POLICY AND RESOURCES COMMITTEE MEETING

Date: Wednesday 10 February 2021
Time: 6.30 pm
Venue: Remote Meeting - The public proceedings of the meeting will be broadcast live and recorded for playback on the Maidstone Borough Council website.

Membership:

Councillors Brice, M Burton, Chappell-Tay, Clark, Cox (Chairman), English, Mrs Gooch, Harvey, McKay, Mortimer, Newton, Perry (Vice-Chairman), Round, Springett and de Wiggondene-Sheppard

The Chairman will assume that all Members will read the reports before attending the meeting. Officers are asked to assume the same when introducing reports.

Issued on Tuesday 2 February 2021 **Continued Over/:**

Alison Broom

Alison Broom, Chief Executive

PART II

To move that the public be excluded for the items set out in Part II of the Agenda because of the likely disclosure of exempt information for the reasons specified having applied the Public Interest Test.

INFORMATION FOR THE PUBLIC

In order to ask a question at this remote meeting, please call **01622 602899** or email **committee@maidstone.gov.uk** by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Monday 8 February 2021). You will need to provide the full text in writing.

If your question is accepted, you will be provided with instructions as to how you can access the meeting.

In order to make a statement in relation to an item on the agenda, please call **01622 602899** or email **committee@maidstone.gov.uk** by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Monday 8 February 2021). You will need to tell us which agenda item you wish to speak on.

If you require this information in an alternative format please contact us, call **01622 602899** or email **committee@maidstone.gov.uk**.

To find out more about the work of the Committee, please visit www.maidstone.gov.uk.

Should you wish to refer any decisions contained in these minutes to **Council**, please submit a Decision Referral Form, signed by **five** Councillors, to **the Mayor** by: **9 February 2021**

MAIDSTONE BOROUGH COUNCIL

POLICY AND RESOURCES COMMITTEE

MINUTES OF THE MEETING HELD ON WEDNESDAY 20 JANUARY 2021

Present: **Councillors Brice, M Burton, Chappell-Tay, Clark, Cox(Chairman), English, Mrs Gooch, Harper, Harvey, Mortimer, Newton, Perry, Round, Springett and de Wiggondene-Sheppard**

Also Present: **Councillors Kimmance, J Sams and T Sams**

107. APOLOGIES FOR ABSENCE

Apologies were received from Councillor McKay.

108. NOTIFICATION OF SUBSTITUTE MEMBERS

Councillor Harper was present as Substitute Member for Councillor McKay.

109. URGENT ITEMS

An urgent item had been published as part of an Amended Agenda, Item 18 – Urgent Item – Treasury Management Strategy – Counterparty Limits. The item had to be considered in order that a recommendation could be made to the next meeting of Full Council.

110. NOTIFICATION OF VISITING MEMBERS

Councillors J and T Sams were present as Visiting Members for Item 17 – Council-Led Garden Community Update.

Councillor Kimmance was present as a Visiting Member for Item 13 – Strategic Plan – Proposed Areas for Focus 2021-2026 and Key Performance Indicators for Covid19 Recovery and Item 17 – Council-Led Garden Community Update.

111. CHANGE TO THE ORDER OF BUSINESS

Item 17 – Council-Led Garden Community Update would be taken before Item 13 – Strategic Plan – Proposed Areas of Focus and Key Performance Indicators for Covid-19 Recovery, to accommodate the members of the public in attendance for the item.

Item 18 – Urgent Item – Treasury Management Strategy – Counterparty Limits would be taken before Item 16 – Medium-Term Financial Strategy and Budget Proposals.

112. DISCLOSURES BY MEMBERS AND OFFICERS

Councillor Brice disclosed a pecuniary interest for Item 15 – Medium Term Financial Strategy – Capital Programme and did not vote on the item.

113. DISCLOSURES OF LOBBYING

All Committee Members had been lobbied on Item 17 – Council-Led Garden Community Update.

Councillors Chappell-Tay, Mrs Gooch, Harvey, Mortimer, Perry and Round had been lobbied on Item 13 – Strategic Plan – Proposed Areas for Focus 2021-2026 and Key Performance Indicators for Covid-19 Recovery.

Councillor Chappell-Tay had been lobbied on Item 15 – Medium Term Financial Strategy – Capital Programme.

Councillor Perry had been lobbied on Item 16 – Medium Term Financial Strategy and Budget Proposals.

114. EXEMPT ITEMS

RESOLVED: That all items be taken in public, as proposed.

115. MINUTES OF THE MEETING HELD ON 16 DECEMBER 2020

RESOLVED: That the Minutes of the meeting held on 16 December 2020 be agreed as a correct record and signed at a later date.

116. PRESENTATION OF PETITIONS

There were no petitions.

117. QUESTIONS AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were four questions from Members of the Public.

Question from Ms Kate Hammond to the Chairman of the Policy and Resources Committee

'Your report on the Council-led garden community states that 'very good progress continues to be made with the project'. In the last twelve months, you have dropped the High-Speed rail station, motorway junction and secondary school from your plans. There are countless other issues with the proposed site. Three principal landowners have pulled out of the project and there seems to be a lot of confusion on how many homes the site will be able to deliver. You're resorting to scare tactics such as compulsory purchase orders. You have not made any progress in getting even one landowner to sign terms. Apart from a promised collaboration agreement with Homes England, please can you explain what you believe to be 'very good progress?'.

The Chairman responded to the question.

Question from Mr Darren Hammond to the Chairman of the Policy and Resources Committee

‘You have spent nearly £400,000 of council taxpayer's money in the last 18 months on the Heathlands council-led garden community and are making budget provision for a further £1.7m in future years. Is this a good use of public money in the current financial climate especially when so many other Garden Villages are failing in Local Plans?’.

The Chairman responded to the question.

Mr Hammond asked the following supplementary question:

‘How can the Council continue to justify the financial risk of Heathlands when the proposal rates so poorly in every independent assessment, and so many other vital services in the Borough are desperate for funds, for example the Hazlitt Theatre and Maidstone Leisure Centre, in the current climate?’.

The Chairman responded to the supplementary question.

Question from Ms Gail Duff to the Chairman of the Policy and Resources Committee

‘Eight principal landowners within the Heathlands council-led garden community project received draft Heads of Terms for agreement over a year ago on 17th January 2020. Please can you confirm how many landowners have signed Heads of Terms for land within the Heathlands project?’.

The Chairman responded to the question.

Ms Duff asked the following supplementary question:

‘One of the five principle land owners told us that Maidstone Council is ‘barking up the wrong tree’ in respect to the Heathlands Council-Led Garden Community. Do you think you are barking up the wrong tree?’.

The Chairman responded to the supplementary question.

Question from Mr Steve Heeley to the Chairman of the Policy and Resources Committee

‘Your report on the Council-led garden community states that 'constructive dialogue continues with the five principal landowners'. Please can you confirm how many times you or your appointed lawyers have held meetings with each of the five principal landowners, as a group or individually, in the last 12 months?’.

The Chairman responded to the question.

Mr Heeley asked the following supplementary question:

'Can you confirm whether you have met with each of the five individual landowners in the last 12 months?'.

The Chairman responded to the supplementary question.

The full responses were recorded on the webcast and made available to view on the Maidstone Borough council website.

To access the recording, please use the link below:
https://www.youtube.com/watch?v=HjSSCmfm8Pg

118. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were two questions from Members to the Chairman.

Question from Councillor J Sams to the Chairman of the Policy and Resources Committee

'At last week's SPI meeting, the Chair of SPI informed the meeting that the consultation timescale change was an officer decision. Throughout, we said we were happy, and indeed pushed, for the period to be 6 weeks, due to the Pandemic.

Our concern remains process and transparency, and the independence of the SPI committee.

Can you please therefore enlighten me as to what was the decision-making process, what specific information was available, the time line of conversations from the start to finish, and who was spoken to and in what capacity, and who signed off that decision?'.

The Chairman responded to the question.

Councillor Sams asked the following supplementary question:

'Why were the deputy leader and the other group leaders not involved, but only the Conservative Group Leader, who was Vice Chair of Policy and Resources Committee?'.

The Chairman responded to the supplementary question.

Question from Councillor Round to the Chairman of the Policy and Resources Committee

'Having had two decisions by Maidstone Borough Council's duly elected Planning Committee and one refusal by this Policy & Resources Committee, acting as the Planning Referrals Committee, to refuse the Bellway Application to build up to 450 Houses on Land West of Church Road. As there appears to be a number of serious inconsistencies within

the Planning Inspectorate Report, will this Committee now recommend a Judicial Review of the decision?'.

The Chairman responded to your question.

Councillor Round asked the following supplementary question:

'Would you have any objections to a private judicial review being taken out using evidence that exists and can you divulge what the cost amount is?'

The Chairman responded to the supplementary question.

The full responses were recorded on the webcast and made available to view on the Maidstone Borough Council website.

To access the webcast recording, please use the link below:
https://www.youtube.com/watch?v=HjSSCmfm8Pg

119. COMMITTEE WORK PROGRAMME

Two additional items would be added to the work programme, to be presented in February 2021; the Appraisal Sub-Committee and a reference from the Strategic Planning and Infrastructure Committee to request access to the Biodiversity and Climate Change funding.

The Committee felt that the possibility of conducting a judicial review on the planning inspectorate's decision regarding the Church Road appeal should be explored and requested that a report be presented to the Committee within the six-week timeframe permitted for an appeal against the decision.

The Head of Mid-Kent Legal, Monitoring Officer outlined the legal requirements necessary to conduct a judicial review and referenced the delegations within the Council's Constitution.

RESOLVED: That

1. That a report on the (Land West of) Church Road Inspector's appeal be presented to the 10 February 2021 meeting of the Committee, or an alternative extraordinary Committee meeting, and that in the interim the Chief Executive be requested to seek appropriate legal Counsel's review of the Inspectors decision; and

2. The Committee Work Programme be noted.

120. COUNCIL-LED GARDEN COMMUNITY UPDATE

Prior to the report introduction, Mr Steve Heeley addressed the Committee on behalf of the Save Our Heathlands Action Group.

The Director of Regeneration and Place introduced the report and stated that the Council had submitted its representations on the proposal to the Regulation 18 preferred approaches document public consultation and sustainability appraisal, in consultation with the Chair and Vice-Chair of the Committee. The third stage submission to the Local Planning Authority (LPA) would be required by the end of March 2021.

The collaboration agreement between the Council and Homes England would be presented to the Committee at its March 2021 meeting. The LPA had requested that the land north of the railway line be further explored within the proposal, which could reduce the number of landowners within the red line.

RESOLVED: That the report be noted.

121. STRATEGIC PLAN - PROPOSED AREAS FOR FOCUS 2021-2026 AND KPIS FOR COVID19 RECOVERY

The Chief Executive introduced the report in the context of the ongoing refresh of the Strategic Plan, as agreed by the Committee in July 2020. The feedback provided throughout the process would influence the allocation of resources within the period 2021-2026, with the proposed Key Performance Indicators (KPIs) in respect of Covid-19 recovery highlighted. The information contained in the appendices to the report were outlined.

The Chief Executive acknowledged the feedback received from Members in the Summer of 2020 on the future priorities and areas of focus, which had been considered during the September, October and November 2020 meetings of the Committee. The significance of the Member Covid-19 Recovery Consultative Group in shaping the Council’s response to Covid-19, through providing feedback from local residents and businesses was noted.

Specific attention was drawn to Appendices C and D to the report, with the Committee’s feedback requested. The appendices would be presented to the Council’s other service committees, with the feedback given to be presented to the 10 February meeting of the Committee.

During the discussion, the importance of the multiagency partnership working and data sharing undertaken in relation to domestic abuse, significance of local healthcare structures and the scope of Maidstone Task Force were referenced. The Chief Executive confirmed that the adverse effect on children that witness abuse was of significant focus for the partnership. Several Members expressed support for the provision of affordable Gypsy and Traveller accommodation.

The Chief Executive confirmed that the comments received would be distributed to the relevant service committees.

RESOLVED: That

1. The proposed refreshed areas of focus for the council's Strategic Plan for the period 2021-2026, set out in Appendix C to the report, be considered and the Committee's comments be taken into account before consultation is conducted with the Council's Service Committees; and

2. The proposed Key Performance Indicators for Covid19 Recovery, set out in Appendix D to the report, be considered and the Committee's comments be taken into account before consultation is conducted with the Council's service committees.

Note: Councillor de Wiggondene-Sheppard left the meeting during the item's discussion.

122. COUNCIL TAX BASE 2021/22 & COLLECTION FUND ADJUSTMENT

The Head of Finance introduced the report and stated that the Council Tax Base calculated for the next financial year was £63,550.1, which displayed a growth of 0.36% from last year. The calculations used were outlined within Appendix 1 to the report.

The financial uncertainties faced by the Council were reiterated, in regards to the Business Rates forecast and the increase in the bad debt allowance to 2.5% of the tax base. This reflected the increased likelihood of irrecoverable debts arising from financial hardship as a result of the Covid-19 pandemic. Parish Councils had been informed of their draft Council Tax Bases before Christmas 2020.

There was a £3 million deficit for the current financial year between the Council and major preceptors; Kent County Council, Kent Police and Kent Fire and Rescue. The cumulative balance was £2.58 million which would be spread across the next three years, due to government intervention where a deficit had occurred. The Council's share of the cumulative balance of £115,045 would be offset by the Council's cash balances in the interim period until the deficit was recovered.

The Head of Finance noted that the details of the government scheme whereby the Council could be compensated for up to 75% of the irrecoverable losses through Council Tax and Business Rates, were yet to be announced. Consequently, the financial implications of the scheme had not been included within the item presented.

RESOLVED: That

1. In accordance with the Local Authority (Calculation of Council Tax Base) (England) Regulation 2012, the amount calculated by the Authority as the Council Tax Base for the year 2021-22 shall be 63,550.1;

2. In accordance with the Local Authority (Calculation of Council Tax Base) (England) Regulations 2012, the amount calculated by the Authority as the Council Tax Base for each parish area for the year 2021-2022 shall be as identified in Appendix 2 to the report; and

3. The 2020-21 Council Tax projection and proposed distribution detailed in Appendix 3 to the report, be agreed.

123. MEDIUM TERM FINANCIAL STRATEGY - CAPITAL PROGRAMME

The Senior Finance Manager introduced the report and stated that the Capital Strategy outlined the key principles and guidelines that the Council followed in undertaking the Capital Programme. The five-year programme totalled £129 million. It was proposed that the rate of return necessary to ensure a project's viability be reduced from 5% to 4%, to reflect the reduced cost of borrowing arising from reduced interest rates. The Audit, Governance and Standards Committee had approved the strategy.

