBC share)	1,279	-286	993	-150	843
Business Rates Pool Growth Fund	817	-817	0	0	0
Business Rate Pilot Projects Reserve	701	-132	569	-569	0
HCGF Reserve	1,090	-17	1,073	0	1,073
Homelessness Prevention & TA Reserve	681	-103	578	300	878
Trading Accounts	32	-10	22	-22	0
Future Capital Expenditure	431	-431	0	0	0
Contingency for future funding pressures	1,589	-619	970	-970	0
Lockmeadow Complex	335	-335	0	0	0
Occupational Health & Safety	31	-31	0	0	0
Covid-19 Response & Recovery (new)	0	0	0	0	0
2020-21 Section 31 Grant (new)	0	29,466	29,466	-29,466	0
Collection Fund Smoothing Reserve (New)	0	2,208	2,208	-70	2,138
Commercial Risk (transferred from unallocated)	0	500	500	1,600	2,100
Invest to save (transferred from unallocated)	0	500	500	0	500
Total	**7,820**	**29,448**	**37,268**	**-29,421**	**7,847**

ESTIMATED CAPITAL PROGRAMME RESOURCES 2021/22 - 2025/26

Source of Funding	Estimate 2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000
New Homes Bonus	3,995	1,373	1,373	1,373	1,373	9,487
Capital Grants (Disabled Facilities Grant)	1,800	800	800	800	800	5,000
External Capital Grants	2,264	50	50	50	50	2,464
Internal Borrowing	3,114	336	803	1,080	1,050	6,383
Prudential Borrowing	37,838	25,311	14,655	16,305	11,280	105,388
TOTAL	**49,011**	**27,870**	**17,681**	**19,608**	**14,553**	**128,722**

Appendix A - Section 7

PROPOSED CAPITAL PROGRAMME 2021/22 - 2025/26

		Five Year Plan					
	Projected Budget 2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total 21/22 to 25/26
	£000	£000	£000	£000	£000	£000	£000
Housing - Disabled Facilities Grants Funding	591	1,786	800	800	800	800	4,986
Temporary Accommodation	1,887	2,526	1,560				4,086
Brunswick Street - Costs of Scheme	4,233						
Brunswick Street - Receipts	-1,502						
Union Street - Costs of Scheme	5,201						
Union Street - Receipts	-2,100						
Springfield Mill - Phase 1	1,807						
Springfield Mill - Phase 2	1,322	2,089	37				2,126
Granada House Extension	125	890	890				1,780
Private Rented Sector Housing Programme	822	11,701	14,874	6,131	4,500		37,206
Affordable Housing Programme	800	1,600	3,200	6,400	9,957	9,958	31,115
Acquisitions Officer - Social Housing Delivery P/ship	80	80	80	80	80		320
Granada House Refurbishment Works		976	30				1,006
Street Scene Investment	96	50	50	50	50	50	250
Flood Action Plan	50	200	200	200	200	150	950
Electric Operational Vehicles	100						
Vehicle Telematics & Camera Systems		35					35
Rent & Housing Management IT System	50						
Installation of Public Water Fountains	15						
Crematorium & Cemetery Development Plan	230	170					170
Continued Improvements to Play Areas	123	174					174
Parks Improvements	99	50	50	50	50	50	250
Gypsy & Traveller Sites Refurbishment		1,000					1,000
Sub-total Communities, Housing & Environment	**14,029**	**23,327**	**21,771**	**13,711**	**15,637**	**11,008**	**85,454**
Mote Park Visitor Centre & Estate Services Building	20	2,773					2,773
Mote Park Lake - Dam Works	1,041	682					682
Mall Bus Station Redevelopment	400	690					690
Museum Development Plan			389				389
Sub-total Economic Regeneration & Leisure	**1,461**	**4,145**	**389**				**4,534**
Corporate Property Acquisitions	1,983	11,833	2,500	2,500	2,500	2,500	21,833
Kent Medical Campus - Innovation Centre	5,800	4,440					4,440
Lockmeadow Ongoing Investment	4,000	1,000	500				1,500
Garden Community	200	340	465	425	425		1,655
Infrastructure Delivery		1,200	1,800	600	600	600	4,800
Asset Management / Corporate Property	437	1,487	175	175	175	175	2,187
Biodiversity & Climate Change	50	950					950
Feasibility Studies	150	50	50	50	50	50	250
Digital Projects	20	20	20	20	20	20	100
Software / PC Replacement	231	220	200	200	200	200	1,020
Sub-total Policy & Resources	**12,871**	**21,540**	**5,710**	**3,970**	**3,970**	**3,545**	**38,735**
Bridges Gyratory Scheme	86						
Sub-total Strategic Planning & Infrastructure	**86**						
Sub-total	**28,447**	**49,012**	**27,870**	**17,681**	**19,607**	**14,553**	**128,723**
Section 106 Contributions	62	44	447	58	49	242	840
TOTAL	**28,509**	**49,056**	**28,317**	**17,739**	**19,656**	**14,795**	**129,563**

MAIDSTONE BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2021/22 – 2025/26

CONTENTS

1. OVERVIEW AND SUMMARY OF MEDIUM TERM FINANCIAL STRATEGY

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 covering the period 2019 to 2045. The priorities and outcomes in the Strategic Plan have been reviewed with a view to Council agreeing a refreshed Strategic Plan in February 2021. The vision remains relevant and it is expected that it will retain its four key objectives: embracing growth and enabling infrastructure; homes and communities; a thriving place; and safe, clean and green. Further details are set out in **Section 2.**

1.2 Delivering the Strategic Plan depends on the Council's financial capacity and capability. Accordingly, the MTFS considers the economic environment and the Council's own current financial position. The external environment (**Section 3**) is particularly challenging because of the economic impact of Covid-19. In assessing the Council's current financial position (**Section 4**), attention therefore needs to be paid to its resilience, including the level of reserves that it holds.

1.3 Most key variables in local authority funding are determined by central government, such as the Council Tax referendum limit and the share of business rates that is retained locally. Because of economic uncertainty, central government is not prepared to give local authorities any certainty about these factors beyond 2021/22, thus making future planning even more difficult. A consideration of the funding likely to be available in the future is set out in **Section 5**.

1.4 In view of these multiple levels of uncertainty, it is imperative that the MTFS both ensures the local authority's continuing financial resilience and is sufficiently flexible to accommodate a range of potential scenarios. The Council has prepared financial projections under different scenarios, following a practice that has been followed for a number of years. Details of the assumptions made in the different scenarios are set out in **Section 6**.

1.5 The MTFS sets out the financial projections in **Section 7**. Various potential scenarios were modelled, described as adverse, neutral and favourable. The table below shows projections under the neutral scenario.

<u>Table 1: MTFS Revenue Projections 2021/22 – 2025/26</u>

	20/21	21/22	22/23	23/24	24/25	25/26
	Original budget	Forecast				
	£m	£m	£m	£m	£m	£m
Council Tax	16.8	17.2	17.8	18.5	19.1	19.8
Business Rates	4.5	4.1	3.5	3.7	4.0	4.3
Other Income	21.7	18.8	21.0	22.2	23.8	25.1
Total Funding	43.0	40.1	42.3	44.4	46.9	49.2

Available						
Predicted Expenditure	43.0	42.6	43.7	45.2	47.2	49.0
Budget Gap	0.0	-2.5	-1.4	-0.8	-0.3	0.2
Existing Planned Savings		0.9	0.6	0.2		
Contribution to Reserves						0.2
Residual Budget Gap		-1.6	-0.8	-0.6	-0.3	0.0

In accordance with legislative requirements the Council must set a balanced budget. The MTFS sets out a proposed approach that seeks to address the budget gap and therefore enable the Council to set a balanced budget.

1.6 The Council's strategic priorities are met not only through day-to-day revenue spending but also through capital investment. The Council has adopted a Capital Strategy, which sets out how investment will be carried out that delivers the strategic priorities, whilst remaining affordable and sustainable. As set out in **Section 8** below, funds have been set aside for capital investment and further funding is available, in principle, through prudential borrowing.

1.7 The MTFS concludes by describing the process of agreeing a budget for 2021/22, including consultation with all relevant stakeholders, in **Section 9.**

2. CORPORATE OBJECTIVES AND KEY PRIORITIES

2.1 The Council has a Strategic Plan which was approved by Council in December 2018. It sets out four key objectives, as follows:

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

<u>'Embracing growth and enabling infrastructure'</u> 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.

<u>'Homes and communities'</u> 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.

<u>'A thriving place'</u> 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 <u>'safe, clean and green'</u> 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.

2.2 Since the adoption of the Strategic Plan in December 2018, the objective of 'Embracing growth and enabling infrastructure' has started to be realised, for example through our work on the Innovation Centre and a new Garden Community. Amongst initiatives to help make Maidstone a 'Thriving Place' include investment at Lockmeadow and on the Parkwood Industrial Estate. Our 'Homes and Communities' aspirations are being achieved by investment for example in temporary accommodation and new build housing schemes at Brunswick Street and Union Street. The objective of a 'Safe, Clean and Green' place has been emphasised by Council's decision to declare its recognition of global climate and biodiversity emergencies.

2.3 Covid-19 and the overall financial climate for local government have compelled the Council to re-prioritise its objectives. While the overall vision remains unchanged, the way in which it is achieved and the pace of delivery are likely to be affected. In some areas, it is recognised that funding pressures and the changed environment created by Covid-19 will lead to the Council's ambitions being modified in the short term. The pressures also demand that the Council takes a radical look at how it organises its work, leaving no stone unturned in the search for greater efficiency. Further details are set out in the proposed strategy that is described in section 7 below.