The maximum rate of borrowing for the capital programme had been agreed at £103 million and was likely to be sourced from the Public Works Loan Board (PWLB), however alternative options would be considered if appropriate. The schemes shown within Appendix 1 to the report were outlined, with the £18 million in additional funding for the Private Rented Sector (PRS) programme noted.

In response to questions, the Director of Finance and Business Improvement confirmed that the reduced interest rates on any borrowed funding would remain fixed. It was confirmed that if a scheme was ready to commence earlier than expected, a report could be presented to the Committee to request that the funding be transferred forward.

The Director of Regeneration and Place stated that the Medway Street Car Park Scheme would be presented to the Committee once further details were available. The Granada House Scheme would be presented to the Committee at its next meeting.

RESOLVED: That

1. The capital strategy principles, as set out in paragraph 2.6 of the report, be agreed;

2. The capital funding projection set out in Appendix 2 of the report, be agreed;

3. The capital programme 2021/22 onwards as set out in Appendix 3 to the report, be agreed;

4. In agreeing recommendations two and three as outlined above, a prudential borrowing limit of £103.428 million over the period of the programme shall be recommended to Council as part of the Treasury Management Strategy 2021/22, be noted; and

5. In assessing the viability of capital schemes, the hurdle rate of return be reduced from 5% to 4% as set out in paragraph 2.13 of the report.

Note: Councillor Brice did not vote on this item.

124. URGENT ITEM - TREASURY MANAGEMENT STRATEGY - COUNTERPARTY LIMITS

The Director of Finance and Business Improvement introduced the report and stated that as the Council had received further funding from central government to provide Covid-19-related business grants, the counterparty limits had been exceeded. The Audit, Governance and Standards Committee, as the body responsible for the Treasury Management Strategy (TMS), had been informed.

The proposed increases in the credit limit for banks and money markets were outlined, with the new limits proposed shown in Appendix 1 to the report.

The Director of Finance and Business Improvement highlighted that, if agreed, the proposed new limits would need to be agreed by Full Council. A meeting had been scheduled for 28 January 2021 to allow the limits to be adopted immediately, to ensure future compliance to the counterparty limits.

RESOLVED: That Council be recommended to adopt the Treasury Management Counterparty limits as set out in Appendix 1 to the report, in advance of the previously envisaged adoption date of 1 April 2021.

125. MTFS AND BUDGET PROPOSALS

The Director of Finance and Business Improvement introduced the report that built upon the Medium-Term Financial Strategy that was presented to the Committee on 16 December 2020. As a result of the Local Government Finance Settlement and Chancellor's Spending Review, the Council's budget gap had been reduced from £2.4 million to £1.6million, however significant challenges remained.

The various sources of government funding to mitigate the effects of Covid-19 were noted, however these would likely be one-off payments. The budget proposals outlined would close the budget gap over the next three years, with those within the Committee's remit amounting to £795,000. These included the Council's office accommodation as the lease was coming to an end, changes to staff travel allowances and a review of the structure of democratic representation.

In response to questions, the Director of Finance and Business Improvement explained that the £860,000 Government funding was not ringfenced and intended to assist the Council in coping with the pressures arising from Covid-19 and would be a one-off payment. The use of the funding would be reported to the Committee on a quarterly basis, with the option of expanding its use for recovery purposes to be examined at a later date if appropriate. The intention to use the £139,000 Local Tax Support Grant in lieu of New Homes Bonus was reiterated.

Further information on the Business Rates Retention Schemes that were paused in the Summer of 2020 would be presented to the Committee's next meeting.

The Committee expressed their thanks to the officers involved for the work undertaken.

RESOLVED: That

1. The revenue budget proposals for services within the remit of the Committee, as set out in Appendix A to the report, be agreed; and

2. The revenue budget proposals for services within the remit of the other Service Committees, as set out in Appendix B to the report, be agreed.

Note: Councillors Brice and English left the meeting during this item.

126. DURATION OF MEETING

6.45 p.m. to 10.03 p.m.

Note: Due to technical difficulties the meeting commenced at 6.45 p.m.

10

Agenda Item 12

2020/21 WORK PROGRAMME

	Committee	Month	Origin	CLT to clear	Lead	Report Author
Flooding Risk Alleviation	P&R	24-Mar-21	Officer Update		Mark Green	Mark Green
Council Led Garden Community Update	P&R	24-Mar-21	Officer Update	Yes	William Cornall	William Cornall
Council Led Garden Community Update	P&R	21-Apr-21	Officer Update	Yes	William Cornall	William Cornall
Asset Management Strategy	P&R	TBC	Strategy Update	Yes	Mark Green	Georgia Hawkes
Commissioning and Procurement Strategy	P&R	TBC	Strategy Update	Yes	Mark Green	Georgia Hawkes
Financial Hardship Update	P&R	TBC	Officer Update	?	Steve McGinnes	Steve McGinnes
Archbishop's Palace Options Appraisal	P&R	TBC	Asset Management	Yes	Mark Green	Lucy Stroud
Office Provision	P&R	TBC - update to be given when available	Officer Update	Yes	Mark Green	Georgia Hawkes

POLICY AND RESOURCES COMMITTEE

10 FEBRUARY 2020

REFERENCE FROM THE STRATEGIC PLANNING AND INFRASTRUCTURE COMMITTEE

Issue for Decision

To consider the reference submitted by the Strategic Planning and Infrastructure Committee.

Recommendation

That the Policy and Resources Committee be requested to allocate £140,000 of the funding available from the Biodiversity and Climate Change Action Fund for planning policy development.

Background

The Director of Finance and Business Improvement introduced the report and referenced the Medium-Term Financial Strategy presented to the Committee on 8 December 2020, whereby the financial implications and budget gap caused by Covid-19 were outlined.

As a result of the Local Government Finance Settlement and the Chancellor's Spending Review, the Council's budget gap had been reduced from £2.4 million to £1.6 million but remained significant. The savings proposals outlined would enable the budget gap to be closed over the next three years. Those proposed within the Committee's remit focused on the planning service through Better use of technology and Service improvements, that would each deliver a £75,000 saving for future years by 2022/23 and 2023/34 respectively. The service improvements were explained in the context of the Government's 'Planning for the Future' White Paper, that aimed to streamline the planning process.

The Committee were informed that if the nine parking spaces in King Street were permanently lost to a further active travel scheme, the income reduction would total £26,000. Any proposals by Kent County Council would be subject to public consultation.

In response to questions, the Director of Finance and Business Improvement explained that whilst the £860,000 in Government funding was not ringfenced, it was designed to assist the Council in coping with the pressures arising from Covid-19 and would be a one-off payment. It was not intended to bridge the Council's budget gap. The £139,000 provided through the Local Tax Support Grant was also a one-off payment and would be used in lieu of New Homes Bonus.

The Director of Regeneration and Place confirmed that the exploit of synergies between the planning and economic development service areas had been examined but could not be achieved at the present time.

The Committee felt that further resources should be directed to the formation and strengthening of the Council's planning policies, including those linked to climate change. There were concerns expressed that the Local Plan Review budget was insufficient, with further funding requested. Reference was made to the projected savings figures outlined for future years.

Background Papers

Medium-Term Financial Strategy and Budget Proposals – 12 January 2021 – Strategic Planning and Infrastructure Committee.

POLICY AND RESOURCES COMMITTEE	10 FEBRUARY 2021

COUNCIL-LED GARDEN COMMUNITY UPDATE

Final Decision-Maker	Policy & Resources Committee
Lead Head of Service	William Cornall, Director of Regeneration & Place
Lead Officer and Report Author	William Cornall, Director of Regeneration & Place
Classification	Public
Wards affected	All, but in particular Harrietsham & Lenham and Headcorn Wards. Lenham Parish Council and Boughton Malherbe Parish Council are affected.

Executive Summary

The proposal was last considered by this Committee on 20th January 2020. The purpose of this report is to provide an update in respect of the progress made since then in pursuing a council-led garden community, near Lenham Heath (Heathlands). As in the case of previous reports to this Committee, the contents of this report relate to the Council's position as a potential property owner/developer and not as Local Planning Authority (LPA).

Purpose of Report

For information.

This report makes the following recommendations to this Committee:

1. To note the contents of this report.

Timetable	
Meeting	***Date***
Policy and Resources Committee	10th February 2021

COUNCIL-LED GARDEN COMMUNITY UPDATE

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The four Strategic Plan objectives are: • Embracing Growth and Enabling • Infrastructure • Safe, Clean and Green • Homes and Communities • A Thriving Place Accepting the recommendations will materially improve the Council's ability to achieve all the corporate priorities.	Director of Regeneration & Place
Cross Cutting Objectives	The four cross-cutting objectives are: • Heritage is Respected • Health Inequalities are Addressed and Reduced • Deprivation and Social Mobility is Improved • Biodiversity and Environmental Sustainability is respected The report recommendations support the achievement of all the cross cutting objectives. Through delivering much needed homes to include 40% affordable housing of which 70% would be for affordable rent. The emerging masterplan is landscape led with up to 50% of the total proposed as green space. Led by the ambitions set out in the Strategic Plan the Council can ensure that the design principles of development where it is the master planner reflect the commitment to reduce health inequalities amongst other things.	Director of Regeneration & Place
Risk Management	See section 5.	Director of Regeneration & Place

Financial	Investment in the Garden Community forms part of the Council's five-year capital programme and budgetary provision exists for the expenditure described in the report and the plans outlined here.	Section 151 Officer & Finance Team
Staffing	We will deliver the recommendations with our current staffing.	Director of Regeneration & Place
Legal	There are no legal implications arising from this report as it is for information only.	Team Leader (Planning)
Privacy and Data Protection	No impact identified	Policy and Information Team
Equalities	An Equalities Impact Assessment will be completed if the proposal forms part of the draft spatial strategy of the Local Plan Review.	Equalities and Corporate Policy
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Public Health Officer
Crime and Disorder	The recommendation will not have a negative impact on Crime and Disorder.	Head of Service or Manager
Procurement	N/A.	Head of Service & Section 151 Officer
Biodiversity	The revised masterplan brief seeks a biodiversity net gain within the proposed redline.	Head of Policy Communications & Governance

2. INTRODUCTION AND BACKGROUND

2.1 The Council is pursuing this project as it is consistent with its Strategic Plan priority of "embracing growth and enabling infrastructure" and the desired outcomes within it:

- The Council leads master planning and invests in new places which are well designed.
- Key employment sites are delivered.
- Housing need is met including affordable housing.
- Sufficient infrastructure is planned to meet the demands of growth.

2.2 This report will provide an update on the progress made since the last report to this Committee and addresses the following areas:

- Promotion of Heathlands through the Local Plan Review (LPR)
- Homes England (HE) partnership update
- Principal Landowners

2.3 **Promotion of Heathlands through the LPR.** The contents of the stage 3 submission to the LPA to be made at the end of March 2021 has tentatively been agreed (with the LPA), to cover the following headings:

Heathlands Stage Three Submission
1. Updated Vision Statement
2. Stage 3 Masterplan Brochure
Proposed Structure for Heathlands SPD (Appendix to the Masterplan Brochure)
3. Landscape and Visual Appraisal (baseline to Land Visual Impact Assessment)
4. Update to technical constraints and mitigation assessments to inform revised masterplan, covering:
Trees and Woodland
Biodiversity
Ground Conditions
Agricultural land
Flooding and drainage
Minerals (see below)
Heritage and Archaeology
Utilities (including WWTW)
5. Sustainable Energy Statement
6. Biodiversity Net Gain Statement
7. Nutrient Neutrality Assessment
8. Sustainable Transport (inclusive of station & alternatives) & Highways Statement
KCC pre-app opinion and advice
Access to A20 locations
Network Rail opinion / support
9. Community Infrastructure Delivery Statement (i.e. education, health, library, community facilities)
10. Housing Statement
11. Employment Statement, to include district and local centre viability
12. Minerals / Aggregates Statement
13. Updated Financial Viability Appraisal Summary
14. Development Project Delivery Plan
15. Governance & Stewardship Statement
16. Engagement Statement and Schedule
17. Landowner letters of intent

2.4 The Council is working closely with HE and is on track to make the submission by the due date.

2.5 **Homes England (HE) Partnership update**. Heads of Terms have now been agreed with HE for the collaboration agreement, which is now being drafted and is intended to be brought forward for consideration by this committee in March 2020.

2.6 **Principal Landowners**. Constructive dialogue continues with the principal landowners and / or their representatives, with the discussion focussed upon the proposed terms put forward by HE.

2.7 It is probable that the overall redline will be refined within the stage 3 masterplan, so as to take onboard direction from the LPA, with a reduced number of landownerships within it. Regardless, the revised masterplan will once again safeguard existing homes in the locality inclusive of the provision of green buffers around them.

2.8 In previous reports, this Committee has been made aware that there are some (circa 18) landowners within the current redline who object to the current proposal. Officers are attempting to engage with the objecting landowners to understand their individual concerns and the extent to which these can be addressed. The third stage masterplan will refer to any remaining objections, and reasonable endeavours will be made to keep these to a minimum.

---

3. AVAILABLE OPTIONS

3.1 The report is for noting.

---

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 N/A.

---

5. RISK

5.1 When this proposal was presented to this Committee in September 2019, the likely risks were set out as follows:

- At risk consultancy expenditure.
- A period of uncertainty for the community affected.
- Possible negative perceptions of a broader role for the Council in the context of acting as master developer.
- Maintaining cohesion amongst the landowner group.

5.2 These risks have to some degree crystallised and largely remain. However, the level of cohesion amongst what is a now a smaller core landowner group, is now strong.

5.3 Further risks that have since been added and remain are:

- Terms cannot be agreed with the principal landowners.
- Challenge from individuals or organisations that oppose the principle and/or the specific details of the Council's council-led garden community.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 Nothing further to report.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The next steps will be to:

- Advance the commercial negotiations with the principal landowners.
- Enter into the collaboration agreement with HE subject to approval by this Committee in March 2021.
- Continue to engage with the LPA to refine and evolve the Heathlands concept.
- Make the third stage submission to the LPA by 31st March 2021.

---

8. REPORT APPENDICES

None.

---

9. BACKGROUND PAPERS

None.

POLICY AND RESOURCES COMMITTEE	**10 February 2021**

Strategic Plan Refresh

Final Decision-Maker	Council
Lead Director	Alison Broom, Chief Executive
Lead Officer and Report Author	Alison Broom, Chief Executive Angela Woodhouse, Head of Policy, Communications and Governance Anna Collier, Policy and Information Manager
Classification	Public
Wards affected	All

Executive Summary

This report proposes refreshed areas of focus for the Council's Strategic Plan for the period 2021-2026 consistent with the Council's Vision and blended with the continued need for response to and recovery from the Covid-19 pandemic.

The report includes a set of key performance indicators developed in response to Covid-19 at Appendix B and Appendix A sets out the proposed areas of focus for 2021-26,

Purpose of Report

Decision

This report makes the following recommendations to this Committee:

1. To approve and recommend to Council the revised areas of focus for the strategic plan for 2021-26.
2. Approve the Key Performance indicators for 2021-22.

Timetable	
Meeting	***Date***
Policy and Resources Committee	10 February 2021
Council	24 February 2021

Strategic Plan Refresh

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The four Strategic Plan objectives are: • Embracing Growth and Enabling Infrastructure • Safe, Clean and Green • Homes and Communities • A Thriving Place This report considers the proposed areas of focus for the Strategic Priorities for the next five years and identifies action for progressing the shaping of the areas of focus for 2021-2026.	Chief Executive
Cross Cutting Objectives	The four cross-cutting objectives are: • Heritage is Respected • Health Inequalities are Addressed and Reduced • Deprivation and Social Mobility is Improved • Biodiversity and Environmental Sustainability is respected Consideration has been given to the crosscutting objectives in formulating the proposed areas of focus for the Strategic Plan	Chief Executive
Risk Management	A review of corporate risk will be undertaken with respect to any changes made to the Strategic Plan areas of focus.	Chief Executive
Financial	The Strategic Plan sets the Council's Priorities and the direction for the Medium Term Financial Strategy.	Section 151 Officer & Finance Team
Staffing	We will deliver the recommendations with our current staffing.	Chief Executive
Legal	The Council has a statutory duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of	Legal Team

	economy, efficiency and effectiveness. The Council's Strategic Plan demonstrates compliance with this duty. This review of the Council's priorities within the Strategic Plan will enable the Council to deliver services in an efficient and effective manner which meets the needs of the borough and aspirations of local inhabitants and stakeholders. In reviewing the priorities, the Council is obliged to ensure that its financial obligations are adhered to. The Council has a legal duty to set a balanced budget and continue to monitor the budget during the course of each municipal year and take remedial; action if needed at any time	
Privacy and Data Protection	The recommendations do not have an impact on privacy and data protection. If as a result of the update to the milestones and the emerging MTFS for 2021-2026 changes are required to services involving personal data, then Data Protection Impact Assessments will be undertaken.	Policy and Information Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment. If as a result of the update to the milestones and the emerging MTFS for 2021-2026 changes are required to services, then an Equalities Impact assessment will be undertaken.	Policy & Information Manager
Public Health	One of the Council's cross cutting objectives is that Health Inequalities are addressed and reduced. The recommendations do not propose a change in service therefore will not require an impact assessment. If as a result of the update to the milestones and the emerging MTFS for 2021-2026 changes are required to services, then a Health Impact assessment will be undertaken.	Public Health Officer
Crime and Disorder	The recommendations include reviewing the areas of focus for 2021-26 for the Safe, Clean and Green Priority	Chief Executive
Procurement	No direct implications	Chief Executive

2. INTRODUCTION AND BACKGROUND

2.1 This report proposes refreshed areas of focus for 2021-2026 consistent with the Council's Vision and four priorities; it reflects both the long-term ambitions of the Council blended with the continued need for response to and recovery from the Covid-19 health pandemic. Each service committee has had the opportunity to comment on the refreshed areas of focus and feedback is provided in the central column of the table at Appendix A. As the Communities Housing and Environment (CHE) and Strategic Planning and Infrastructure (SPI) Committees are meeting following the agenda publication date an updated Appendix will be provided to Policy and Resources Committee as an urgent update on the 10 February.

2.2 In July 2020 the Head of Policy, Communications and Governance presented a report to the Policy and Resources Committee which set out progress made against the 2019-2024 Strategic Plan Outcomes The report also included a timetable to refresh the outcomes to ensure they reflected the progress that had been made and to respond to the impact of the Covid19 pandemic.

2.3 The current Strategic Plan was developed involving a wide cross section of Councillors, staff and other stakeholders in 2018 before being adopted in December of that year. The vision and priorities are clear and remain relevant.

2.4 In June 2020 the Policy and Resources Committee also considered the Council's approach to recovery from the Covid-19 pandemic and recognised that it was likely that this would be intertwined with episodes of response, and this has proved to be the case. The Council's approach to recovery is based on four themes: economic recovery, supporting resilience for communities and vulnerable people, adapting the way we work and financial recovery. This has been managed via a core group of officers led by the Chief Executive and both response and the limited work on recovery has been informed by a Member Covid19 Recovery Consultative Forum chaired by the Leader of the Council.

2.5 Work was carried out in the summer of 2020 to enable all Councillors to review our Strategic Plan outcomes for 2019-24 and contribute to production of revised priorities and a refreshed set of outcomes for 2021-26. Over the period August to October 2020 a survey was conducted inviting the public to give feedback on the impact of the Covid-19 pandemic. The full results can be found here: https://maidstone.gov.uk/home/primaryservices/council-and-democracy/primary-areas/consultations/closedconsultations

2.6 Covid-19 has had a major impact for our communities, our economy and on the Council's financial position. The Covid-19 Recovery Consultative Forum have been regularly briefed on the impacts and the Council's support for residents and businesses in the borough. The Policy and Resources Committee has been regularly briefed on the review of Council priorities. It has also been briefed on the scale of the financial impact, for the current financial year and over the term of the Medium-Term Financial Strategy (MTFS).

2.7 In September the Policy and Resources Committee agreed the following in relation to shaping the areas of focus:

- There should be further development of the Council's capital strategy and programme including consideration of partnership funding of large-scale projects and infrastructure including consideration of joint ventures and a development corporation.
- A review of planning and economic development services reflecting on the effectiveness of our current services and reconsidering our service delivery model taking into account the changes in the planning system and looking at: expertise, organisational arrangements, including the synergies between planning policy and economic development, our arrangements for delivering/enabling construction projects, and agility.
- A report concerning a protocol for working strategically with the community and voluntary sectors and parishes is progressed initially via the Communities Housing and Environment Committee.
- That the Council initiates dialogue with the Business Improvement District concerning current challenges and future investment in the town centre.
- Officers review the scope of work undertaken and resources allocated to the Community Safety Unit.
- The direction of travel on modernising the arrangements at the museum is now more modest and focuses on making the best use of existing spaces.
- Review of the contribution of the Hazlitt to the town centre economy and consideration of options for its sustainability.
- Reduction of the priority of raising resident satisfaction with cleanliness to maintaining it.

2.8 The draft areas for focus for 2021-26 (Appendix A) and new KPIs for Covid-19 recovery (Appendix B) endeavour to reflect the current position on these topics and what needs to be achieved over the period to 2026 to bring the Council's vision to fruition. Both appendices contain feedback from the last Policy and Resources Committee and the Economic, Regeneration and Leisure Committee, further updates from SPI and CHE will be tabled at the meeting as urgent updates.

2.9 The new KPIs will be reported to Service Committees on a quarterly basis in accordance with their terms of reference, some information will be monitored on a more regular basis by officers as indicated in previous versions of the table. Feedback from SPI and CHE will be presented to the Committee at the meeting.

---

3. AVAILABLE OPTIONS

3.1 The proposed refresh to the areas of focus for the next 5 years has been set out in Appendix A, this includes feedback from the Service Committees.

3.2 Policy and Resources Committee could accept the amendments as set out in the final column of the table, they could amend the wording or add/delete areas of focus. This is all within the Committee's remit. Please note a revised Appendix A will be circulated at the meeting with amendments following the feedback from SPI and CHE committees.

3.3 The KPI list attached at Appendix B has been developed in response to the impact of the pandemic. Policy and Resources Committee can approve/ amend or delete as they see appropriate. The KPIs once agreed will be reported quarterly to Service Committees as per the current process. Any additional feedback will be presented at the Committee as an urgent update.

---

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 Policy and Resources Committee agreed in the summer that the Strategic Plan would be refreshed to reflect the impact of the pandemic. Following this agreement, the Committee has received reports to approve the direction of discussion and focus for the amendments to the Plan. This has included reports to the Service Committees and has been closely linked to the emerging Medium Term Financial Strategy.

4.2 The Committee is recommended to consider and approve the new areas of focus and revised set of KPIs as set out in Appendices A and B.

---

5. RISK

5.1 The risks associated with this proposal, including the risks if the Council does not act as recommended, have been considered in line with the Council's Risk Management Framework.

5.2 A review of corporate risk will be undertaken with respect to any changes made to the Strategic Plan areas of focus.

---

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 Councillors have been consulted concerning priorities for the Strategic Plan areas of focus from July 2020 onwards and have taken a range of subsequent decisions which are also reflected in the proposed areas of focus set out in Appendix A. The member Covid-19 Recovery Forum has been consulted on the draft KPIs set out in Appendix B. Each Service Committee has had the opportunity to give their feedback and an updated version of the Appendices including comments from SPI and CHE Committees will be circulated.

---

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The approved refreshed areas of focus will be submitted to Council for approval as the Strategic Plan is a budget and policy framework document.

7.2 Once approved the new areas of focus will be shared with all employees to ensure the delivery of the Council's priorities. The refreshed Strategic Plan will be made available on the Council's website.

7.3 The new KPI set will be reported to each Service Committee on a quarterly basis alongside financial reporting as we do at present.

---

8. REPORT APPENDICES

8.1 The following documents are to be published with this report and form part of the report:

- Appendix A: Strategic Plan Areas of Focus 2021-26
- Appendix B: New KPI list for 2021-22

---

9. BACKGROUND PAPERS

None

Embracing Growth and Enabling Infrastructure

Areas of Focus 2019-24	Thoughts and Feedback on areas of focus	**Proposed Areas of Focus 2021-26**
Engaging with our communities on the Local Plan Review	Retain Focus on • progressing the Local Plan Review according to the new timetable agreed by the Strategic Planning and Infrastructure Committee in November 2020 • adapting to the requirements arising from the White Paper "Planning for the Future" and add • working with parishes and community groups on neighbourhood plans	Engaging with our communities on the Local Plan Review
The Council will take a proactive role in creating and consider investing in new places	Retain with the focus on • creating a town centre plan alongside the Local Plan Review • progressing regeneration of the five town centre opportunity sites • the Council's proposition for a Garden Community at Heathlands • place shaping role and enabling private sector led developments in accordance with Local Plan allocated site	The Council will take a proactive role in creating and consider investing in new places
Expanding the Council's role in the delivery of affordable and market rent housing	Retain with the focus on • significant investment in housing to meet objectives for managing pressures for housing that people can afford with a greater emphasis on social and affordable rent leveraging investment from Homes England and any other grant providers. This may include further investment in Temporary Accommodation too, for those affected by homelessness • expanding the council's private rented sector (PRS) portfolio managed by Maidstone Property Holdings in order, amongst other things, to reduce pressure on the housing register. <u>Policy and Resources:</u> • Inclusion of a detailed focus on the potential provision for Gypsy and Traveller communities under local plan work suggested wording "Expanding the Council's role in the delivery of affordable and market rent housing including the provision of Gypsy and Traveller accommodation."	Expanding the Council's role in the delivery of affordable and market rent housing including the provision for the Gypsy and Traveller community
Working with partners to get infrastructure planned, funded and delivered	Retain and further develop this priority through • the Council's Infrastructure Funding Statement and associated actions • alternative forward funding models for more timely investment in transport and other community infrastructure needed to support growth • working with the Clinical Commissioning Group to improve local health care infrastructure • identifying more opportunities for joint funding and "joint venture" arrangements to enable larger scale investment in key priority areas; this would need a greater external focus and redirection of resources to build better partnerships faster. Ie building on the successes being achieved at Brunswick Street and Union Street and more latterly with Homes England at Heathlands • Continuing work agreed in principle by the P&R Committee in December 2020 to pursue a collaboration agreement with Homes England in respect of Heathlands to achieve amongst other things securing infrastructure by means of capturing land value uplift governance/democracy and financial consequences. <u>Policy and Resources</u> • could we add and 'to reduce Health inequalities' or 'contribute to the reduction of health inequalities' – this has been added to Homes and Communities	Working with partners to get infrastructure planned, funded and delivered
Intervening where necessary in the market, to deliver key employment sites	Retain with focus on • Key employment sites allocated in the Local Plan • The Kent Medical Campus Enterprise Zone including the Innovation Centre • Investment to protect employment where appropriate and to develop the council's portfolio of employment generating assets	Intervening where necessary in the market, to deliver key employment sites

Safe, Clean and Green		
Areas of Focus 2019-24	**Thoughts and Feedback on areas of focus**	**Proposed Areas of Focus 2021-26**
Taking action against those who do not respect our public spaces, streets, green spaces and parks	Retain <u>Policy and Resources</u> • Consider being more explicit about planning enforcement and environmental enforcement. Can we look at the flytipping data and see whether it needs to be stronger	Taking action against those who do not respect our public spaces, streets, green spaces and parks
Improving community safety by working with our partners to make people less vulnerable to crime	Retain and add to our existing priorities • Take a lead role in the Maidstone Taskforce; the aim is to utilise a multi-agency 'One Team' evidence-based approach to tackle crime, social deprivation and health inequality; ensuring that we implement long term permanent changes that improve the quality of life for the community and keep them safe from harm; the current geographical area of focus is Shepway and Parkwood	Improving community safety by working with our partners to make people less vulnerable to crime
Raising resident satisfaction with the cleanliness of the Borough	Amend the area of focus to say • To maintain resident satisfaction with cleanliness and waste collection in the borough and include reference to the re-commissioning of our waste collection and recycling services	Maintain resident satisfaction with the cleanliness of the Borough
Implementing the "Go Green Go Wild" project to embrace and enhance our green spaces	Delete • See also amended area of focus below which includes implementation of the Biodiversity and Climate Change Strategy agreed by Policy and Resources Committee in October 2020 <u>Policy and Resources</u> • proposed to be replaced but to be give further consideration reinserted – Go Green Go Wild is included in the Biodiversity and Climate Change action plan	Implementation of the Biodiversity and Climate Change Strategy and Action Plan
Improving air quality	Amend to reflect the Council's declaration of climate change and biodiversity emergencies and focus on the action plan agreed by the Policy and Resources Committee in October 2020 and the outcomes from the Environment Bill including • A carbon neutral Council estate by 2030 • An ambition of a carbon neutral Borough by 2030, if technology and national policy changes allow • Implementation of the Biodiversity and Climate Change Strategy • Ensuring that the Local Plan supports walking, cycling, public transport and the use of electric vehicles where the opportunity arises • Aim to deliver an eco and biodiversity net gain exemplar new community at Heathlands <u>Policy and Resources</u> • Consider changing wording to remove references to public transport to focus on electric vehicles and private cars	