3. ECONOMIC ENVIRONMENT

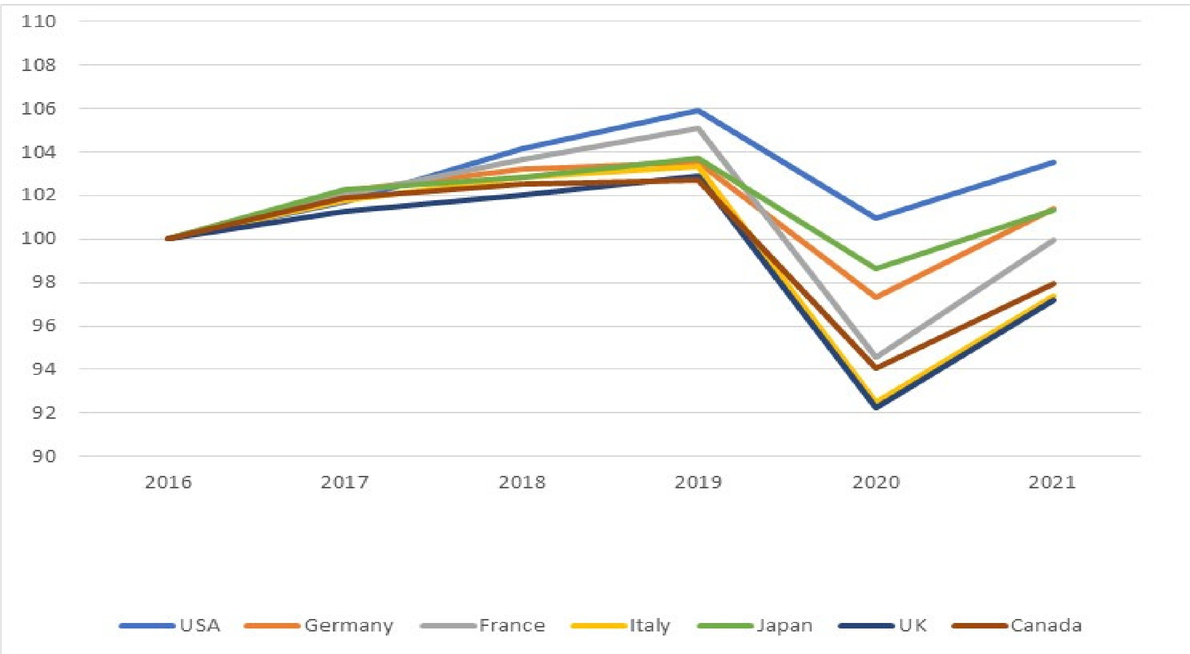
Macro outlook

3.1 Before the onset of Covid-19 in early 2020, economists were starting to identify some signs of stabilisation after a period of slowing global growth. The IMF projected that global growth, estimated at 2.9 percent in 2019, would increase to 3.3 percent in 2020 and 3.4 percent in 2021. These projections were accompanied by caveats about the risks around a further escalation in the US-China trade tensions, a no-deal Brexit, the economic ramifications of social unrest and geopolitical tensions, and weather-related disasters[1].

3.2 The UK's growth rate was projected to be slower, stabilising at 1.4 percent in 2020 and increasing to 1.5 percent in 2021. However, these forecasts assumed an orderly exit from the European Union followed by a gradual transition to a new economic relationship with the EU.

3.3 Covid-19 has changed the picture completely, with economic activity contracting dramatically during 2020. Although activity picked up in May and June as economies re-opened, as of November 2020 the pandemic is continuing to spread and the recovery has stalled. The UK, with its dominant service sector, has been hit particularly hard, with services that are reliant on face-to-face interactions, such as wholesale and retail trade, hospitality, and arts and entertainment seeing larger contractions than manufacturing. IMF projections are set out in the graph below.

Figure 1: Real Per Capita Output (Annual percent change in constant 2017 international dollars at purchasing power parity)



Source – IMF World Economic Outlook, October 2020

[1] IMF, World Economic Outlook, January 2020

The IMF projects a contraction in output in the UK of 10.4% in 2020, followed by growth of 5.4% in 2021. This is broadly consistent with the Bank of England's latest projections, which envisage a fall in GDP of 11% in Q4 of 2020.[2]

Public Finances

3.4 The government's response to Covid-19 has been to borrow on an unprecedented scale both to support public services, businesses and individuals and to absorb the impact of the downturn on tax revenues. This is expected to lead to public borrowing of £420bn (21.7% of GDP) in 2020/21[3], a level not seen outside the two world wars of the twentieth century.

3.5 In the short term, the government is able to fund this deficit without an increase in the cost of borrowing. This is because the Bank of England is likely to maintain the government's borrowing costs at historic lows, supported by quantitative easing. The second lockdown in November 2020 was accompanied by a £100 billion expansion in QE and there is likely to be more to come.

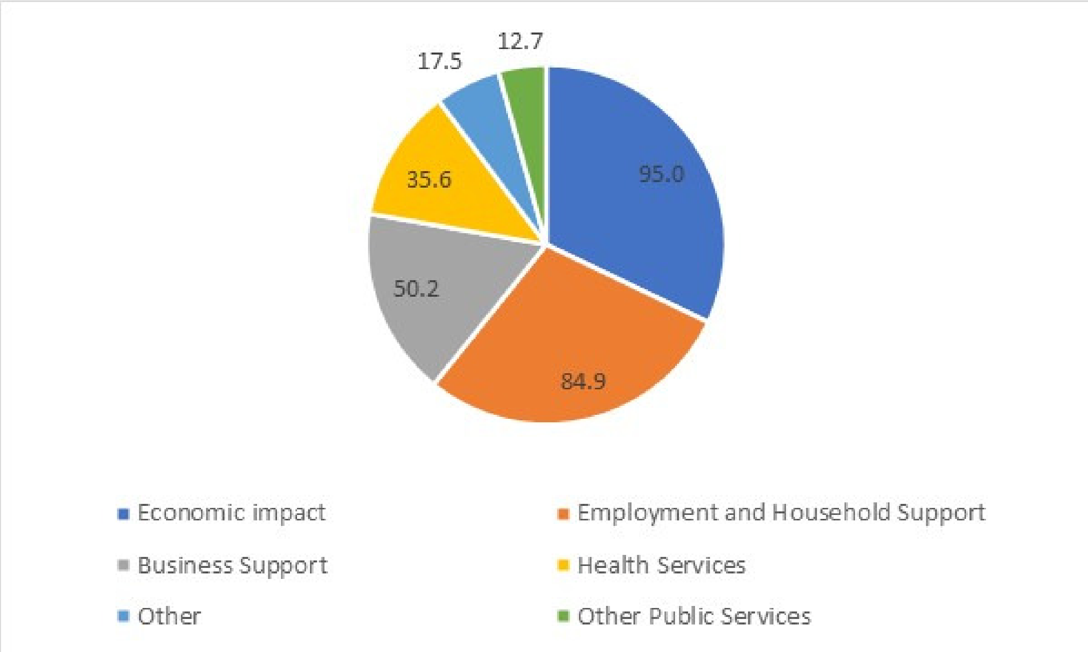
3.6 The low cost of borrowing and the need to promote economic recovery means that there is currently a strong justification for continued large scale public expenditure. However, this is not sustainable in the long term. Prior to the pandemic, public sector net debt was around 80% of national income, well above the 35% of national income seen in the years prior to the 2008 financial crisis. The Institute for Fiscal Studies forecasts that in 2024–25, public sector net debt will be just over 110% of national income in their central scenario, close to 100% of national income in their optimistic scenario and close to 130% in their pessimistic scenario.[4] When the economy eventually recovers, the IFS states that policy action will be needed to prevent debt from continuing to rise as a share of national income.

Local Government Funding

3.7 Local government forms only a small part of the overall government expenditure related to Covid-19. The pie chart below sets out the estimated impact of the various elements that have contributed to the overall increase in public borrowing this financial year.

[2] Bank of England, Monetary Policy Report, November 2020
[3] Capital Economics, UK Economic Update, November 2020
[4] Institute for Fiscal Studies, IFS Green Budget 2020, p 180

Figure 2: Drivers of increase in government borrowing 2020/21 (£ billion)



- 'Other public services' includes public transport, education and local government.
- 'Other' includes the devolved administrations, revenue measures, the Culture Recovery Fund, 'Eat Out to Help Out' and several other programmes.

Source: IFS Green Budget 2020

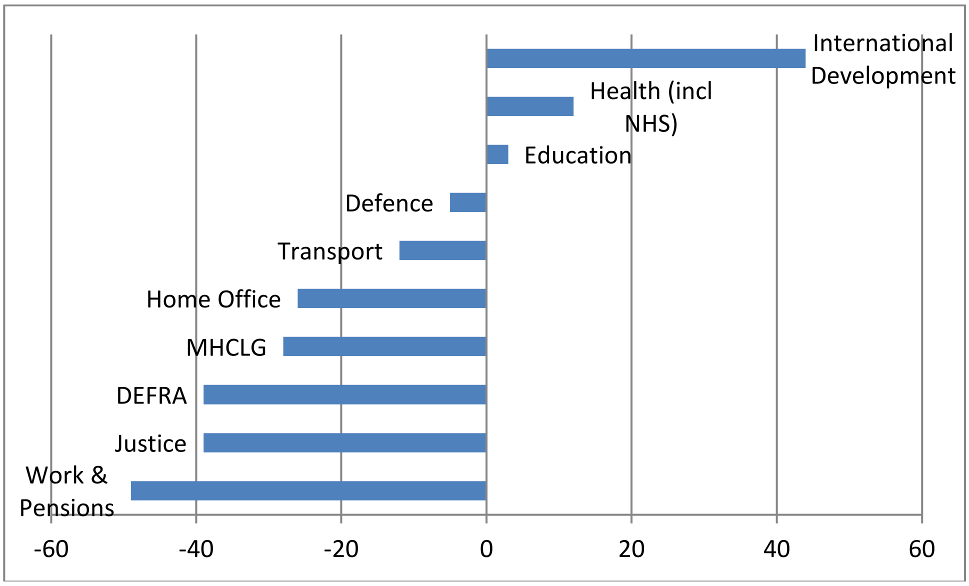
3.8 By comparison with the amounts being spent on direct support for businesses and individuals and on the NHS, local government has received relatively little support. Direct unringfenced government grants have amounted to £4.6 billion, which has been paid out in a number of different tranches as the increasing scale of the pressure on local authorities has emerged. There has also been a plethora of other grants to local councils to cover specific initiatives, typically accompanied by detailed conditions about how the grant is to be spent.

3.9 The finances of some local authorities, mostly upper tier authorities, were already fragile before the onset of Covid-19. This has led to much discussion about whether the pressures of Covid-19, on top of any pre-existing issues, would lead to individual authorities failing to balance their budgets. A number of councils are said to be close to bankruptcy and the London Borough of Croydon has taken measures under Section 114 of the Local Government Finance Act. This has been accompanied by an increased degree of central government involvement.

3.10 Although the incremental cost of the local government response to the pandemic has been relatively small, it is generally considered that, where local authorities have been actively involved in the response, they have performed well, taking advantage of their local knowledge and the strong professional culture of the sector. Many local authority political leaders have challenged central government over its apparent reluctance to make more use of local councils.

3.11 The relatively low value placed on local authorities' role is consistent with the way that public expenditure has been prioritised by central government in recent years. See graph below.

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



3.12 MHCLG, which provides central government funding for local authorities, has seen some of the biggest cuts. Although the policy of austerity in the first part of the last decade has now been reversed, there has been no indication, either before or during the Covid-19 pandemic, that the current Conservative government envisages a bigger role for local authorities.

3.13 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. In the short term, upper tier authorities such as Kent County Council currently face the greatest financial risks. In the medium term, when local government spending needs are eventually assessed against resources in the government's 'Fair Funding 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.

Conclusion

3.14 Covid-19 has had an enormous impact on the national economy and consequently on public finances. Whilst central government has spent unprecedented amounts of money to support the NHS, businesses and individuals, support for local authorities has been tailored quite strictly to their specific needs, and to specific initiatives that they have been asked to undertake by central government. Where Covid-19 has led to unsustainable pressure on individual councils' finances, it appears that any additional financial support is likely to be contingent on accepting government intervention. Councils therefore need to look, first and foremost, to measures that are within their own control to ensure financial resilience.

4. CURRENT FINANCIAL POSITION

4.1 As a lower tier authority, Maidstone Borough Council is not subject to the extreme pressures currently faced by upper tier authorities. It is nevertheless appropriate to assess the Council's financial resilience. There are a number of elements that contribute to financial resilience, according to CIPFA[5]:

– level of reserves
– quality of financial management, including use of performance information
– effective planning and implementation of capital investment
– ability to deliver budget savings if necessary
– risk management.

An assessment is set out below of how the Council performs on these measures.

Level of Reserves

4.2 Maidstone Borough Council's financial position, as shown by its most recent balance sheet, is as follows (unallocated General Fund balance highlighted, previous year shown for comparative purposes).

<u>Table 2: Maidstone Borough Council balance sheet</u>

	31.3.19 £ million	31.3.20 £ million
Long term assets	121.9	161.4
Current assets	32.9	28.0
Current liabilities	-29.1	-47.7
Long term liabilities	-75.0	-77.1
Net assets	50.7	64.6
Unusable reserves	-35.1	-47.4
	15.6	17.2
Represented by:		
Unallocated General Fund balance	9.2	8.8
Earmarked balances	5.8	7.8
Capital receipts reserve	0.6	0.6
Total usable reserves	15.6	17.2

4.3 The maintenance of the unallocated general fund balance is an essential part of the Council's strategic financial planning, as this amount represents the funds available to address unforeseen financial pressures.

4.4 For local authorities there is no statutory minimum level of unallocated reserves. It is for each Council to take a view on the required level having

[5] CIPFA Financial Management Code, Guidance Notes, p 51

regard to matters relevant to its local circumstances. CIPFA guidance issued in 2014 states that to assess the adequacy of unallocated general reserves the Chief Financial Officer should take account of the strategic, operational and financial risks facing their authority. The assessment of risks should include external risks, such as natural disasters, as well as internal risks such as the achievement of savings.

4.5 Maidstone Council has historically set £2 million as a minimum level for unallocated reserves. In the light of the heightened risk environment now facing the Council, it is considered that this minimum should be increased to £4 million.

Current Position

4.6 Since the balance sheet date of 31 March 2020, the position has changed completely as a result of the Covid-19 pandemic. The Council has:

- Incurred substantial additional expenditure, in particular as a result of accommodating homeless people and establishing a community hub;
- Lost substantial income in areas such as parking;
- Suffered a reduction in Council Tax and Business Rates receipts.

These additional pressures have been mitigated by government support and a reduction in Council expenditure.

4.7 The likely outturn for the financial year remains unclear, given the second wave of Covid-19 infections and resulting lockdown, and potential further outbreaks in future. It is hoped that, with the further government support announced in the Chancellor's Autumn Spending Review and the Local Government Finance Settlement, the net impact on reserves can be minimised.

Financial management

4.8 Financial management at Maidstone Borough Council contains a number of elements. Officers and members are fully engaged in the annual budget setting process, which means that there is a clear understanding of financial plans and the resulting detailed budgets

4.9 Detailed financial reports are prepared and used on a monthly basis by managers, and on a quarterly basis by elected members, to monitor performance against the budget. Reports to members are clear, reliable and timely, enabling a clear focus on any areas of variance from the plan.

4.10 Financial reports are complemented by performance indicators, which are reported both at the service level to the wider leadership team, and at a corporate level to members. Member reports on performance indicators are aligned with the financial reports, so that members see a comprehensive picture of how services are performing.

4.11 Financial management and reporting is constantly reviewed to ensure that it is fit for purposes and meets the organisation's requirements. Quarterly financial reports to members have been redesigned over the last two years to make them more user-friendly.

4.12 Where variances arise, prompt action is taken to address them. Action plans are put in place at an early stage if at appears that there is likely to be a budget overspend.

Capital investment

4.13 Capital expenditure proposals are developed in response to the Council's strategic priorities as part of the annual budget cycle. Capital investment must fall within one of the four following categories: required for statutory reasons, eg to ensure that Council property meets health and safety requirements; schemes that are self-funding and meet Strategic Plan priority outcomes; other schemes that are clearly focused on Strategic Plan priority outcomes; and other priority schemes which will attract significant external funding. All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must comply with the requirements of the Prudential Code.

4.14 Member oversight is ensured, first by inclusion of schemes in the capital programme that is approved as part of the annual budget setting process. Subsequently, prior to any capital commitment being entered into, a report setting out details of the capital scheme is considered by the relevant service committee.

4.15 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 major projects to be reported to a Strategic Capital Investment Board.

4.16 Financial monitoring of capital projects is incorporated within the quarterly reports to Service Committees.

Ability to deliver budget savings

4.17 The Council has a good track record of delivering budget savings, whilst sustaining and investing in services. Savings initiatives are planned so far as possible across the five year period of the MTFS, rather than the focus being simply on achieving whatever savings are necessary in order to balance the budget for the coming year.

4.18 A common criticism of local authority financial planning is that proposed savings are often over-optimistic and are not based on realistic evidence of what is achievable. The Council aims to mitigate this risk with a robust process for developing budget savings proposals:

- New and updated savings proposals are sought on a regular annual cycle, with Service Managers typically briefed on the savings remit in August/September

- Savings proposals are then developed over a period of around two months

- Savings proposals have to be formally documented and signed off by the Service Head who will be responsible for delivering them.

4.19 Once savings have been built into the budget, their achievement is monitored as part of the regular financial management process described above.

Risk management

4.20 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.

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

- Financial impact from resurgence of Covid-19 virus
- Fees and Charges fail to deliver sufficient income
- Adverse impact from changes in local government funding
- Collection targets for Council Tax and Business Rates missed
- Adverse financial consequences from a disorderly Brexit
- Capital programme cannot be funded
- Planned savings are not delivered
- Failure to contain expenditure within agreed budgets
- Inflation rate predictions in MTFS are inaccurate
- Constraints on council tax increases
- Litigation costs exceed budgeted provisions
- Commercialisation fails to deliver additional income
- Business Rates pool fails to generate sufficient growth
- Shared services fail to meet budget
- Council holds insufficient balances
- Increased complexity of government regulation.

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.