Thriving Place

Areas of Focus 2019-24	Thoughts and Feedback on areas of focus	Proposed Areas of Focus 2021-26
New	With the focus on • Delivery of business support in response to the Covid-19 pandemic • Supporting the recovery of the Maidstone borough economy in accordance with the principles of the refreshed Economic Development Strategy i.e. – Open for Business, a diverse and productive economic base, a thriving rural economy, opportunities for all, destination Maidstone town centre <u>Policy and Resources</u> • Cultural sector is importance to regeneration – consideration for this to be included in plan <u>ERL</u> • Using the Cultural Sector as an agent of regeneration	Deliver key actions for the refreshed Economic Development Strategy focussing on actions to enable economic recovery from the Covid-19 pandemic
Reviewing and delivering leisure and cultural services that meet future needs e.g. sports facilities	Replace (see below)	
Development and commencement of delivering the new gallery at the museum	Replace (see below)	
New	New • Reshape the offer from the Hazlitt Arts Centre to match resources available and adapt future service delivery opportunities to improve engagement with the public (subject to further consideration in January 2021 and decisions of the ERL Committee) • Reshape the offer from Maidstone museums to match resources and adapt to future service delivery opportunities to improve access • Reviewing and delivering leisure and cultural services that meet future needs e.g. sports facilities • Invest in Lockmeadow to enhance both the leisure offer to the public and the asset for the council With respect to the Maidstone Museums amend to reflect the decision of the ERL Committee from November 2020 including • secure the future service provision for Maidstone Museums within the reduced revenue funding available in the period 2021-2023 • engagement with key and prospective stakeholders including the Maidstone Museum Foundation with respect to the service delivery outcomes to be achieved while working within budget parameters • further consideration of how the existing capital allocation to the Museum can be used to make the best use of our existing spaces, address accessibility to the collections and reduce the net revenue costs of the museum • maintaining the museum's accreditation status • putting volunteers at the heart of Maidstone Museum in conjunction with professional officers, along the lines of the National Trust Model. <u>Policy and Resources</u> • Sustainable leisure and cultural offer to the borough – references to the Hazlitt are central and the plan should be more positive suggested wording "working with the Hazlitt arts centre to see a transformation of the arts and cultural base in Maidstone" • Museum wording should be adjusted to be more positive and reflect that we do have a transformation plan whilst its going to take longer to implement. <u>ERL</u> • replace the Hazlitt by work with the Hazlitt Arts Centre to see a transformation of the arts and cultural base in Maidstone, and to assist to assist the sector to recover from Covid-19.	Deliver a sustainable and vibrant leisure and cultural offer for the Borough

	• Reshape the offer from Maidstone museums to match resources and adapt to future service delivery opportunities to improve access replace by Adjust the Maidstone Transformation Plan to match obtainable resources, both MBC and external	
Enabling events which assist people in increasing their pride in communities and our environment	Replace – see new Community Engagement objective <u>Policy and Resources</u> Pride in the borough and pride in our communities – don't agree with the changes. There is funding available which can be used to look at how we can use arts and events to grow pride in Maidstone and this should be reflected <u>ERL</u> Retain - add we will work with the arts and cultural sector to make Maidstone a better place to live, work and be a part of. Work on identifying pride in Maidstone and a sense of place which both will enhance economic and social recovery from Covid-19 and enhance peoples life experiences and opportunities. Proposed to add to the area of focus below: • Work with residents and arts and cultural groups in Maidstone borough to enhance people's life experience and opportunities	See Community Engagement objective below
New	Proposed actions reflect the experience of the council's response to community needs and the engagement which has occurred as a result of the Covid19 pandemic including decisions of the CHE Committee in November 2020 to • build on the experience of creating the Community Hub in response to community needs arising from Covid19 develop the strategic relationship by development of a local compact for Maidstone borough and deliver the commitments arising from adoption of the Compassionate Maidstone decision of P&R in January 2020 • Expand the Access to Services Review to include building a repository of community organisations across the Borough • Amend the Parish Charter subject to the agreement of Parish Councils to reflect their important role in emergencies • build on the positive working relationship with parish councils enhanced during the covid19 pandemic to provide newsletters and joint webinars with KALC to ensure regular communication and feedback and a specific theme that has been accentuated by this experience to support residents in financial difficulty; this is consistent with the decision on the Policy and Resources Committee in February 2020 to adopt the Citizens Advice Bureau/Local Authority protocol for Council Tax debt recovery procedures and support for low income households. To pilot work to identify low income households in financial difficulty and proactively intervene to provide support e.g. maximising income, and through this to both reduce risks around indebtedness and potentially reduce demand for council services or incurring debt with the Council.	Working with community groups and parish councils, to develop more sustainable community resilience and to encourage pride in our Borough
Building the innovation centre at Kent Medical Campus, promoting inward investment in the Borough	Amend – broaden the focus to promoting inward investment in the Borough to ensure a diverse employment and business offer	Promote inward investment in the Borough to ensure a diverse employment and business offer
Working with partners to redevelop the Maidstone East site and modernise the bus station in the County Town	Retain including • updating actions to reflect the work on implementing agreed changes to modernise the bus station	Working with partners to redevelop the Maidstone East site and modernise the bus station in the County Town
Developing and delivering plans for the five opportunity sites in the town centre and the Staplehurst regeneration project	Incorporate into "The Council will take a proactive role in creating and consider investing in new places"	Developing and delivering plans for the five opportunity sites in the town centre and the Staplehurst regeneration project
Working with parishes and community groups on neighbourhood plans	Relocate- see embracing growth and enabling infrastructure	

Homes and Communities

Areas of Focus 2019-24	Thoughts and Feedback on areas of focus	Proposed Area of focus 2021-2026
Reducing Rough Sleeping in a sustainable way	Retain and reflect proactively reducing rough sleeping including using our property company to provide accommodation and multi-agency working around the most complex rough sleepers including local health care	Reducing Rough Sleeping in a sustainable way
Reducing the use of temporary accommodation for homeless families	Retain	Reducing the use of temporary accommodation for homeless families
Improving housing through use of our statutory powers to promote good health and wellbeing	Retain and add actions to • Increase our interventions with Houses of Multiple Occupation	Improving housing through use of our statutory powers to promote good health and wellbeing
Increasing our interventions with Houses of Multiple Occupation	Delete but include as an action for the objective above	
Supporting the health service to improve access to primary care including local care hubs	Amend • working with the Integrated Care Partnership identify opportunities to reduce health inequalities in the borough	Working with the Integrated Care Partnership to identify opportunities to reduce health inequalities in the borough

Appendix B

Proposed – Covid19 recovery KPIs

Indicator	Reported to Committee	Reason for Monitoring	Level/comparison	What would recovery look like?
ECONOMY				
Unemployment	Quarterly	Economic impact for MBC residents	Kent/SE and GB comparisons	When rates hit March 20 percentage:2.2%
Youth unemployment	Quarterly	Economic impact for particularly vulnerable MBC residents	Kent/SE and GB comparisons	When rates hit March 20 percentage: 3.7%
Town Centre Footfall	Quarterly	Key measure of town centre and overall MBC economy	Compare with previous month and previous years month.	When footfall figures close on pre covid19 levels
Town Centre vacancy rates	Quarterly	Key measure of town centre and overall MBC economy	Maidstone and National average (collected by One Maidstone)	When figures close on pre-covid19 levels
House prices and sales volumes	Quarterly	Key measure of MBC economy and the construction sector	Maidstone and SE	When figures close on pre-covid19 levels
Number of Business Grants awarded to closed businesses	Quarterly	Indication of businesses that will be at risk		When businesses that qualify have been awarded the grant and no more applications are coming in.
COMMUNITY				
Homelessness prevention – prevention duty ended as applicant	Quarterly	Key measure of the availability of accommodation/success at prevention	Same month in 2019	When figures close on pre-covid19 levels

has suitable accommodation				
Number of households in temporary accommodation (excluding rough sleepers)	Quarterly	Key measure of cumulative need	Same month in 2019	When figures close on pre-covid19 levels
Number of households newly in temporary accommodation broken down my main reason (excluding rough sleepers)	Quarterly	Key measure of pressure within the housing system including loss of tenancy and home ownership	Same month in 2019	When figures close on pre-covid19 levels
Number of rough sleepers in temporary accommodation	Quarterly	Key measure of pressure within the housing system	Same month in 2019	When figures close on pre-covid19 levels
Number of rough sleepers newly engaged	Quarterly	Key measure of the cumulative impacts of economic and other change for our most vulnerable residents	Same month in 2019	When figures close on pre-covid19 levels
Reports of Anti-social behaviour	Quarterly	Indicator of community experience of the impacts of lockdown and other restrictions	Same month in 2019	When figures close on pre-covid19 levels
Reports of noise nuisance	Quarterly	Indicator of community experience of the impacts of lockdown and other restrictions	Same month in 2019	When figures close on pre-covid19 levels
Number of Community Protection warnings and notices	Quarterly	Measure of the council's response to ASB	Same month in 2019	When figures close on pre-covid19 levels

Reports of Domestic Abuse	Quarterly	Relevant measure of risk to vulnerable residents	Same month in 2019	When figures close on pre-covid19 levels
Number of new Council Tax Support (CTS) applications received	Quarterly	Indicative of trends in households in financial difficulty	Same month in 2019	When figures close on pre-covid19 levels
Number of live CTS cases	Quarterly	Indicative of cumulative level of households in financial difficulty	Same month in 2019	When figures close on pre-covid19 levels
*** CHE decisions on 3rd November for Community Resilience implemented**	Quarterly	Indicative of further improvement in partnership working with the voluntary and community sector and parish councils		Implementation of Committee decisions completed
COUNCIL'S FINANCIAL POSITION				
Council Tax collection – percentage in year collection Reduction in cash received compared to this time last year	Quarterly	Measure of financial resources available to MBC	2020/21 budget	When collection returns to projection for 2020/21
Business Rates collection – percentage in year collection	Quarterly	Measure of financial resources available to MBC	2020/21 budget	When collection returns to projection for 2020/21
Council's collection of other income – percentage in year collection	Quarterly	Measure of financial resources available to MBC	2020/21 budget	When collection returns to projection for 2020/21
THE WAY WE WORK – Building on the opportunities and risks created/accentuated by covid19				
Office footprint	Bi annual	Aim to reduce permanently by end of 2023/4	Current floorspace at Maidstone House	New smaller accommodation footprint achieved
Cost of office accommodation	Quarterly	Aim to reduce permanently by end of 2023/4	Current floorspace at Maidstone House	New smaller accommodation footprint achieved

Office running costs (post, print, utilities)	Bi annual	Aim to reduce systematically through different ways of working and carbon reduction initiatives	2019/20 running costs	Running costs reduced
Travel costs	Quarterly	Aim to reduce systematically through different ways of working and carbon reduction initiatives	2019/20 travel costs	Mileage costs reduced
Review of contract provisions and Business Continuity for very significant change in circumstances including change in law, force majeure	Annually	Protection for MBC and our customers where outsourced services fail, are no longer fit for purpose or affordable	Existing Business Continuity Plans	Business Continuity Plans updated and exercised

Committee Feedback

P&R

- Rough Sleeping indicator consider setting zero as a target for this indicator (Given low levels of rough pre COVID)

- Reports on Domestic Abuse. Consider new indicators for this measure as there is a sense that setting a target at pre-Covid-19 levels seems inappropriate and comparing numbers from pre and post may not be comparing like for like. Can we provide any context for ongoing work and data to discuss.

- Office running costs “Running costs reduced” (or mileage costs reduced in next item) is an open target as-is. If we have an idea of how many of our staff in Maidstone House can work at home beyond the pandemic, while oversimplified, multiplying the existing loaded labour rate by the reduced level of staff who will be working in the office would be a starting point for a target for the Maidstone House property.

ERL

No comments other than on the frequency of reporting – clarified whilst data may be collected and monitored on a more frequent basis by the Leadership team, reporting would continue to be quarterly to Service Committees.

MBC Covid-19 Member meeting

Addition requested:

- Commercial Property Letting Across the Borough - Frequency monthly - Reason to identify any emerging trends in work from home - level/comparison Maidstone and SE - What would recovery look like increasing demand for small premises as companies decentralise from London and larger premises.

Policy and Resources Committee	**10th February 2021**

Further development of the Lockmeadow leisure complex

Final Decision-Maker	Policy and Resources Committee
Lead Head of Service	Georgia Hawkes, Head of Commissioning and Business Improvement
Lead Officer and Report Author	Alexa Kersting-Woods, Leisure Property Manager
Classification	Public
Wards affected	All

Executive Summary

The Lockmeadow Leisure Complex remains a key element in the Council's strategic priority to make Maidstone a thriving place, although progress in exploiting its potential has been limited by the Covid-19 pandemic over the past year. This report sets out a proposal for the continuation of development works at the Complex in line with our overall strategy and with the capital programme. Three linked projects are proposed, which would come from the existing £1.5m allocated to Lockmeadow in the capital programme approved at the Policy and Resources committee meeting on 20 January 2021, subject to approval by full Council on 24th February 2021.

Purpose of the report

For Decision

This report makes the following recommendations to this Committee:

1. To support the proposals for improvement works.
2. To approve the requested capital spend.
3. To delegate authority to the Director of Finance and Business Improvement to seek planning permission for and deal with associated planning matters in relation to the landlord works described in this report and to undertake a procurement process and award such contracts for delivery of the works in line with financial procedure rules and applicable public contracts regulations and principles.
4. To authorise the Head of Mid Kent Legal Services to complete the necessary contract documentation and agreements associated with the works.