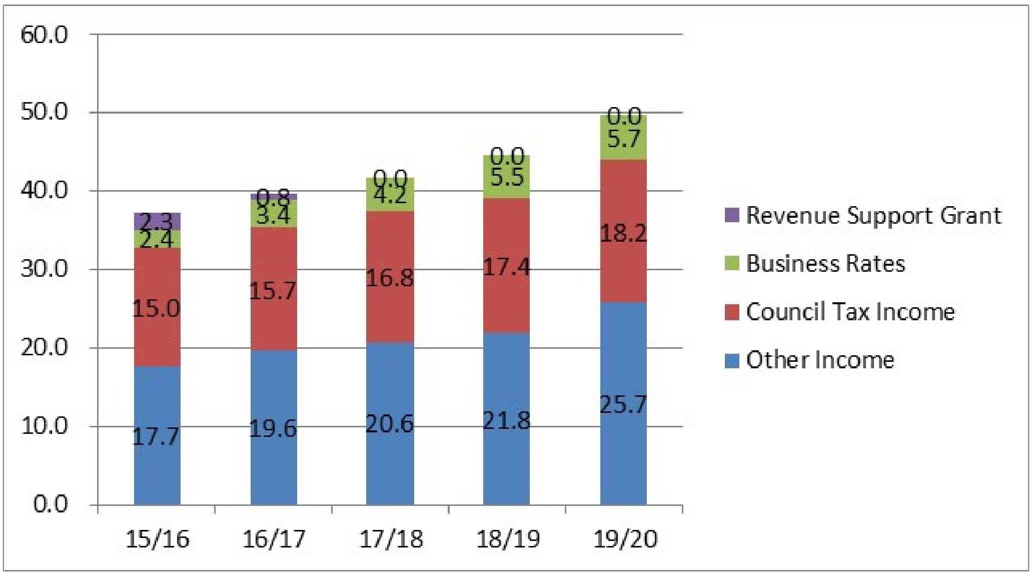
Conclusion

4.22 When assessed against the CIPFA criteria for financial resilience, the Council can be seen to have adequate reserves in the short term and to be positioned well to manage the financial challenges it will face. The following section considers whether this position is sustainable.

5. AVAILABLE RESOURCES

5.1 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 (£ million)



Council Tax

5.2 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.

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

Table 3: Number of Dwellings in Maidstone

	2016	2017	2018	2019	2020
Number of dwellings	68,519	69,633	70,843	71,917	73,125
% increase compared with previous year	1.18%	1.63%	1.74%	1.52%	1.68%

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

5.4 Whilst the effect of the increased number of dwellings is to increase the Council Tax base, this is offset by the cost of reliefs for council tax payers, in particular Council Tax support, and any change in the percentage of Council Tax collected. Covid-19 has led both to an increase in the number of Council Tax support claimants and a fall in the collection rate.

5.5 The level of council tax increase for 2021/22 is a decision that will be made by Council based on a recommendation made by the 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 2020/21 was the greater of 2% or £5.00 for Band D tax payers. Council Tax was increased by the maximum possible, ie £5.13 (2%).

Other income

5.6 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.

5.7 Other income, particularly parking, has been seriously affected by Covid-19. Whilst the government has committed to compensating local authorities for 75% of lost income above a 5% threshold in 2020/21, there has been no guarantee of ongoing support in the event that income fails to return to pre-Covid-19 levels.

Business Rates

5.8 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.

5.9 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. The Government indicated that they would increase the level of business rates retention to the extent that it was able to do within existing legislation, and had originally planned to introduce 75% business rates retention with effect from 2021/22. However, these plans have been delayed for at least another 12 months owing to the Covid-19 pandemic.

5.10 In the meantime, following the Autumn Spending Review, a 'roll-forward' settlement for local government in 2021/22 was announced in December 2020, with the existing 50% scheme retained and the amounts retained by individual local authorities increased in line with inflation.

5.11 Any new business rates retention regime, coming into effect in 2022/23 or subsequently, would 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 yet to be determined. 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.

5.12 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 has hitherto been 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.

5.13 It should be noted that in 2022, the business rates baseline will be reset, so all growth accumulated to that point will be reallocated between local authorities as described in paragraph 5.11 above.

5.14 Total projected business rates income for 2020/21, and the ways in which it was originally intended to deploy it, are summarised in the table below.

Table 4: Projected Business Rates Income 2020/21

	£000	
Business Rates baseline income	3,260	Included in base budget
Growth in excess of the baseline	1,210	Included in base budget
Pooling gain (MBC share)	542	Funds Economic Development projects
Pooling gain (Growth Fund)	542	Spent in consultation with KCC, eg on Maidstone East
Total	5,554	

5.15 These are budgeted amounts. The actual amounts received will be lower if Covid-19 continues to have an adverse impact on collection performance.

Revenue Support Grant

5.16 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 previous 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 and 2020/21 Local Government Finance Settlements. The government has also confirmed that it will not levy negative RSG in 2021/22.

5.17 From 2022/23 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.

Conclusion

5.18 It can be seen that ongoing revenue resources are likely to be adversely affected by the Covid-19 pandemic in the short term, at a time when services pressures will increase. The previous section indicated that the Council's reserves, while adequate, do not leave it with a large amount of flexibility. This puts a premium on accurate forecasting and strong financial management.

6. SCENARIO PLANNING

6.1 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

The economy recovers rapidly from the impact of the Covid-19 pandemic. The effect is that its previous growth trajectory resumes from 2022/23 onwards and this feeds through to income from Council Tax, Business Rates and other sources. Inflation remains under control and within the government's 2% target.

2. Neutral

Covid-19 has a more longer-lasting impact, with some permanent scarring of the economy. The result is that Council income starts growing again, but does not resume its previous pattern until the end of the five year planning period. Inflation remains within the government's 2% target.

3. Adverse

There continue to be outbreaks of Covid-19, and future international trading arrangements fail to replicate the economic benefits of EU membership. As a result, the economy is slower to recover and sterling falls in value against other currencies, leading to a resurgence of inflation. This both reduces Council income and leads to increased service pressures in areas like homelessness.

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

Council Tax

6.2 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, which is assumed to be 2% in 2021/22. 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.

6.3 The other key assumption regarding Council Tax is the change in the Council Tax base. The number of properties in Maidstone has grown by over 1.5% for the past four years. However, if there is a downturn in the economy, this rate of increase could fall. Moreover, Covid-19 is likely to reduce the amount of Council Tax collectible from each household. Assumptions are as follows:

	21/22	22/23 onwards
Favourable	1.0%	2.0%
Neutral	0.4%	1.5%

Adverse	-2.0%	1.0%

Business Rates

6.4 For 2021/22 the government is rolling forward the existing arrangements. Business rates are frozen for ratepayers but local authorities will be compensated with an increase in the business rates baseline to reflect inflation.

6.5 After 2022, 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.

6.6 The starting point in the government's calculations will be Maidstone's perceived level of need, which in the previous 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 has been held in reserve to address likely future funding pressures.

6.7 The starting point for future business rates income is assumed to be the current baseline share of business rates income, as adjusted for inflation in 2021/22. Note, however, that this will be subject to the government's assessment of Maidstone's perceived level of need in its Fair Funding Review.

6.8 A further factor to be considered is the resetting of the government's business rates baseline. 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 2022/23, then is gradually reinstated from 2023/24.

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

	2021/22		2022/23 onwards	
	Baseline growth	Local growth	Baseline growth	Local growth
Favourable	5.0%	0.0%	3.0%	3.0%
Neutral	2.0%	0.0%	2.0%	2.0%
Adverse	-5.0%	-10.0%	0.0%	0.0%

Inflation

6.10 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

6.11 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 is assumed for the first three years of the MTFS planning period that the annual increase will be 1%. An additional amount has to be allowed for in pay inflation assumptions arising from the annual cost of performance related incremental increases for staff.

Fees and charges

6.12 Fees and charges are affected by changes both in price levels and in volume. The projections imply that the level of 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.

6.13 The sensitivity of fees and charges income to overall economic factors varies across different income streams. Parking income is highly sensitive, and has been very severely affected by the Covid-19 pandemic. Other sources of income, such as income from industrial property holdings, are more stable.

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.

6.14 Inflation assumptions are summarised as follows.

Table 5: Inflation Assumptions

	Favourable	Neutral	Adverse	Comments
General	2.00%	2.00%	3.00%	2% is the government's target inflation rate but in reality it is likely to be lower in the next few years.
Employee Costs	1.00%	1.00%	2.00%	Neutral assumption is in line with the most recent pay

	Favourable	Neutral	Adverse	Comments
				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

6.15 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.

6.16 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

6.17 A summary of the financial projections under the neutral scenario is set out in section 7.

7. REVENUE PROJECTIONS

7.1 Strategic revenue projections have been prepared based on the assumptions set out above and are summarised in table 7 below for the 'neutral' scenario.

7.2 In light of the many uncertainties around future funding, it is important to note that projections like these can only represent a 'best estimate' of what will happen.