Timetable	
Meeting	***Date***
Policy and Resources Committee	10th February 2021

Further development of the Lockmeadow leisure complex

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The acquisition of Lockmeadow and proactive management of the site will materially improve the Council's ability to make Maidstone a Thriving Place.	Director of Finance and Business Improvement
Risk Management	Already covered in the risk section.	Director of Finance and Business Improvement
Financial	The plans contained in this report would require a capital investment of £896,715. This will come out of the £1.5m already allocated in the capital spending programme.	Director of Finance and Business Improvement
Staffing	We deliver the activities set out in the report with our current staffing.	Director of Finance and Business Improvement
Legal	A contract of works would need to be created. Licences / leases for the food hall tenants would need to be created.	Principal Solicitor - Commercial
Privacy and Data Protection	There are no specific privacy or data protection issues to address.	Principal Solicitor - Commercial
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Policy & Information Manager
Public Health	The use of local supply chains for the Market and potentially a Food Hall will bring added social value and reduce the	Senior Public Health Officer

	impact on the environment also providing higher quality food. However, it is still important to consider the food provision within the development and how the offering will provide healthier choices for children and families to have a healthy balanced diet, therefore not contributing to rising childhood obesity levels within the Borough. The formation of a children's play area in a town centre would create a space for children to play, socialise and be active.	
Crime and Disorder	Security of the play area would be provided through our existing security provision at Lockmeadow. This is through 24-hour on-site security guards and monitored CCTV.	Director of Finance and Business Improvement
Procurement	There would need to be a recruitment process for the construction works, including the installation of the play area.	Director of Finance and Business Improvement

2. INTRODUCTION AND BACKGROUND

2.1 Lockmeadow comprises:

- leisure centre with an Odeon multiplex cinema, 18-lane bowling alley, a trampoline park, five restaurants and a two-level David Lloyd swimming pool and gym complex
- car parks
- a market hall operated by the Council.

2.2 In November 2019, the Council purchased the long leasehold interest (105 years unexpired). The rationale for the purchase was to take control of a centrally located site which plays a key role in Maidstone's leisure offer and would help the Council realise its priority of making the borough a Thriving Place. Projected financial returns from the acquisition met the Council's investment criteria. However, it was envisaged that further investment would be required to maximise returns from the site and to ensure continued high levels of tenant occupancy. This investment was built into the financial appraisal carried out at the time and included within the decision report of 27 March 2019 to Policy and Resources Committee on the site acquisition.

2.3 Fidum (a property management company) were appointed to oversee the day-to-day management. In March 2020 we appointed a Leisure Property Manager to oversee both the Lockmeadow Complex and Maidstone Market. The post holder sits within the Corporate Property Team.

3. ACTIVITY SINCE THE COUNCIL'S ACQUISITION

3.1 Our overriding objective has been to make Lockmeadow a top leisure destination for residents and for visitors. This means an all-round offer, including not only leisure facilities and dining, but also events and activities which make better use of the riverside and specifically offer activities which will attract large numbers of visitors.

3.2 In the past the Lockmeadow complex was a very popular place to go for leisure activity in the town with high footfall and good levels of public awareness. Over the years its popularity has been in decline, so improving the site's marketing was a priority for the Council. A tender process was held to find a marketing consultant. The successful bid was a partnership between Floresco Communications and the council's own Communication Team.

3.3 A marketing strategy was drawn up and included targets of increasing social media following, increasing public awareness of the different tenants and increasing footfall.

3.4 Our tenants reported a very promising start to 2020 with Hollywood Bowl and Gravity both healthily exceeding income targets in February.

3.5 The previous landlord had commissioned some improvement works in 2016, mainly interior design and a new front entrance. These improvements dated the rest of the building so funding was agreed by Policy and Resources Committee at its meeting on 29th April 2020 to improve the look of the building and the site in general. The plans were approved by Planning Committee on the 23rd July 2020 and work commenced 10th August. Work was completed in December 2020 and included modernisation of the external facia, removal or replacement of railings and a new, more welcoming entrance to the car park. In addition, the cattle shed type structure at the rear of the car park was removed to open the site to its attractive riverside location.

4. THE IMPACT OF COVID 19

4.1 When the three lockdowns were implemented all tenants in the centre had to close. The only exception is Frankie and Benny's who have provided a takeaway service.

4.2 Tenants in the centre have faced financial difficulties. Two tenants have so far faced a material change in their circumstances. The Restaurant Group, owner of Frankie and Benny's, entered a Creditors Voluntary Arrangement and is now paying the Council a rent based on turnover rather than the previous fixed rent. GBK has gone into administration and will not be returning to site although they still hold the lease.

4.4 Odeon has completed a significant refurbishment and is now an Odeon Luxe, their premier brand. They are currently unable to open but the expectation is that this will provide a key visitor attraction.

5. PHASE 2 IMPROVEMENTS - PROPOSALS

Food Hall

5.1 For approximately 4 years there have been two vacant units located on the ground floor of the centre. Although there have been a few enquiries no businesses have progressed beyond an initial viewing.

5.2 Traditionally sites like Lockmeadow tend to attract chain restaurants and these businesses were already struggling financially pre Covid 19 and even more so now.

5.3 A new approach is needed to attract tenants and maximise income from the site. The options investigated were as follows.

Option A – continue to try and market the empty units as they currently stand. We could attract large new tenants, and hopefully find popular providers that would increase footfall to the complex for the benefit of all our tenants. However current market trends show that there are not many of these types of tenants looking to take on new premises and our experience on site reflects that.

Option B - use the empty units to attract new leisure offers, for example a virtual reality gaming hub. The advantage of this is that our existing food providers could see an increase in custom. The disadvantage is that we already have quite a limited food offer and customers like to have choice, and this could drive people away.

Option C - is to covert the empty units into a Food Hall. This is a growing trend which has evolved from the old-style food court, the difference being that these are aimed at attracting independent businesses. They also provide the customer with a fast-casual food option but with wider choice and higher quality than traditional fast food. This option will be more demanding on resources as there will be multi-tenants but we do have the structure in place to manage this.

‘Do nothing’ is not considered to be an option, as income would continue to fall short of projected levels, and leaving vacant space in the Complex would ultimately impact the overall offer negatively.

5.4 The food hall model offers distinct advantages for both landlord and tenant. For the landlord, having several tenants in a space spreads the risk of long-term voids and loss of income when a sole tenant moves out. Lower rent and lower risk for the potential tenant is attractive particularly if they are new to the restaurant business. Tenants will not have to fund significant start-up costs to refurbish a building as in most of the models for food halls the landlord provides the operating space in return for a percentage of the profits or other similar arrangements. The tenant then just needs to transform the space to reflect their brand.

5.5 At a meeting of the Economic and Regeneration Committee on 20 October 2020 support was given the concept of the development of a food hall and to commissioning a feasibility study to assess its viability.

5.6 Retail Inspired, experienced retail, high street and market consultants were appointed to conduct the feasibility study.

5.7 Retail Inspired's study is fully supportive the creation of a food hall at Lockmeadow with the following recommendations.

1) If the two vacant units are included with the now vacant GBK unit, the location and size of the space is suitable for a food hall incorporating up to 8 businesses, including an element of incubator space to allow businesses to grow

2) Potential level of income would be on a sliding scale, taking into consideration a variety of leasing options to allow for fledgling businesses to test and operate

3) MBC have two main models to adopt, depending on whether an operator is brought in to launch and manage the Food Hall or the council retain control of leasing through their existing company and nurturing businesses to support the growth and success in Maidstone. The recommendation would be for MBC to work with the existing managing agent to attract local food businesses to operate within the food hall and work collaboratively alongside the businesses already operating in Lockmeadow.

4) The risks have been assessed, considered, and documented; however, launching a food hall and being one of the first in Kent will support the regeneration of the town centre, increase footfall and dwell time within Lockmeadow and therefore contribute to the aspiration of MBC creating a town to work, live and play

5.8 Advice from commercial letting agents ESH and Harrison's is that these types of units are very marketable, even more so in the current climate. We already have a number of expressions of interest.

5.9 Retail Inspired identified in their report that food halls are being created across Kent but none near Maidstone. Creating one at Lockmeadow now would put us ahead of competition including the potential inclusion of one in the Len House development.

5.10 Financially this model does provide a reasonable return for our investment and allows us to fill space that would more than likely remain empty for a considerable amount of time. We predict setting a very competitive rent of £15,000 pa which includes service charge, insurance, and utilities and a ready to go unit. In addition to this we would take an additional 20% of turnover. Our cash flow estimates show a return on the investment at 34 months.

5.11 This project is much more then filling space, as it will allow us to 'grow' local businesses who will hopefully eventually progress into larger premises in the town. We have experience of this recently when we supported event catering company Gourmet Griddle to continue to trade during the pandemic. They are running a takeaway business from the Lockmeadow car park and are achieving exceptional performance based on their expectations.

5.12 Our experience with Gourmet Griddle and through researching the food hall concept we feel we are confident that we can adopt the 'in house' management model recommended it Retail Inspired report.

5.13 In 'normal' life the monthly footfall of the complex ranges between 90-100,000 visitors. We believe we can increase this with regular events and activities and with a solid marketing strategy. These footfall figures were produced before the Odeon refurbishment.

5.14 The cost for converting the front 2 units at the complex and opening out to the entrance to create a food hall with 8 individual food outlets, communal seating and toilets is £467,824. This cost includes creating 8 individual operating kitchens and serving counters, communal seating, and toilets and all the required ventilations and services.

Increased outside seating

5.14 Currently there is very limited outside seating at Lockmeadow, Frankie and Benny's and Feathers have small terraces. However, due to their size they are mainly used as smoking areas.

5.15 The lack of outside seating has an impact on how busy the complex is during hot weather with the restaurants reporting a drop in custom.

5.16 Even before the impact of COVID-19 Al fresco dining was increasing in popularity in the UK. Town centre venues such as The Brenchley finds its outside space is full during the summer months. Outside space is also used during the winter with the aid of patio heaters. The White Rabbit used to offer good outside space for a sunny day drink but since becoming a Miller and Carter restaurant the garden is only open to diners.

5.17 Increasing the outside space is also another way of making the most of Lockmeadow's riverside location. The complex is often described as 'having turned its back on the river' and this could be a way of changing this perception.

5.18 The proposal is to expand the external terrace area leading on from the existing Feathers terrace.

5.19 The terrace expansion will increase the outside space for the Feathers unit and provide shared use terrace space for the food hall and other tenants.

5.20 The cost for increasing the size of the existing terrace with shared use is £295,109.84 the cost includes grounds clearance, new entrance with ramped access, lighting, and furniture.

Play area

5.21 The complex has a good area of green space covered largely with shrubs and therefore not very attractive and not used by the local community. The residential population of the local area is continuing to grow, and we would like Lockmeadow to add to the appeal of residing in the area.

5.22 The proposal is to install a small children's play area with a view to providing a space for children to explore and play. The play area will be in the area between the Millennium Bridge foot path and the Town Square and would increase footfall to the site and has the potential to attract customers for all our tenants.

5.23 Advice has been sought from the Parks and Open Spaces team to consider what equipment to install and we want to provide play equipment that fits into the riverside setting. It will be designed so that children with different abilities can play together and stimulates children's imagination.

5.33 The cost for providing the play area is £103,457.25 and includes ground works, safety surfaces and installation of equipment.

General project costs

5.34 In addition to the individual item costs there is £30,323.69 set aside for planning permission and contingency.

Conclusion

5.35 The Food Hall offers the best in terms financial return for the complex however adding the terrace expansion and play area will enhance the appeal of the site to potential tenants and attract customers.

6. AVAILABLE OPTIONS

6.1 Option 1 – Carry out steps to generate a return from vacant units

Within this overall option, three approaches are described in the report: A – market the units in their current form; B – create new leisure uses; C – create a food hall. For the reasons described in the report, the third option is preferred.

6.2 Option 2 – Carry out a wider programme of investment, including a food hall, outside seating and a play area

The Council could additionally create outside seating and a play area.

6.3 Option 3 – Carry out a different or expanded programme of investment

The Committee could choose to amend or expand the planned programme of investment, within the budgetary framework set out in the Council's capital programme.

7. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

7.1 This report recommends Option 2, on the basis that creating a seating area and a play area will complement the indoor works to create a food hall and will enhance its chances of success.

8. RISK

8.1 The risks associated with the proposals in this report, including the risks if the Council does not act as recommended, have been considered in line with the Council's Risk Management Framework. It is recognised that the risks associated with the proposals have significantly changed as a result of the coronavirus pandemic.

8.2 Specific key high-level risks and mitigation arising from this project are set out below:

Risk	Mitigation
Failure to attract tenants to food hall	Early indications, based on professional advice and contact with potential tenants, indicates that there is a strong demand for the type of units envisaged.
Projected financial returns are not delivered	The assumptions about rent and occupancy in the financial projections are considered to be realistic. However, the space being created is flexible and has the potential for a variety of uses.
Failure of leisure economy to recover from coronavirus	The rapid recovery in demand after the first Covid-19 lockdown suggests that there is a lot of suppressed demand for the kind of activity available at Lockmeadow. However, in the event of a permanent and irrevocable downturn in the leisure economy, our ownership of the entire Complex gives us the scope to seek strategic solutions including finding different uses of the site.

9. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

9.1 The strategic context to the acquisition of Lockmeadow, ie setting 'Thriving Place' as a priority, the Medium Term Financial Strategy and the Capital

Programme, have been discussed extensively with Members. Members agreed the acquisition of Lockmeadow and support the Council's ambitions for the site.

9.2 The project described in this report was canvassed at an early stage with the Economic Regeneration and Leisure Committee at its meeting on 20th October 2020.

9.3 Ward members in High Street Ward and Fant Ward have been consulted on the proposals.

---

10. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

10.1 Should the Committee approve the recommendations of this report, the work described will proceed, with its pace dictated by how quickly restrictions relating to the coronavirus pandemic are lifted.

---

11. REPORT APPENDICES

None

---

12. BACKGROUND PAPERS

Retail Inspired Feasibility Study

POLICY & RESOURCES COMMITTEE	**10 February 2021**

3rd Quarter Finance, Performance and Risk Monitoring Report 2020/21

Final Decision-Maker	Policy & Resources Committee
Lead Head of Service	Mark Green, Director of Business Improvement
Lead Officer and Report Authors	Ellie Dunnet, Head of Finance Paul Holland, Senior Finance Manager (Client) Carly Benville, Senior Business Analyst Russell Heppleston, Deputy Head of Audit Partnership
Classification	Public
Wards affected	All

Executive Summary

This report sets out the 2020/21 financial and performance position for the Council, including services reporting directly into the Policy & Resources Committee (PRC) as at 31st December 2020 (Quarter 3). The primary focus is on:

- 2020/21 Revenue and Capital budgets;
- 2020/21 Key Performance Indicators (KPIs) that relate to the delivery of the Strategic Plan 2019-2045;
- Corporate Risk Register

The combined reporting of the financial and performance position enables the Committee to consider and comment on the issues raised and actions being taken to address both budget pressures and performance issues in their proper context, reflecting the fact that the financial and performance-related fortunes of the Council are inextricably linked. The report for this quarter has a particular focus on the impact the Covid-19 pandemic has had on the Council's financial position and performance.

Budget Monitoring
With regard to revenue, at the Quarter 3 stage, the Council has incurred net expenditure of £3.454m against a profiled budget of £8.637m, representing an underspend of £5.183m. For the services reporting directly to PRC, net expenditure of -£2.574m has been incurred against a profiled budget of £3.281m, representing an underspend of £5.855m. These underspends arise largely from the timing of government grants and do not reflect the underlying financial position. The forecast outturn position for the Council at year-end is a projected overspend of £0.136m.

With regard to capital, at the Quarter 3 stage, the Council has incurred overall expenditure of £16.006m against a budget allocation within the Capital

Programme of £28.509m. It is anticipated that there will be slippage of £6.946m at year end. Expenditure for services reporting directly to PRC of £10.657m has been incurred against the budget at the end of Quarter 3, with forecast year end expenditure of £12.759m.

Performance Monitoring

A number of targets were missed due to the impact of Covid-19, although there were improvements in a number of other areas.

Corporate Risk Update

The risk register is forward looking and seeks to capture uncertainties on the horizon, in addition to addressing key risks directly linked to the delivery of our priorities. The risk profile has been updated to reflect the impact and uncertainties resulting from Covid-19, lockdown restrictions and the challenges facing our residents and local businesses. The risk register (appendix 3) details how the Council is responding to these risks and undertaking necessary preparations and actions to reduce likelihood and impact where possible to do so.

Purpose of Report

The report enables the Committee to consider and comment on the issues raised and actions being taken to address budget pressures, performance issues and corporate risks as at 31st December 2020.

This report makes the following Recommendations to the Committee:

1. That the Revenue position as at the end of Quarter 3 for 2020/21, including the actions being taken or proposed to improve the position, where significant variances have been identified, be noted.

2. That the Capital position at the end of Quarter 3 be noted;.

3. That the Performance position as at Quarter 3 for 2020/21, including the actions being taken or proposed to improve the position, where significant issues have been identified, be noted.

4. That the Risk Update, attached at Appendix 3 be noted.

5. That the release of £92,000 from earmarked reserves to progress business rates retention pilot projects, and retention of £96,641 for projects which will remain on hold, as detailed in Appendix 7 be agreed.

6. That the proposed reallocation of unspent funding from the business rates retention pilot as set out in paragraph 2.8 be agreed.

7. That the uncollectable Non-Domestic Rates (NDR) listed on Appendix 5 be approved for write-off.

8. That the irrecoverable housing benefits payments listed on Appendix 6 be approved for write-off.

Timetable	
Meeting	***Date***
Policy & Resources Committee	10 February 2021

CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	This report monitors actual activity against the revenue budget and other financial matters set by Council for the financial year. The budget is set in accordance with the Council's Medium-Term Financial Strategy which is linked to the Strategic Plan and corporate priorities. The Key Performance Indicators and strategic actions are part of the Council's overarching Strategic Plan 2019-45 and play an important role in the achievement of corporate objectives. They also cover a wide range of services and priority areas.	Director of Finance and Business Improvement (Section 151 Officer)
Cross Cutting Objectives	This report enables any links between performance and financial matters to be identified and addressed at an early stage, thereby reducing the risk of compromising the delivery of the Strategic Plan 2019-2045, including its cross-cutting objectives.	Director of Finance and Business Improvement (Section 151 Officer)
Risk Management	This is addressed in Section 4 of this report.	Director of Finance and Business Improvement (Section 151 Officer)

Issue	Implications	Sign-off
Financial	Financial implications are the focus of this report through high level budget monitoring. Budget monitoring ensures that services can react quickly enough to potential resource problems. The process ensures that the Council is not faced by corporate financial problems that may prejudice the delivery of strategic priorities. Performance indicators and targets are closely linked to the allocation of resources and determining good value for money. The financial implications of any proposed changes are also identified and taken into account in the Council's Medium-Term Financial Strategy and associated annual budget setting process. Performance issues are highlighted as part of the budget monitoring reporting process.	Senior Finance Manager (Client)
Staffing	The budget for staffing represents a significant proportion of the direct spend of the Council and is carefully monitored. Any issues in relation to employee costs will be raised in this and future monitoring reports. Having a clear set of performance targets enables staff outcomes/objectives to be set and effective action plans to be put in place.	Director of Finance and Business Improvement (Section 151 Officer)
Legal	The Council has a statutory obligation to maintain a balanced budget and the monitoring process enables the Committee to remain aware of issues and the process to be taken to maintain a balanced budget. There is no statutory duty to report regularly on the Council's performance. However, under Section 3 of the Local Government Act 1999 (as amended) a best value authority has a statutory duty to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. One of the purposes of the Key Performance Indicators is to facilitate the improvement of the economy, efficiency and effectiveness of Council services. Regular reports on Council performance help to demonstrate best value and compliance with the statutory duty.	Principal lawyer (Corporate Governance), MKLS

Issue	Implications	Sign-off
Privacy and Data Protection	The performance data is held and processed in accordance with the data protection principles contained in the Data Protection Act 2018 and in line with the Data Quality Policy, which sets out the requirement for ensuring data quality. There is a program for undertaking data quality audits of performance indicators.	Policy and Information Team
Equalities	There is no impact on Equalities as a result of the recommendations in this report. An EqIA would be carried out as part of a policy or service change should one be identified.	Equalities and Corporate Policy Officer
Public Health	The performance recommendations will not negatively impact on population health or that of individuals.	Public Health Officer
Crime and Disorder	There are no specific issues arising.	Director of Finance and Business Improvement (Section 151 Officer)
Procurement	Performance Indicators and Strategic Milestones monitor any procurement needed to achieve the outcomes of the Strategic Plan.	Director of Finance and Business Improvement (Section 151 Officer)

1. BACKGROUND AND INTRODUCTION

1.1 The Medium-Term Financial Strategy for 2020/21 to 2024/25 - including the budget for 2020/21 - was approved by full Council on 26th February 2020. This report updates the Committee on how its services have performed over the last quarter with regard to revenue and capital expenditure against approved budgets.

1.2 The report particularly focuses on the impact of the Covid-19 pandemic on the financial position and performance of the service areas that fall under this committee, and provides some further detail around particular areas of concern.

1.3 This report also includes an update to the Committee on progress against its Key Performance Indicators (KPIs), and an update covering corporate risks.

1.4 Attached at ***Appendix 1,*** is a report setting out the revenue and capital spending position at the Quarter 1 stage. Attached at ***Appendix 2,*** is a report setting out the position for the KPIs for the corresponding period. Attached at ***Appendix 3***, is a report providing an update on corporate risks, in response to the committee's previous request for regular updates on this subject. Attached at ***Appendix 4*** is an update on the Business Rates Retention Pilot schemes. Attached at ***Appendix 5*** are details of NNDR write-offs.

Business Rates Retention Pilot Projects

2.1 During 2018/19, the council participated in a 100% retention pilot for busines rates which resulted in additional business rates growth funding being retained.

2.2 Projects with a total value of £1,317,000 were identified and it was agreed by this committee that these would be funded through the council's share of the Financial Sustainability Fund, which was created through the additional business rates income retained through the pilot.

2.3 At the end of the 2019/20 financial year, £616,000 had been spent, and a further £132,350 had been committed.

2.4 Due to the financial uncertainty facing the council at the beginning of this financial year, this committee agreed to defer its decision regarding uncommitted allocations for the remaining spend. With the exception of projects for which there were existing contractual commitments, this meant that projects for which a carry forward of resources had been requested were put on hold.

2.5 The Council is now close to finalising its Medium Term Financial Strategy for 2021/22, and this does not propose that the remaining funding from the business rates pilot be utilised to support the revenue budget. It is therefore appropriate for the committee to return to its decision regarding the 'on hold' projects at this time.

2.6 Following consultation with officers leading on the previously agreed projects, recommendations for the future of each of these projects has been captured within Appendix 4 to this report and summarised below:

- 4 projects, with a combined total value of £92,000 can be progressed immediately.
- 3 projects, with a combined total value of £96,641 cannot be progressed immediately but the funding should be retained so that this work can be resumed at a later date.
- 2 projects, with a combined total value of £52,573 cannot be progressed at this stage due to limitations on availability of staff and Covid-19 restrictions which affect the feasibility of original plans. It is recommended that this funding be released.
- £15,000 unspent budget from the Housing Delivery Partnership project be reallocated to offset the underspend on the Local Plan Review budget, referred to in Appendix 1 to this report. The Housing Delivery Partnership (Affordable Housing Supplementary Design Guide) project was completed during 2019/20. Total costs were £25,000 against a budget of £40,000.

2.7 It should be noted that the following projects have also continued to progress during 2020/21 due to contractual commitments that we already in place at the start of the financial year:

- Data analytics for inclusive growth
- Arterial Route Improvements
- Climate Change Commission
- Go Green, Go Wild
- Conservation Area Plans

2.8 If the committee agrees to the recommendations set out in paragraph 2.6, there will be residual funding of £365,000 to be reallocated. It is recommended that:

- The remaining budget be used to fund the shortfall on the Mall Bus Station Redevelopment capital project. This project is being funded through a separate allocation of funds retained through the business rates pilot, the Housing and Commercial Growth Fund. However, a funding shortfall has been identified on this project and it is therefore recommended that any residual funding from the Financial Sustainability fund be used to supplement this project budget.

- Any residual unspent budget be allocated to general reserves.

3. AVAILABLE OPTIONS

Option 1

3.1 The committee could agree the recommendations relating to business rates pilot projects as set out within Appendix 4 and paragraph 2.8. This option is recommended as it enables projects which support the council's strategic priorities to be progressed.

Option 2

3.2 The committee could amend the proposed allocation of the remaining funding from the business pilot. This option is not recommended as the proposals support the progression of projects which have previously been agreed by this committee.

Option 3

3.3 The committee could choose to defer the decision regarding the business rates pilot projects. This option is not recommended as it would prevent the progression of projects which have previously been agreed by this committee.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 In relation to the business rates pilot projects, the preferred option is option 1 for the reasons set out above.

4.2 In considering the current position on the Revenue budget, the Capital Programme, KPIs and Corporate Risks at the end of December 2020, the Committee can choose to note this information or could choose to take further action.

4.3 The Committee is requested to note the content of the report and agree on any necessary action to be taken in relation to the budget position and/or the KPIs and Corporate Risks position.

---

5. RISK

5.1 The Council agreed a balanced budget for both revenue and capital income and expenditure for 2020/21 in February 2020. However, the Covid-19 pandemic has had a significant impact since then. Corporate risks have been re-appraised, as reported to the Policy and Resources Committee at its meeting in June 2020. As a result, a regular quarterly review of the corporate risk register is now included as an appendix to this report.

---

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 The KPIs update ("Performance Monitoring") is reported to service committees quarterly: Communities, Housing & Environment Committee, Economic Regeneration & Leisure Committee and the Strategic Planning & Infrastructure Committee. Each committee will receive a report on the relevant priority action areas. The report is also presented to the Policy & Resources Committee, reporting on the priority areas of "A Thriving Place", "Safe, Clean and Green", "Homes and Communities" and "Embracing Growth and Enabling Infrastructure".

---

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The Quarter 3 Budget & Performance Monitoring reports are being considered by the relevant Service Committees during February 2021, including this full report to the Policy & Resources Committee on 10th February 2021.

7.2 Details of the discussions which take place at Service Committees regarding financial and performance management will be reported to Policy and Resources Committee where appropriate.

7.3 The Council could choose not to monitor its budget and/or the Strategic Plan and/or make alternative performance management arrangements, such as the frequency of reporting. This is not recommended as it could lead to action not being taken against financial and/or other performance during the year, and the Council failing to deliver its priorities.

7.4 There is significant uncertainty regarding the Council's financial position beyond 2020/21, arising from the impacts of the Covid-19 crisis and the

Council's role in responding to this. Future finance reports to this committee will ensure that members are kept up to date with this situation as it develops.

---

8. REPORT APPENDICES

- Appendix 1: Third Quarter Budget Monitoring 2020/21
- Appendix 2: Third Quarter Performance Monitoring 2020/21
- Appendix 3: Third Quarter Corporate Risks Update 2020/21
- Appendix 4: Business Rates Retention Pilot schemes update
- Appendix 5: NNDR write-offs
- Appendix 6: Overpaid Housing Benefit write-off

---

9. BACKGROUND PAPERS

None.

Appendix 1

Third Quarter Financial Update 2020/21

Policy & Resources Committee

10th February 2021

Lead Officer: Mark Green

Report Authors: Ellie Dunnet/Paul Holland

Contents

Part A

Executive Summary & Overview

This report provides members with a financial update for the third quarter of 2020/21, covering activity for both the Council as a whole and this committee's revenue and capital accounts for this period, and a projected outturn for the year.

Members will be aware that since the budget was agreed in February, the position for 2020/21 and future years has changed significantly as a result of the Covid-19 pandemic. Specific impacts include:

- Redirection of existing resources to support vulnerable people
- Administering government support schemes, notably business rate reliefs and grants
- Increased activity in some council services
- Temporary closure of some Council facilities
- Reduction in levels of activity in some other Council services
- Income generating activities severely impacted by overall contraction in economic activity
- Change in working patterns, with almost all office-based staff now working from home
- Reduced levels of Council Tax and Business Rates collection.

This has resulted in many service areas reporting or projecting adverse variances against the budget for 2020/21, particularly in relation to income. The overall projection for the council as reported to government on our monthly financial monitoring returns is summarised in table 1 below, and shows that the potential impact of Covid-19 on the council's financial position is £7.568m. Councils have been ask to complete these returns to enable a comprehensive picture of the financial impact of Covid-19 on local authorities to be compiled by the Ministry of Housing, Communities and Local Government. The projections are based on the information available to finance officers at the time of submitting the return and are being regularly updated as the situation unfolds and further information becomes available.

	£000
Additional Spending	1,935
Income Reductions:	
Business Rates (MBC share)	774
Council Tax (MBC share)	665
Other Income	4,194
Total	**7,568**

Table 1, Covid-19 financial impact

It should be noted that the projections detailed within table 1 do not correspond to the in year budget outturn projections. This arises for several reasons.

- Due to the statutory accounting arrangements for council tax and business rates, these losses do not impact the general fund balance until next year.
- The variances above reflect an estimate of the financial impact of Covid-19, and do not take into account other factors which may impact on the budget outturn such as underspends that have the effect of mitigating Covid-19 related losses.
- The Covid-19 financial impact has been offset by both unringfenced government support and grants covering specific areas of expenditure.