Table 6: Strategic Revenue Projections 2021/22-2025/26

	20/21	21/22	22/23	23/24	24/25	25/26
	Original budget	Forecast				
	£m	£m	£m	£m	£m	£m
Council Tax	16.8	17.2	17.8	18.5	19.1	19.8
Business Rates	4.5	4.1	3.5	3.7	4.0	4.3
Other Income	21.7	18.8	21.0	22.2	23.8	25.1
Total Funding Available	43.0	40.1	42.3	44.4	46.9	49.2
Predicted Expenditure[1]	43.0	42.6	43.7	45.2	47.2	49.0
Budget Gap	0.0	-2.5	-1.4	-0.8	-0.3	0.2
Existing Planned Savings		0.9	0.6	0.2		
Contribution to Reserves						0.2
Residual Budget Gap		-1.6	-0.8	-0.6	-0.3	0.0

[1] Predicted Expenditure assumes that Existing Planned Savings and Savings Required arising in the preceding year have been delivered and are built into the budget.

7.3 The above table shows that, based on the 'neutral' scenario, income will recover from the levels projected in 2021/22. However, there will not be a full recovery, with income remaining below the levels previously projected. In the absence of any mitigating action, this would lead to ongoing budget deficits.

7.4 The MTFS must balance the very tight financial constraints set out in previous sections with the requirement to deliver the Strategic Plan. Members considered at Policy and Resources Committee on 16th September 2020 a number of ways in which the objectives in the Strategic Plan could be re-prioritised, including:

- A more modest direction of travel in developing the museum
- Reconsidering the sustainability of the Hazlitt Theatre
- Reviewing the scope of our community safety work.

7.5 At the same time, as agreed by the Committee at its meeting on 21st July 2020, a radical and ambitious approach is required to transforming the way the Council does business. This includes:

- Review of office accommodation
- Better use of technology
- Better use of external grant funding
- Identifying further opportunities for income generation
- Absorb overhead costs of delivering the capital programme within the cost of individual schemes
- Better service commissioning
- Review of shared service arrangements
- Review of staff reward packages
- Review of the structure of democratic representation
- Exploit synergies between service areas.

A further area for exploration that was identified in the report to Policy and Resources Committee on 21st July, absorbing the overhead costs of project delivery within the savings from individual projects, will be reflected when examining project feasibility, in particular in the area of better use of technology.

7.6 The overall approach will be that nothing is excluded from consideration, including proposals made in the past but rejected at the time.

7.7 It is recognised that savings proposals emerging from this work will not be capable of being implemented over the next twelve months. In the meantime it will therefore be necessary to deploy earmarked reserves, including earmarked revenue resources. This is a departure from the Council's existing policy, but is considered to be justified given the scale of the budget gap that the Council faces.

7.8 The following table plots the projected savings trajectory against the SRP projections. It shows that the ongoing budget gap can be eliminated over a three year period.

Table 7: Proposed savings

	21/22	22/23	23/24	24/25	25/26
	£m	£m	£m	£m	£m
Savings required (from Table 6)	-1.6	-0.8	-0.6	-0.3	0.0
Proposed new savings (cumulative)	0.6	1.0	1.5	1.6	0.0
Savings shortfall biff		-1.0	-0.8	0.1	1.4
Savings shortfall c/f	**-1.0**	**-0.8**	**0.1**	**1.4**	**1.4**

7.9 Note that there are a number of risks inherent in this approach. It assumes that the budget gap will not widen further over the next three years, and therefore that the level of savings currently projected will be adequate. It also requires a sustained effort to deliver savings over a long period of time. However, these risks need to be weighed against the feasibility of making large scale savings in a short period of time and the disruptive effect that this might have.

8. CAPITAL STRATEGY

8.1 The capital programme plays a vital part in delivering the Council's strategic plan, since long term investment plays an essential role in realising our ambitions for the borough. The cost of the capital programme is spread over the lifetime of investments, so does not have such an immediate impact on the revenue budget position. However, there are revenue consequences to the capital programme. Maidstone Borough Council borrowed to fund its capital programme for the first time in 2019/20. The cost of borrowing is factored into the 2020/21 budget, along with a Minimum Revenue Provision which spreads the cost of loan repayments over the lifetime of an asset. The budgeted total revenue costs of the capital programme in 2020/21 amounted to £1.870 million.

8.2 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. Prior to 2019/20, Maidstone Borough Council had not borrowed to fund its capital programme, instead relying primarily on New Homes Bonus to fund the capital programme. Borrowing has not been required so far in 2020/21, but is likely to be in subsequent years. The cost of any borrowing is factored into the MTFS financial projections.

8.3 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 government is expected to revise the terms of PWLB borrowing to ensure that local authorities use it only to invest in housing, infrastructure and public services. Given the Council's capital strategy, this should not prevent us accessing PWLB borrowing. In any case, 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.

8.4 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 2019/20 and 2020/21. The government is likely to pay New Homes Bonus on a one-year only basis in 2021/22, but under the new Local Government funding regime to be implemented from 2022/23 a new, unspecified mechanism for incentivising housebuilding is envisaged.

8.5 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.

8.6 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.

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

Table 8: Capital Programme Funding

	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	Total £000
External sources	4,738	10,175	3,881	2,232	2,242	23,268
Own resources	530	517	537	568	580	2,732
Debt	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**

8.8 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. The existing Capital Strategy was approved by Council at its meeting on 26th February 2020 and will be refreshed in February 2021.

8.9 The existing capital programme was approved by Council at its budget meeting on 26th February 2020. Major schemes include the following:

- Completion of Brunswick Street and Union Street developments
- Granada House extension
- Further mixed housing and regeneration schemes
- Purchase of housing for temporary accommodation
- Flood Action Plan
- Mote Park Improvements
- Further investment at Lockmeadow Leisure Complex
- Commercial Property Investments
- Kent Medical Campus Innovation Centre
- Mall Bus Station Improvements
- Biodiversity and Climate Change.

8.10 The capital programme for 2020/21 has been reviewed in the light of the Covid-19 pandemic. The majority of projects in the current programme are either already under way, are required for health and safety reasons, or must be carried out to meet contractual commitments. However, it is proposed that a number of projects are deferred to 2021/22, which will have the effect of reducing the in-year revenue costs of capital expenditure.

8.11 The capital programme is reviewed every year. In carrying out the annual review, prior to presentation of revenue and capital budget proposals to Council in February 2021, consideration will be given as to how the capital programme can support the process of recovery from Covid-19, eg by investing in projects that have a positive effect on employment and economic regeneration.

8.12 A review of the schemes in the capital programme is currently under way. Proposals will be 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 will be considered by Policy and Resources Committee in January 2021 and recommended to Council for approval.

9. CONSULTATION AND NEXT STEPS

9.1 Each year the Council carries out consultation as part of the development of the MTFS. A budget survey has been carried out and has been considered by Service Committees.

9.2 Consultation will be undertaken with the business community, including a presentation to the Maidstone Economic Business Partnership.

9.3 Consultation also took place in January 2021 on the detailed budget proposals. Individual Service Committees considered the budget proposals relating to the services within their areas of responsibility.

9.4 The process of member consultation on the MTFS was as follows:

Meeting	***Date***
Policy and Resources Committee	25 November 2020
Communities Housing & Environment Committee	1 December 2020
Strategic Planning & Transportation Committee	8 December 2020
Economic Regeneration & Leisure Committee	15 December 2020
Council	24 February 2021

Document History

Date	Description	Details of changes
25.11.20	Draft to Policy & Resources Committee	
01.12.20	Draft to Service Committees	Minor typographical changes
10.02.21	Draft to Policy & Resources Committee	Updates to reflect Local Government Finance Settlement and latest budget proposals
24.02.21	Final draft to Council	Minor changes to reflect final budget proposals

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2021/22

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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 objectives 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.

The draft Capital Strategy for 2021/22 is also being reviewed at Audit Governance & Standards Committee on 18th January 2021.

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 2021/22

The strategy for 2021/22 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 18th January 2021. 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 – 2025/26

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:

2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
27.810	51.897	25.707	17.646	19.608	14.553

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 and are included within the above figures.

The Council may potentially lend 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. However, there are no future plans to do this.

The table below shows how capital expenditure is being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	3.602	0.000	0.000	0.000	0.000	0.000
Capital grants	5.999	6.524	0.850	0.850	0.850	0.850
Capital reserves	0.000	0.000	0.000	0.000	0.000	0.000
Revenue	5.481	5.012	2.410	2.241	2.253	2.273
Net financing need for the year	**12.728**	**40.361**	**22.447**	**14.555**	**16.505**	**11.430**

2.2 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 £2.5m relating to Serco Pasia within the CFR.

The Council is asked to approve the CFR projections below:

£m	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement						
Total CFR	52.408	91.486	111.903	123.931	137.443	145.555
Movement in CFR	**12.276**	**39.078**	**20.417**	**12.028**	**13.512**	**8.111**
Movement in CFR represented by						
Net financing need for the year	12.728	40.361	22.447	14.555	16.505	11.430
Less MRP/VRP and other financing movements	-0.452	-1.284	-2.030	-2.527	-2.992	-3.318
Movement in CFR	**12.276**	**39.078**	**20.417**	**12.028**	**13.512**	**8.111**

2.3 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 (revenue budget). This is shown as a percentage of the budget and as a value of the revenue budget.

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Interest Paid £000	40	726	1,108	1,355	1,669	1,886
Interest Received £000	-35	-50	-80	-80	-100	-100
Net Revenue Exp £000	21,287	21,137	21,322	22,201	23,106	24,037
%	0.02	3.20	4.82	5.74	6.79	7.43

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Cost of Borrowing	0.005	0.676	1.028	1.275	1.569	1.786

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

2.4 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.

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 31st December 2019 is shown below.

Date	Ref	Lender	Amount £m	Rate %	Start	End
20/11/2020	071	London Borough of Tower Hamlets	4.000	0.10	20/11/2020	20/05/2021
30/12/2020	72	Bridgend County BC	3.000	0.12	30/12/2020	30/06/2021
30/12/2020	73	Warwick District Council	2.000	0.12	30/12/2020	30/06/2021
		TOTAL	**9.000**			

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	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt						
Debt at 1 April	11.000	8.997	49.378	71.856	86.439	102.657
Expected change in Debt	-2.000	40.361	22.447	14.555	16.505	11.430
Other long-term liabilities (OLTL)	2.527	2.010	1.473	0.905	0.309	0.000
Expected change in OLTL	-0.520	-0.517	-0.537	-0.568	-0.596	-0.309
Actual gross debt at 31 March	**11.007**	**50.851**	**72.761**	**86.748**	**102.657**	**113.778**
The Capital Financing Requirement	**52.408**	**91.486**	**111.903**	**123.931**	**137.443**	**145.555**
Under / (over) borrowing	**41.401**	**40.634**	**39.142**	**37.183**	**34.787**	**31.777**

As stated above, the Council's CFR is its underlying capital borrowing need. This looks at all the assets the Council currently owns that will require replacing in the future, plus the capital programme for the year, both which are yet to be financed. The large under borrowing position is due to assets that are not required for replacement.

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 2021/22 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.

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Ext Borrowing	14.000	46.070	65.010	76.130	89.330	97.440
Other LT Liab	2.527	2.010	1.473	0.905	0.309	0.000
Total	16.527	48.080	66.483	77.035	89.639	97.440

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:

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Ext Borrowing	34.000	66.070	85.010	96.130	109.330	117.440
Other LT Liab	2.527	2.010	1.473	0.905	0.309	0.000
Total	36.527	68.080	86.483	97.035	109.639	117.440

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 and incorporates the PWLB review which have reduced all previous rates by 1%. These are forecasts for certainty rates, gilt yields plus 80bps which is expected to be the Council's effective cost of borrowing:

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected as economic recovery is expected to be only gradual and, therefore, prolonged.

Gilt yields / PWLB rates

There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very 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. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 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.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. 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, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. It also introduced the following rates for borrowing for different types of capital expenditure: -

- PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
- PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)

- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

Borrowing for capital expenditure

As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. The Council will be looking for a mix of longer and shorter term borrowing to spread its risk of refinancing against lower borrowing costs.

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, to ny new borrowing that is not used to finance new capital expenditure or to replace maturing debt would cause a temporary increase in cash balances and incur a revenue cost. This is termed a 'cost of carry' and the authority would normally seek to minimise this 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 2021/22 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 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. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

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

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

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

9. 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.

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

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	£8m	£8m	5yrs
Banks	purple	£7m	£7m	2 yrs
Banks	orange	£5m	£5m	1 yr
Banks – part nationalised	blue	£5m	£5m	1 yr
Banks	red	£5m	£5m	6 mths
Banks	green	£3m	£3m	100 days
Banks	No colour	Not to be used	£0m	
Other institutions limit	-	£m	£3m	5yrs
DMADF	UK sovereign rating	unlimited	£5m	6 months
Local authorities	n/a	£8m	£8m	5yrs
Housing associations	Colour bands	£8m	£8m	As per colour band

	Fund rating**	Money Limit	Transaction limit	Time Limit
Money Market Funds CNAV	AAA	£10m	£10m	liquid
Money Market Funds LVNAV	AAA	£10m	£10m	liquid
Money Market Funds VNAV	AAA	£10m	£10m	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

** Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see appendix 5.4.*
*** Please note: "fund" ratings are different to individual counterparty ratings, coming under either specific "MMF" or "Bond Fund" rating criteria.*

Increased Counterparty Limits

The limits stated above have increased from the previous year's strategy due to the increased funding all local authorities have received from Central Government in respect of COVID-19. There is a delay between receiving funding to making payments to the relevant people eligible which has caused issues with the placement of short term funding. Increasing the limits on money market funds, highly rated banks which are used for instant access/short term notice would help alleviate this issue without the risk of placing funds with a lower rated counterparty or sovereignty.

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.

Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

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 (the long term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered

to the population. It may also be affected by the deal UK has agreed as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative investment rates

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the Debt Management Account Deposit Facility (DMADF), offer nil or negative rates for very short term maturities. This is not universal, and most MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Changes of investment strategy

The Council is comfortable with its current strategy of keeping investments short term to meet obligations of grant funding during COVID-19 and the obligations of the capital programme.

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			
	2021/22	2022/23	2023/24
	£m	£m	£m
Investments in excess of 1 year maturing in each year	0	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 uses an investment benchmark to assess the security of institutions it deposits funds with against an average score which is based on the creditworthiness of the institution.

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

£13.3m 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.

5 APPENDICES

1. Prudential and treasury indicators and MRP statement
2. Interest rate forecasts
3. Economic background
4. Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management
5. Approved countries for investments
6. Treasury management scheme of delegation
7. 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

2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
27.810	51.897	25.707	17.646	19.608	14.553

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.

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Interest Paid £000	40	726	1,108	1,355	1,669	1,886
Interest Received £000	-35	-50	-80	-80	-100	-100
Net Revenue Exp £000	21,287	21,137	21,322	22,201	23,106	24,037
%	0.02	3.20	4.82	5.74	6.79	7.43

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Cost of Borrowing	0.005	0.676	1.028	1.275	1.569	1.786

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 taken in 2021/22. 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	35	0
12 months to under 24 mon	100	0
24 months to under 5 years	100	0
5 years to under 10 years	100	0
10 years and within 20 year	100	0
20 years and within 30 year	100	0
30 years and within 40 year	100	0
40 years and within 50 year	65	0

5.1.5 Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 INTEREST RATE FORECASTS 2020 – 2022

Please see 3.3 of this report.

5.3 ECONOMIC BACKGROUND

The following information are the expressed views of the Council's Treasury Consultants, Link Asset Services – as at 1st December 2020

- **UK.** The Bank of England's Monetary Policy Committee kept **Bank Rate** unchanged on 5th November. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022
    - The Bank also expects there to be excess demand in the economy by Q4 2022.
    - CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance** in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase through to quarter 1 2024 but there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly. **Inflation** is unlikely to pose a threat requiring increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. It is expected to briefly peak at around 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.
- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the

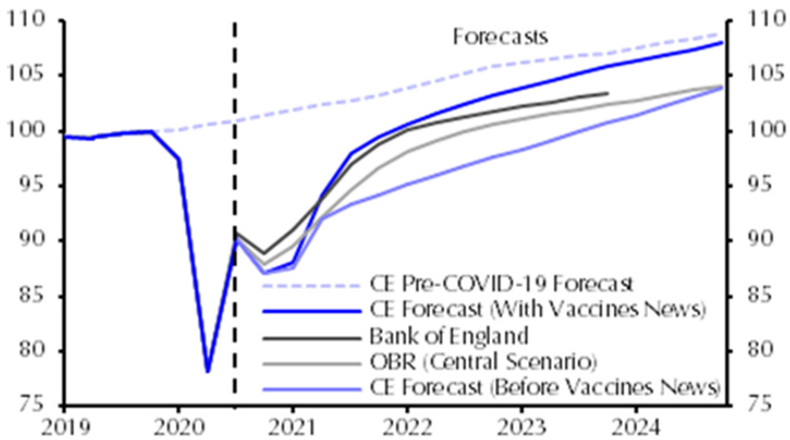
risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2nd December, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31st March will limit the degree of damage done.

- As for **upside risks**, we have been waiting expectantly for news that various **COVID19 vaccines** would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, their phase three trials are still only two-thirds complete. More data needs to be collected to make sure there are no serious side effects. We don't know exactly how long immunity will last or whether it is effective across all age groups. The Pfizer vaccine specifically also has demanding cold storage requirements of minus 70C that might make it more difficult to roll out. However, the logistics of production and deployment can surely be worked out over the next few months.
- However, there has been even further encouraging news since then with another two vaccines announcing high success rates. Together, these three announcements have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021, once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would still remain some years away. There is also a potential question as to whether the relatively optimistic outlook of the Monetary Policy Report was swayed by making positive assumptions around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.

- **Public borrowing** is now forecast by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. However, the second national lockdown starting on 5th November for one month is expected to depress GDP by 8% in November while the rebound in December is likely to be muted and vulnerable to the previously mentioned downside risks. It was expected that the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, the graph below shows what Capital Economics forecast will happen now that there is high confidence that successful vaccines will be widely administered in the UK in the first half of 2021; this would cause a much quicker recovery than in their previous forecasts.

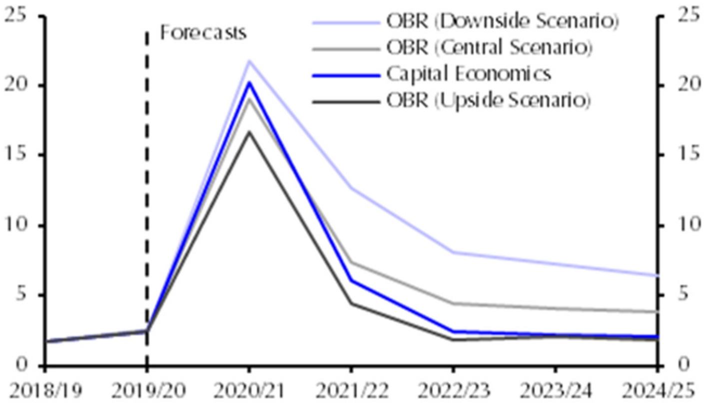
Chart: Level of real GDP (Q4 2019 = 100)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to 2% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assume that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (As a % of GDP)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

- Capital Economics have not revised their forecasts for Bank Rate or gilt yields after this major revision of their forecasts for the speed of recovery of economic growth, as they are also forecasting that inflation is unlikely to be a significant threat and so gilt yields are unlikely to rise significantly from current levels.