To date, unringfenced financial support totalling £2.5m for MBC has been announced by the government. The council has also submitted two claims for lost income from sales, fees and charges under the government's compensation scheme, covering the period April - November. Two further claims will be submitted covering the remainder of this financial year and the first quarter of 2021-22. Funding of £2.1m has been applied for under this scheme to date, although this amount will be subject to a reconciliation and audit process by MHCLG.

Given the all-encompassing impact of Covid-19 across many of the council's services, mitigation for losses will be treated as a corporate exercise, and we will therefore not attempt to apportion all unringfenced support received across service committees.

In addition to the unringfenced support, the council has received funding which can be clearly matched to additional expenditure, or outgoing grants. It is anticipated that these funding streams will be used in full to offset increased costs incurred in responding to the Covid-19 pandemic. Examples of such funding include the Reopening High Streets Safely Fund. Emergency Assistance Grant and the Local Authority Compliance and Enforcement Grant.

The impacts which arise from areas both within this committee's remit and the other three service committees are detailed within section B of this report.

The analysis also includes both revenue and capital year-end projections (to 31st December 2020), and updates the Committee on a range of other inter-related financial matters including Local Tax Collection, Reserves and Balances, Treasury Management and Maidstone Property Holdings.

The budget figures shown for revenue and capital are the revised estimate for 2020/21.

The headlines for Quarter 3 are as follows:

<u>Part B: Revenue Budget – Q3 2020/21</u>

- At the Quarter 3 stage, the Council has incurred net expenditure of £3.454m against a profiled budget of £8.637m, representing an underspend of £5.183m. This underspend arises largely from the timing of government grants and does not reflect the underlying financial position.
- For the services reporting directly to PRC, net expenditure of -£2.574m has been incurred against a profiled budget of £3.281m, representing an underspend of £5.855m. However, the forecast outturn position for the Council at year-end is a projected overspend of £0.136m. As explained above, the figures for service reporting purposes differs from that shown in table 1.
- The Council has submitted a claims totalling £2.1m to recover some of the fees and charges that have been lost due to Covid-19 related reasons. Should these claims be validated then the projected year-end underspend will increase.

<u>Part C: Capital Budget – Q3 2020/21</u>

- At the Quarter 3 stage, the Council has incurred overall expenditure of £16.006m against a budget allocation within the Capital Programme of £28.509m.
- It is anticipated that there will be slippage of £6.946m at year end. Expenditure for services reporting directly to PRC of £10.657m has been incurred against the budget at the end of Quarter 3, with forecast year end expenditure of £12.759m.

<u>Part D: Local Tax Collection 2020/21</u>

- Adjusted target collection rates for Council Tax and Business Rates have been met. However, overall levels of both Council Tax and Business Rates collected are lower than at the corresponding point last year owing to Covid-19.

- Forecasts indicate that the Council will retain £0.3m through the Kent Business Rates Pool in 2020/21.

Part E: Reserves & Balances 2020/21

- The unallocated balance on the General Fund at 1 April 2020 was £8.8m. It is anticipated that balances will remain above the minimum level set by Council.

Part F: Treasury Management 2020/21

- The Council held short-term investments of £10.43m and had £9.0m in outstanding borrowing as at 31st December 2020.

Part G: Maidstone Property Holdings Ltd. (MPH)

- MPH net rental income for the third quarter of 2020/21 was £121,512. Rent arrears as at 31st December 2020 totalled £5,220.

Part B

Third Quarter Revenue Budget 2020/21

B1) Revenue Budget: Council

B1.1 At the Quarter 3 stage, the Council has incurred net expenditure of £3.454m against a profiled budget of £8.637m, representing an underspend of £5.183m.

B1.2 Tables 1, 2 and 3 below provide further insight into the Council's income and expenditure position for Quarter 3 2020/21 by providing alternative analyses: by Committee, Priority and Subjective Heading. The budget figures shown are the revised estimate for 2020/21.

Table 1: Net Expenditure 2020/21 (@ 3rd Quarter): Analysis by COMMITTEE

Committee	Full Year Budget £000	To 31 December 2020 £000	Actual £000	Variance £000	Year End Forecast £000	Year End Variance[1] £000
Policy & Resources	12,585	3,281	-2,574	5,855	9,953	2,632
Strategic Planning and Infrastructure	-1,030	-724	395	-1,119	917	-1,946
Communities, Housing & Environment	8,543	5,266	4,404	862	8,072	471
Economic Regeneration & Leisure	1,072	814	1,228	-414	2,364	-1,292
Net Revenue Expenditure	**21,169**	**8,637**	**3,454**	**5,183**	**21,305**	**-136**

Table 2: Net Expenditure 2020/21 (@ 3rd Quarter): Analysis by PRIORITY

Priority	Full Year Budget £000	To 31 December 2020 £000	Actual £000	Variance £000	Year End Forecast £000	Year End Variance[1] £000
Safe, Clean and Green	6,210	4,619	4,102	517	5,933	277
Homes and Communities	2,007	412	223	189	2,001	5
Thriving Place	1,259	975	1,214	-239	2,312	-1,053
Embracing Growth and Enabling Infrastructure	-957	-670	396	-1,065	920	-1,877
Central & Democratic	12,651	3,301	-2,481	5,781	10,139	2,512
Net Revenue Expenditure	**21,169**	**8,637**	**3,454**	**5,183**	**21,305**	**-136**

Table 3: Net Expenditure 2020/21 (@ 3rd Quarter): Analysis by SUBJECTIVE SPEND

Subjective	Full Year Budget £000	To 31 December 2020 £000	Actual £000	Variance £000	Year End Forecast £000	Year End Variance[1] £000
Employees	22,051	16,421	16,008	413	21,888	163
Premises	5,263	4,455	4,479	-25	5,098	166
Transport	690	498	361	137	690	0
Supplies & Services	13,286	6,522	5,455	1,067	11,993	1,294
Agency	5,797	4,224	4,175	49	6,711	-914
Transfer Payments	43,215	27,032	27,211	-179	43,215	0
Asset Rents	1,094	0	0	0	1,094	0
Income	-70,227	-50,516	-54,237	3,721	-69,383	-844
Net Revenue Expenditure	**21,169**	**8,637**	**3,454**	**5,183**	**21,305**	**-136**

B2) Revenue Budget: Policy & Resources (PRC)

B2.1 Table 4 below provides a detailed summary of the budgeted net expenditure position for the services reporting directly into PRC at the end of Quarter 3. The financial figures are presented on an 'accruals' basis (e.g. expenditure for goods and services received, but not yet paid for, is included).

Table 4: PRC Revenue Budget: NET EXPENDITURE (@ 3rd Quarter 2020/21)

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Cost Centre	Approved Budget for Year £000	Budget to 31 December 2020 £000	Actual £000	Variance £000	Forecast 31 March 2021 £000	Forecast Variance 31 March 2021 £000
Civic Occasions	42	39	16	24	42	0
Members Allowances	389	292	265	27	356	34
Members Facilities	29	22	22	0	29	0
Contingency	330	248	-5,301	5,549	-2,195	2,525
Performance & Development	14	10	5	5	14	0
Corporate Projects	39	0	0	0	39	0
Press & Public Relations	24	19	25	-6	24	0
Corporate Management	94	74	74	0	94	0
Unapportionable Central Overheads	1,419	1,039	986	53	1,419	0
Council Tax Collection	54	43	54	-12	54	0
Council Tax Collection - Non Pooled	-358	42	63	-21	-358	0
Council Tax Benefits Administration	-152	-152	-146	-7	-152	0
NNDR Collection	1	1	2	-1	1	0
NNDR Collection - Non Pooled	-234	7	20	-13	-234	0
MBC- BID	0	-3	-14	11	0	0
Registration Of Electors	49	35	37	-3	49	0
Elections	168	1	-6	8	168	0
PCC Elections	0	0	6	-6	0	0
General Elections	0	0	13	-13	0	0
Emergency Centre	26	24	10	14	26	0
Medway Conservancy	120	120	120	0	120	0
External Interest Payable	2,062	0	39	-39	800	1,262
Interest & Investment Income	-100	-75	-21	-54	-40	-60
Palace Gatehouse	-8	-6	-7	0	-8	0
Archbishops Palace	-96	-68	-71	3	-96	0
Parkwood Industrial Estate	-311	-218	-229	11	-311	0
Industrial Starter Units	-28	-19	-19	-1	-28	0
Parkwood Equilibrium Units	-80	-59	-100	41	-120	40
Sundry Corporate Properties	-375	-282	-63	-219	-75	-300
Phoenix Park Units	-215	-161	-160	-2	-215	0
Granada House - Commercial	-110	-83	-98	15	-110	0
MPH Residential Properties	-279	-209	-124	-85	-165	-114
Heronden Road Units	-162	-122	-129	7	-162	0
Boxmend Industrial Estate	-93	-70	-94	25	-93	0

(a) Cost Centre	(b) Approved Budget for Year £000	(c) Budget to 31 December 2020 £000	(d) Actual £000	(e) Variance £000	(f) Forecast 31 March 2021 £000	(g) Forecast Variance 31 March 2021 £000
Lockmeadow	-72	-54	54	-108	-72	0
NEW Lockmeadow Complex	-812	-885	-1,214	329	-102	-710
Wren Industrial Estate	-143	-62	-39	-22	-143	0
Pensions Fund Management	1,674	0	0	0	1,674	0
Non Service Related Government Grants	-4,472	-3,354	-3,362	8	-4,472	0
Rent Allowances	-125	-75	-407	332	-125	0
Non HRA Rent Rebates	-11	800	767	33	-11	0
Discretionary Housing Payments	1	226	229	-4	1	0
Housing Benefits Administration	-354	-275	-272	-3	-354	0
Democratic Services Section	186	139	145	-6	186	0
Mayoral & Civic Services Section	115	86	73	13	115	0
Chief Executive	185	138	134	4	185	0
Communications Section	185	138	133	5	185	0
Policy & Information Section	235	161	170	-8	235	0
Head of Policy and Communications	122	92	83	9	122	0
Revenues Section	502	464	451	13	502	0
Registration Services Section	136	102	88	14	136	0
Benefits Section	487	436	433	4	487	0
Fraud Section	33	21	5	16	33	0
Mid Kent Audit Partnership	234	179	27	152	185	49
Director of Finance & Business Improvement	144	108	106	3	144	0
Accountancy Section	732	560	508	53	657	75
Legal Services Section	507	381	415	-34	507	0
Director of Regeneration & Place	143	108	105	3	143	0
Procurement Section	119	18	36	-18	119	0
Property & Projects Section	457	345	341	4	457	0
Corporate Support Section	244	183	177	6	244	0
Improvement Section	354	267	282	-14	354	0
Executive Support Section	171	128	115	13	171	0
Head of Commissioning and Business Improvement	102	76	71	5	102	0
Mid Kent ICT Services	564	419	388	31	539	25
GIS Section	115	86	86	-0	115	0
Customer Services Section	672	493	453	39	619	52
Director of Mid Kent Services	44	11	2	9	44	0
Mid Kent HR Services Section	391	293	276	17	351	40
MBC HR Services Section	111	83	23	60	111	0
Head of Revenues & Benefits	68	64	62	2	68	0
Revenues & Benefits Business Support	110	100	97	3	110	0
Dartford HR Services Section	-36	-27	-15	-12	-36	0
IT Support for Revenues and Benefits	39	45	45	-0	39	0
Emergency Planning & Resilience	21	16	8	7	21	0
Salary Slippage	-212	-159	0	-159	0	-212
Town Hall	101	78	69	9	101	0
South Maidstone Depot	152	125	121	4	152	0
The Link	86	114	103	10	86	0
Maidstone House	1,084	1,042	973	68	1,014	70
Museum Buildings	287	237	267	-30	287	0
I.T. Operational Services	571	433	429	4	571	0
Central Telephones	15	11	7	4	15	0
Mid Kent ICT Software	0	0	-5	5	0	0
Apprentices Programme	50	37	21	16	50	0
Internal Printing	-5	-4	-4	0	-5	0
Debt Recovery Service	-39	-7	-27	20	-39	0
Debt Recovery MBC Profit Share	-144	-108	0	-108	0	-144
General Balances	-216	-216	-215	-1	-216	0
Earmarked Balances	5,986	-828	-570	-258	5,986	0
Invest To Save	10	0	0	0	10	0
Appropriation Account	1,094	0	1	-1	1,094	0
Pensions Fund Appropriation	-1,674	0	0	0	-1,674	0
Totals	**12,585**	**3,281**	**-2,574**	**5,855**	**9,953**	**2,632**

B2.2 The table shows that, at the Quarter 3 stage, for the services reporting directly to PRC, net expenditure of -£2.574m has been incurred against a profiled budget of £3.281m, representing an underspend of £5.855m. It should be noted that this forecast does not take into account further government support for income losses announced recently.

B3) PRC Revenue Budget: Significant Variances

B3.1 Within the headline figures, there are a number of both adverse and favourable net expenditure variances for individual cost centres. It is important that the implications of variances are considered at an early stage, so that contingency plans can be put in place and, if necessary, be used to inform future financial planning.

B3.2 Table 5 below highlights and provides further detail on the most significant variances at the end of Quarter 3.

Table 5: PRC Variances (@ 3rd Quarter 2020/21)

	Positive Variance Q3	Adverse Variance Q3	Year End Forecast Variance
Policy & Resources Committee	£000		
Contingency – The Council has received significant grant aid from the Government to deal with the financial pressures that have arisen from Covid-19. This funding will off-set Covid-19 related overspends in other service areas.	5,548		2,525
External Interest Payable - The budget for the year assumed a higher level of borrowing than we are now projecting on the basis that the capital programme would have progressed further, therefore we are anticipating a significant underspend.		-38	1,261
Interest & Investment Income - here has been a drop in interest rates from what was initially forecast and combined with a Covid-19 related decision to keep funds in more liquid (but lower yield) accounts this means the projected year-end position will be lower than forecast.		-54	-60
Sundry Corporate Projects - Included within this budget is a budget strategy item from 2019/20 which was for additional income from property acquisitions. An acquisition was completed in August 2020 but there will only be a revenue benefit for part of the year.		-218	-300
MPH Residential Properties – This variance appears to be the result of the initial budget being set up to incorrectly receive gross rental income rather than net rental income. The budget is being reviewed and will be corrected.		-85	-114
Lockmeadow Complex - This heading includes income due to the Council arising from the long leasehold interest that it acquired in 2019/20. Due to the closure of the complex during the lockdown periods there will be a shortfall in the rental income expected for the current year in cash terms.	329		-710
Maidstone House – This variance has arisen from underspends on running costs budgets.	68		70
Debt Recovery MBC Profit Share – A break-even position is forecast due to Covid-19 which has meant no court cases can be heard and enforcement agents have been unable to undertake any enforcement action.		-108	-144

B4) Other Revenue Budgets: Significant Variances

B4.1 Tables 6, 7 and 8 below highlight and provide further detail on the most significant variances (i.e. those meeting or exceeding £30,000, at the end of Q3.