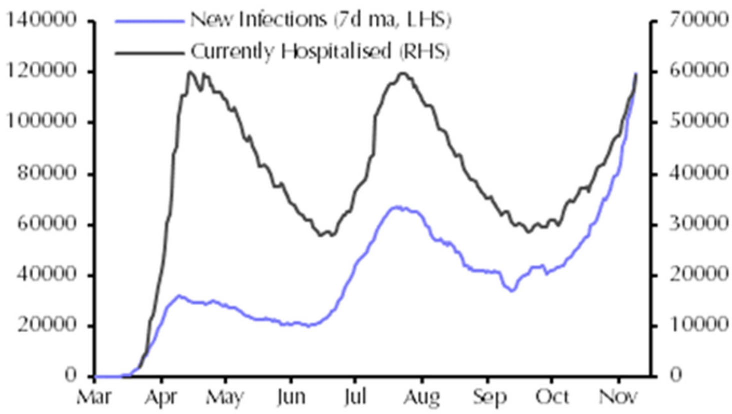
- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

- The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

US. The result of **the November elections** means that while the Democrats have gained the presidency and a majority in the House of Representatives, it looks as if the Republicans will retain their slim majority in the Senate. This means that the Democrats will not be able to do a massive fiscal stimulus, as they had been hoping to do after the elections, as they will have to get agreement from the Republicans. That would have resulted in another surge of debt issuance and could have put particular upward pressure on debt yields – which could then have also put upward pressure on gilt yields. On the other hand, equity prices leapt up on 9th November on the first news of a successful vaccine and have risen further during November as more vaccines announced successful results. This could cause a big shift in investor sentiment i.e. a swing to sell out of government debt to buy into equities which would normally be expected to cause debt prices to fall and yields to rise. However, the rise in yields has been quite muted so far and it is too early to say whether the Fed would feel it necessary to take action to suppress any further rise in debt yields. It is likely that the next two years, and possibly four years in the US, could be a political stalemate where neither party can do anything radical.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the **pandemic** with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a third wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the latest wave has been driven by a growing outbreak in the Midwest. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 New infections & hospitalisations



However, with the likelihood that highly effective vaccines are going to become progressively widely administered during 2021, this should mean that life will start to return to normal during quarter 2 of 2021. Consequently, there should be a sharp pick-up in growth during that quarter and a rapid return to the pre-pandemic level of growth by the end of the year.

After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal. The Fed's meeting on 5 November was unremarkable - but at a politically sensitive time around the elections.

EU. The economy was recovering well towards the end of Q2 and into Q3 after a sharp drop in GDP caused by the virus, (e.g. France 18.9%, Italy 17.6%). However, growth is likely to stagnate during Q4, and Q1 of 2021, as a second wave of the virus has affected many countries, and is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the worst affected countries. With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. It is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support from governments. The current PEPP scheme of €1,350bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, the PEPP scheme is regarded as being a temporary measure during this crisis so it may need to be increased once the first PEPP runs out during early 2021. It could also decide to focus on using the Asset Purchase Programme to make more monthly purchases, rather than the PEPP scheme, and it does have other monetary policy options.

However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle during the closing and opening quarters of this year and next year respectively before it finally breaks through into strong growth in quarters 2 and 3. The ECB will now have to review whether more monetary support will be required to help recovery in the shorter term or to help individual countries more badly impacted by the pandemic.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. Japan's success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. While the second wave of the virus has been abating, the economy has been continuing to recover at a reasonable pace from its earlier total contraction of 8.5% in GDP. However, there now appears to be the early stages of the start of a third wave. It has also been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. There has also been little progress on fundamental reform of the economy. The change of Prime Minister is not expected to result in any significant change in economic policy.

World growth. While Latin America and India have, until recently, been hotspots for virus infections, infection rates have begun to stabilise. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

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

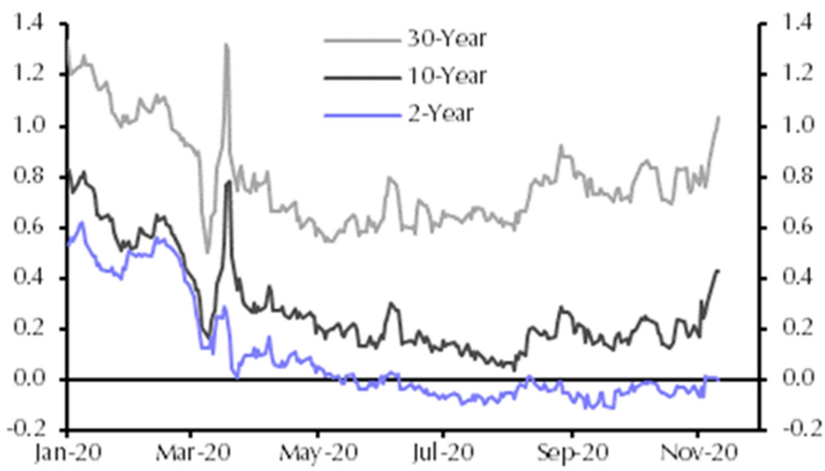
Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using 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.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

The graph below as at 10th November, shows how the 10 and 30 year gilt yields in the UK spiked up after the Pfizer vaccine announcement on the previous day, (though they have levelled off during late November at around the same elevated levels): -



INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 are predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. However, as the differences between a Brexit deal and a no deal are not as big as they once were, the economic costs of a no deal have diminished. The bigger risk is that relations between the UK and the EU deteriorate to such an extent that both sides start to unravel the agreements already put in place. So what really matters now is not whether there is a deal or a no deal, but what type of no deal it could be.

The differences between a deal and a no deal were much greater immediately after the EU Referendum in June 2016, and also just before the original Brexit deadline of 29.3.19. That's partly because leaving the EU's Single Market and Customs Union makes this Brexit a relatively "hard" one. But it's mostly because a lot of arrangements have already been put in place. Indeed, since the Withdrawal Agreement laid down the terms of the break-up, both the UK and the EU have made substantial progress in granting financial services equivalence and the UK has replicated the bulk of the trade deals it had with non-EU countries via the EU. In a no deal in these circumstances (a "cooperative no deal"), GDP in 2021 as a whole may be only 1.0% lower than if there were a deal. In this situation, financial services equivalence would probably be granted during 2021 and, if necessary, the UK and the EU would probably rollover any temporary arrangements in the future.

The real risk is if the UK and the EU completely fall out. The UK could override part or all of the Withdrawal Agreement while the EU could respond by starting legal proceedings and few measures could be implemented to mitigate the disruption on 1.1.21. In such an "uncooperative no deal", GDP could be 2.5% lower in 2021 as a whole than if there was a deal. The acrimony would probably continue beyond 2021 too, which may lead to fewer agreements in the future and the expiry of any temporary measures.

Relative to the slump in GDP endured during the COVID crisis, any hit from a no deal would be small. But the pandemic does mean there is less scope for policy to respond. Even so, the Chancellor could loosen fiscal policy by about £10bn (0.5% of GDP) and target it at those sectors hit hardest. The Bank of England could also prop up demand, most likely through more gilt and corporate bond purchases rather than negative interest rates.

Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

So in summary there is not likely to be any change in Bank Rate in 20/21 – 21/22 due to whatever outcome there is from the trade negotiations and while there will probably be some movement in gilt yields / PWLB rates after the deadline date, there will probably be minimal enduring impact beyond the initial reaction.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered

to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
- **UK** - further national lockdowns or severe regional restrictions in major conurbations during 2021.
- **UK / EU trade negotiations** – if they were to cause significant economic disruption and downturn in the rate of growth.
- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - 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.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** 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 subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland 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. In November, Hungary and Poland threatened to veto the 7 year EU budget due to the inclusion of a rule of law requirement that poses major challenges to both countries. There has also been a rise in anti-immigration sentiment in Germany and France.

- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- **UK -** a significant rise in inflationary pressures. These could be caused by an uncooperative Brexit deal or by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population which leads to a resumption of normal life and a return to full economic activity across all sectors of the economy.
- 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 rapid series of increases in Bank Rate to stifle inflation.

Post-Brexit – if a positive agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.

5.4 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 25% will be held in aggregate in non-specified investment.

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

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

	Minimum credit criteria / colour band	£ limit per institution	Max. maturity period
DMADF – UK Government	yellow	£8m	6 months (max. is set by the DMO*)
UK Government gilts	yellow	£8m	5 years
UK Government Treasury bills	yellow	£8m	364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	yellow	£8m	5 years
Money Market Funds CNAV	AAA	£10m	Liquid
Money Market Funds LNVAV	AAA	£10m	Liquid
Money Market Funds VNAV	AAA	£10m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	£8m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£8m	Liquid
Local authorities	yellow	£5m	5 years

Term deposits with housing associations	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£8m	

* DMO – is the Debt Management Office of H.M.Treasury

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

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
Denmark
Germany
Luxembourg
Netherlands
Norway
Singapore
Sweden
Switzerland

AA+
Canada
Finland
U.S.A.

AA
Abu Dhabi (UAE)
France

AA-
Belgium
Hong Kong
Qatar
U.K.

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
2021/22

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 meets 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 2021/22 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 2021/22 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 £36,000 as at 31st March 2020. A loan to Cobtree Manor Estates Trust had been agreed in 2019/20 for an amount of £323,000 repayment over 5 years at an annual interest rate of 3%. A loan to Maidstone Property Holdings Limited may also be offered in the near future in relation to refurbishment of rental properties. 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	31.3.2020 actual			2021/22
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries				1.000
Local businesses	0.061		0.061	0.049
Local charities	0.323		0.323	0.323
TOTAL	**0.384**	**0.000**	**0.384**	**1.372**

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 2019/20 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 2020 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	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	11.025	3.400	2.000
Service investments: Loans	0.061	0.049	1.372
TOTAL INVESTMENTS	11.086	3.449	3.372
Commitments to lend (Serco Loan – Leisure Centre)	2.527	2.010	1.473
TOTAL EXPOSURE	13.613	5.459	4.845

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	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 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	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	0.68%	-0.01%	-1.45%
Service investments: Loans	2.86%	2.86%	1.33%
ALL INVESTMENTS	0.83%	0.01%	-1.38%

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 Council's current Strategic Plan sets out four objectives, which are 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.

The current capital programme contributes towards provision of local infrastructure, and to indicate our intention to invest to unlock development and attract matching funding. Schemes including the Innovation Centre and a new Garden Community are already well underway.

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 close to completion at Brunswick Street and Union Street and further developments are envisaged, including Springfield Mill. The Council is seeking partnerships to enable further development to take place.

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. Further funding has been provided for the provision of homes for temporary accommodation adding to the number of homes already purchased.

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. £4.98 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. In addition to investment in temporary accommodation, the Council has a successful track record of acquiring non-residential property within the borough.

Where appropriate, we will seek to achieve the necessary scale of investment by identifying external funding or partnership arrangements. 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 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, healthcare 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 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.

Plans for the construction of a new Visitor Centre at Mote Park were put on hold in 2020/21 due to the pandemic but are expected to go ahead in 2021/22. 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 took place during 2020.

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 River Medway catchment area, to which Maidstone is contributing £1 million.

Medium Term Financial Strategy

2.3 The overall context for the MTFS leaves Council 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, we will ensure that investments in property made under the Housing Development and Regeneration Investment Plan deliver an overall income stream that will be sufficient to cover the costs of capital. This strategy provides for the Council to play an active role in accelerating housing development, thereby addressing the need for new homes in the borough.

2.5 Below is a table of the latest capital programme which will be discussed at Policy and Resources Committee on 20th January 2021.

FIVE YEAR CAPITAL PROGRAMME 2021/22 - 2025/26

	Adjusted Budget 2020/21	Five Year Plan 2021/22	2022/23	2023/24	2024/25	2025/26	Total 21/22 to 25/26
	£000	£000	£000	£000	£000	£000	£000
Disabled Facilities Grants	591	1,786	800	800	800	800	4,986
Temporary Accommodation	1,887	2,526	1,560				4,086
Brunswick Street - Net Costs	2,731						
Union Street - Net Costs	3,102						
Springfield Mill	1,807						
Granada House extension	50	1,797					1,797
Current Indicative Schemes	370	6,900	3,895	96			10,891
Affordable Housing Programme	800	1,600	3,200	6,400	9,958	9,958	31,115
Acquisitions Officer	80	80	80	80	80		320
Granada House Refurbishment Works		775					775
Medway Street Car Park	80	577	5,078	1,500			7,155
New Indicative Schemes		4,500	4,500	4,500	4,500		18,000
Russett Grove, Marden	382	1,328					1,328
Springfield Mill (Block 6)	750	2,336	195				2,531
Street Scene Investment	96	50	50	50	50	50	250
Flood Action Plan	50	550	200	200	200	150	1,300
Electric Operational Vehicles	100						
Vehicle Telematics & Camera Systems		35					35
Rent & Housing Management IT System	50						
Installation of Public Water Fountains	15						
Cemetery Chapel Repairs	230	170					170
Continued Improvements to Play Areas	123	174					174
Parks Improvements	99	50	50	50	50	50	250
Gypsy & Traveller Sites Refurbishment		1,000					1,000
Sub-total CHE	**13,392**	**26,233**	**19,608**	**13,676**	**15,638**	**11,008**	**86,162**
Mote Park Visitor Centre	20	2,773					2,773
Mote Park Lake - Dam Works	1,041	682					682
Museum Development Plan			389				389
Mall Bus Station Redevelopment	400	690					690
Sub-total ERL	**1,461**	**4,145**	**389**				**4,534**
Asset Man / Corporate Prop	437	1,486	175	175	175	175	2,186
Corporate Property Acqusition	1,983	11,833	2,500	2,500	2,500	2,500	21,833
Biodiversity & Climate Change	50	950					950
Feasibility Studies	150	50	50	50	50	50	250
Infrastructure Delivery		1,200	1,800	600	600	600	4,800
Software / PC Replacement	231	200	200	200	200	200	1,000
Digital Projects	20	20	20	20	20	20	100
Innovation Centre	5,800	4,440					4,440
Garden Community	200	340	465	425	425		1,655
Lockmeadow Ongoing Investment	4,000	1,000	500				1,500
Sub-total P & R	**12,871**	**21,519**	**5,710**	**3,970**	**3,970**	**3,545**	**38,714**
Bridges Gyratory Scheme	86						
Sub-total SPI	**86**						
Sub-total	**27,810**	**51,897**	**25,707**	**17,646**	**19,608**	**14,553**	**129,410**
Section 106 Contributions	62	44	447	58	49	242	242
TOTAL	**27,872**	**51,942**	**26,154**	**17,704**	**19,656**	**14,795**	**129,653**

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, external borrowing and third party contributions such as Section 106 payments on new developments.

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 £2.6 million for Corporate Property Improvements, based on the requirements of the Asset Management Plan.

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, provided that the scheme outcomes return a financial benefit at least equal to the revenue costs of borrowing, in addition to non-financial benefits which directly or indirectly support the objectives of the strategic plan.

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;

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 the Strategic Capital Investment 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 Procedures for the disposal of assets are outlined within the Council's Constitution.

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.

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

	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	Total £000
External sources	5,999	6,524	850	850	850	850	15,923
Own resources - incl Internal borrowing	23,811	5,012	2,410	2,241	2,253	2,273	38,000
Debt	-2,000	40,361	22,447	14,555	16,505	11,430	103,297
TOTAL	**27,810**	**51,897**	**25,707**	**17,646**	**19,608**	**14,553**	**157,221**

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

	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	Total £000
MRP	452	1,284	2,030	2,527	2,992	3,318	12,603
Capital receipts	3,602	0	0	0	0	0	3,602
TOTAL	**4,054**	**1,284**	**2,030**	**2,527**	**2,992**	**3,318**	**16,205**

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 £36.594m during 2021/22. 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

	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000
Brought forward	40,132	52,408	91,486	111,903	123,931	137,443
Capital Expenditure	27,810	51,897	25,707	17,646	19,608	14,553
External funding	-5,999	-6,524	-850	-850	-850	-850
Own resources	-9,083	-5,012	-2,410	-2,241	-2,253	-2,273
MRP	-452	-1,284	-2,030	-2,527	-2,992	-3,318
TOTAL CFR	**52,408**	**91,486**	**111,903**	**123,931**	**137,443**	**145,555**

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 0.2%) and long-term fixed rate loans where the future cost is known but higher (currently 1.62 to 1.83%).

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

	31.03.21 forecast £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000
Debt (excl.PFI & leases)	9,000	49,361	71,808	86,363	102,868	114,297
Capital Financing Requirement	52,408	91,486	111,903	123,931	137,443	145,555

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.

Table 6: Borrowing and the Liability Benchmark

	31.03.21 forecast £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000
Outstanding borrowing	9,000	49,361	71,808	86,363	102,868	114,297
Liability benchmark	13,000	55,361	77,808	92,363	108,868	120,297

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

Authorised Limit

	31.03.21 forecast £m	31.03.22 budget £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m
Borrowing	34.000	66.070	85.010	96.130	109.330	117.440
Other Long Term Liabilities	2.527	2.010	1.473	0.905	0.309	0.000
Total	**36.527**	**68.08**	**86.483**	**97.035**	**109.64**	**117.44**

Operational Boundary

	31.03.21 forecast £m	31.03.22 budget £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m
Borrowing	14.000	46.070	65.010	76.130	89.330	97.440
Other Long Term Liabilities	2.527	2.010	1.473	0.905	0.309	0.000
Total	**16.527**	**48.08**	**66.483**	**77.035**	**89.639**	**97.44**

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

	31.03.21 forecast £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000
Short-term investments	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
Total	**4000**	**6000**	**6000**	**6000**	**6000**	**6000**

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. The Audit, Governance and Standards Committee is also 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

	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£m)	0.005	0.676	1.028	1.275	1.569	1.786
Proportion of net revenue stream (%)	0.023	3.199	4.820	5.744	6.789	7.430

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. KNOWLEDGE AND SKILLS

6.1 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 many 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.

6.2 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.

6.3 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.

7. RISK MANAGEMENT

7.1 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

7.2 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

7.3 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.

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

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

Service

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

Project

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