Table 6: SPI Variances (3rd Quarter 2020/21)

	Positive Variance Q3	Adverse Variance Q3	Year End Forecast Variance
Strategic Planning & Infrastructure Committee	**£000**		
PLANNING SERVICES			
Development Control Advice – Income for pre-application discussions and Planning Performance Agreements has continued to be at around 60% of what would normally be expected. There are likely to be some underspends in running costs which will partly off-set the reduction in income.		-30	-54
Development Control – Majors – The reduction in income is explained by a number of factors, primarily new legislation relating to affordable housing introduced in response to the pandemic and issues around the Local Plan. However, the reduction has been less than was initially forecast earlier in the year.		-117	-156
Development Control – Other – The reduction in income has been less than was initially forecast, around 10% for the year to date.		-55	-66

Local Plan Review

B4.1 The Local Plan Review (LPR) process is an important, high profile and continuous task undertaken by the Planning Services team. The associated revenue spending profile however is cyclical and does not fit the conventional 12-month financial planning process for general revenue expenditure. Instead, spending tends to follow the five-year production period of each Local Plan with various peaks and troughs over that time period.

B4.2 The LPR process is therefore funded through an annual £200,000 revenue contribution, in addition to the existing service budget, with any remaining unspent balances at year end automatically rolled forward into the following financial year. The table below shows the available revenue resources currently allocated to fund LPR activities, the spend at 31 December 2020 and planned further spending over the remainder of the year.

Opening Balance 01/04/2020 (including 2020/21 allocation)	Spending April - September 2020	Forecast Spending October - March 2021	Forecast Spending Balance 31/03/2021
£'s	£'s	£'s	£'s
508,280	487,060	154,814	-133,594

Table 6a, Local Plan Review budget (Q3, 2020/21)

B4.3 Table 6a above identifies that there is a budget of £508,280 available to spend during 2020/21, including unspent resources brought forward from previous years. The forecast spending for 2020/21 exceeds the funding available by £133,594.

The primary reasons for the variance arise from increased spending in relation to sustainability appraisals, transport modelling, the accelerated timetable for LPR completion and the extension of contracts for specialist contractors.

It is proposed that the in-year overspend be addressed as follows:

- £55,750 will be offset against a reduction in revenue costs for the Director of Regeneration and Place. This is a result of work which the Director of Regeneration and Place is currently undertaking relating to the Garden Community project, which will be capitalised.

- It is proposed that a £15,000 underspend on a project which was funded from the business rates pilot (Affordable Housing Supplementary Planning Guidance) be reallocated to the Local Plan Review budget.

- The residual overspend of £62,844 based on current forecasts will be funded through corporate contingency budgets.

	Positive Variance Q3	Adverse Variance Q3	Year End Forecast Variance
Strategic Planning & Infrastructure Committee	**£000**		
PARKING SERVICES			
On Street Parking – Penalty Charge Notice (PCN) and parking meter income had started to recover after the first lockdown but have now reduced further following the second lockdown.		-77	-183
Pay & Display Car Parks - There was an initial increase in occupancy rates when the town centre re-opened after the first lockdown but once again income levels and occupancy rates have fallen dramatically following the second lockdown.		-985	-1,371
Off Street Parking – Enforcement – PCN income had started to recover after the first lockdown but has now reduced further following the second lockdown.		-77	-129

Table 7: CHE Variances (@ 3rd Quarter 2020/21)

	Positive Variance Q3	Adverse Variance Q3	Year End Forecast Variance
Communities, Housing & Environment Committee	£000		
Parks & Open Spaces – This variance is caused by a reduction in staffing costs from vacant posts and staff being posted to other Covid-related roles. Some planned tree works may reduce the variance by the end of the year.	76		60
Mote Park Leisure Activities – There has been no income generated this year due to the suspension of activities under Covid 19 guidance.		-29	-37
Crematorium – Due to the increased demand for cremations the original income target has now been exceeded, although there will be some additional maintenance costs incurred during the 4th quarter.	138		120
Public Conveniences – This variance has arisen from an increase in running costs as well as additional water rates as a result of water leaks.		-30	-53
Street Cleansing – The are a number of staff vacancies in this area, as well as some additional income.	48		55
Household Waste Services – There has been more income than forecast from both wheeled bins and bulky waste collection.	49		60
Recycling Collection – There has been more income than forecast for wheeled bins and garden waste bin income.	84		100
Community Hub - The hub was set up to help vulnerable people in the community during the early stages of the Covid-19 outbreak. All the costs are expected to be funded by the end of the year via the grants received that are currently being held in the Contingency budget in Policy & Resources Committee.		-79	-82
General Fund Residential Properties – This variance has been caused by a number of factors, the most significant ones being increased running costs and a reduction in rental income from vacant properties.		-33	-40
Homelessness Prevention – There are several reasons for this variance. The Guaranteed Rent Scheme has been abandoned for legal reasons; demand for the Homefinder Scheme has fallen for Covid-related reasons; and finally, there are underspends against some of the running costs budgets.	123		155

Table 8: ERL Variances (@ 3rd Quarter 2020/21)

	Positive Variance Q3	Adverse Variance Q3	Year End Forecast Variance
Economic Regeneration & Leisure Committee	£000		
Hazlitt Arts Centre - Additional costs were incurred during the first two quarters to support the operator of the Hazlitt.		-21	-21
Leisure Centre - Following the closure of the leisure centre at the start of the lockdown period, Serco Leisure have indicated that they propose to take advantage of their contractual position and recover their losses from MBC, less £5,000 which would be payable by the Leisure Trust. Details remain subject to negotiation and the projected variance represents a preliminary view of the likely outcome. It was hoped that the projected variance could be mitigated by bidding against the £100 million fund that the government has established to compensate leisure providers for loss of income during the pandemic. However, this fund only covers the period December 2020 to March 2021. If we are successful in our bid, we hope therefore to have minimal additional costs for this period, but we will still have to bear additional costs for the first 8 months of the year.		-153	-800
Mote Park Adventure Zone - The facility was closed during both lockdown periods, and the contractor was granted contract relief in recognition of this. There are no plans to re-open during the fourth quarter.		-114	-114
Mote Park Café - The café continues to be closed, so there is no income from it.		-40	-64
Business Terrace – There are a number of vacant offices, and it is assumed that this will continue to be the case for fourth quarter, particularly as there has been no enquiries from prospective new tenants.		-39	-133
Market - The market was closed during the lockdown period, and consequently there was a significant drop in income. Although it has now re-opened the current forecast assumes that there will only be a gradual recovery.		-97	-150

B5) Virements

B5.1 In accordance with the Council's commitment to transparency and recognised good practice, virements (the transfer of individual budgets between objectives after the overall budget has been agreed by full Council) are reported to the Policy & Resources Committee on a quarterly basis.

B5.2 Virements may be temporary, meaning that there has been a one-off transfer of budget to fund a discrete project or purchase, or permanent, meaning that the base budget has been altered and the change will continue to be reflected in the budget for subsequent years.

B5.3 The virements made in Quarter 3 are presented in Table 9 below. These were all temporary virements.

Table 9: Virements (@ 3rd Quarter 2020/21)

Reason	From	To	Value £	Perm/Temp*
Fund 'Pathways to Independence' Project	YA11 (Homelessness Prevention & Temporary Accomodation Reserve)	PN20 (Flexible Homelessness Support Grant)	47,080	Temporary
Fund Licence Fee	YA11 (Homelessness Prevention & Temporary Accomodation Reserve)	PN20 (Flexible Homelessness Support Grant)	56,250	Temporary
Fund Licence for CoStar	YA11 (Business Rates Growth Earmarked Balances)	SE16 (Economic Development Section)	3,850	Temporary
Fund Second Payment for ED Strategy Report	YA11 (Business Rates Growth Earmarked Balances)	EN40 (Economic Development Strategy)	10,000	Temporary
Additional Funding for Springboard Membership	YA11 (Business Rates Growth Earmarked Balances)	EN40 (Economic Development)	850	Temporary
Fund 'Let's do Business' membership	YA11 (Business Rates Growth Earmarked Balances)	EL20 (Business Support & Enterprise- Borough Wide Support)	7,000	Temporary
			125,030	

B6) Write-off of overpaid Housing Benefits

B6.1 The Committee is asked to approve the write-off of £17,335.47 in irrecoverable housing benefits (detailed in ***Appendix 6***). It should be noted that information relating to individuals is restricted under the Data Protection Act and has therefore been redacted from this appendix.

B6.2 In July 2020 the Council received a copy of a bankruptcy order stating that the individual had been declared Bankrupt as of 12 May 2020. Consequently recovery action was stopped, and the case recommended for Write Off.

B6.3 Prior to that a number of searches had been made as part of the attempt to recover the overpaid sums. Two attachments of earning order were issued but on both occasions the individual had left the employment by the time the orders were issued. A further attachment was issued against the individual’s Universal Credit but this was then suspended due to the pandemic

B6.4 In July 2020 the Council received a copy of a bankruptcy order stating that the individual had been declared Bankrupt as of 12 May 2020. Consequently recovery action was stopped, and the case recommended for Write Off.

Part C

Third Quarter Capital Budget 2020/21

C1) Capital Budget: Council

C1.1 The overall five-year Capital Programme for 2020/21 to 2024/25 was approved by the Council on 26th February 2020. Some capital funding will now come from prudential borrowing as other sources of funding are not sufficient to cover the costs of the programme, although funding does continue to be available from the New Homes Bonus (NHB).

C1.2 The 2020/21 element of the Capital Programme (including unused resources brought forward from 2019/20) has a total revised budget of £28.509m. At the Quarter 3 stage, capital expenditure of £16.006m had been incurred, an underspend of £12.441m. There is currently forecast to be total expenditure of £21.501m leaving slippage of £6.946m by the end of the year.

C1.3 Slippage has arisen due to a decision to delay the Mote Park Visitor Centre project at the start of this financial year, and redeployment of officers who were leading capital projects to support the Council’s Covid-19 response. The Mote Park Visitor Centre project will be progressed in 2021-22.

C2) Capital Budget: Policy & Resources Committee (PRC)

C2.1 Progress towards the delivery of the 2020/21 PRC element of the Capital Programme at the Quarter 2 stage is presented in Table 10 below.

C2.2 At the Quarter 3 stage, expenditure of £10.657m has been incurred against a revised budget of £12.871m million for PRC. This is an underspend of £2.214m. There is currently forecast to be total expenditure of £12.759m, leaving slippage of £0.112m by the end of the year.

Table 10: Capital Expenditure (@ 3rd Quarter 2020/21)

Capital Programme Heading	Revised Estimate 2020/21 £000	Actual to December 2020 £000	Budget Remaining £000	Q4 Profile £000	Projected Total Expenditure £000	Projected Slippage to 2021/22 £000
Communities, Housing & Environment						
Housing - Disabled Facilities Grants Funding	591	388	202	202	590	0
Temporary Accommodation	1,887	818	1,069	515	1,333	554
Brunswick Street - Costs of Scheme	4,233	1,701	2,532	532	2,233	2,000
Brunswick Street - Receipts	-1,502	-1,291	-211	-477	-1,767	265
Union Street - Costs of Scheme	5,201	1,926	3,276	576	2,502	2,700
Union Street - Receipts	-2,100	-460	-1,639	-1,554	-2,014	-85
Springfield Mill - Phase 1	1,807	882	925	812	1,694	113
Springfield Mill - Phase 2	1,322		1,322	1,322	1,322	0
Granada House Extension	125	26	99	99	125	0
Private Rented Sector Housing Programme	822	122	700	240	362	460
Affordable Housing Programme	800		800	138	138	662
Acquisitions Officer - Social Housing Delivery P/ship	80	50	30	30	80	-0
Street Scene Investment	96	89	6	6	95	0
Flood Action Plan	50		50	50	50	
Electric Operational Vehicles	100		100	100	100	
Rent & Housing Management IT System	50	7	43	43	50	-0
Installation of Public Water Fountains	15		15	15	15	
Crematorium & Cemetery Development Plan	230	18	212	212	230	0
Continued Improvements to Play Areas	123	85	38	38	123	0
Parks Improvements	99		99			99
Total	**14,029**	**4,362**	**9,667**	**2,900**	**7,262**	**6,768**
Economic Regeneration & Leisure						
Mote Park Visitor Centre & Estate Services Building	20	5	15	15	20	-0
Mote Park Lake - Dam Works	1,041	914	127	127	1,041	0
Mall Bus Station Redevelopment	400	69	331	331	400	0
Total	**1,461**	**988**	**473**	**473**	**1,461**	**0**
Policy & Resources						
Corporate Property Acquisitions	1,983	1,983	0		1,983	0
Kent Medical Campus - Innovation Centre	5,800	4,329	1,471	1,471	5,800	0
Lockmeadow Ongoing Investment	4,000	3,927	73	73	4,000	-0
Garden Community	200	100	100	100	200	-0
Asset Management / Corporate Property	437	162	275	275	437	-0
Biodiversity & Climate Change	50		50	50	50	
Feasibility Studies	150	37	113	20	57	93
Digital Projects	20		20			20
Software / PC Replacement	231	119	113	113	232	-0
Total	**12,871**	**10,657**	**2,214**	**2,102**	**12,759**	**112**
Strategic Planning & Infrastructure						
Bridges Gyratory Scheme	86		86	20	20	66
Total	**86**		**86**	**20**	**20**	**66**
Section 106 Contributions	62					
TOTAL	**28,509**	**16,006**	**12,441**	**5,495**	**21,501**	**6,946**

C3) Capital Budget Variances (@ 3rd Quarter 2020/21)

Policy and Resources Committee

C3.1 The most (financially) notable PRC items in the table above are as follows:

Acquisition of Commercial Assets – The only purchase to date this year has been the purchase of the Wren Industrial Estate.

Kent Medical Campus (Innovation Centre) – Works are continuing with the opening of the centre scheduled for summer 2021.

Lockmeadow Ongoing Investment – The majority of the forecast spend is for the external works on the centre that have were agreed by the Committee in April 2020 and are now substantially complete.

Communities, Housing and Environment Committee

C3.2 The most (financially) notable CHE items in the table above are as follows:

Housing Investments – Phase 4 of the purchase and repair scheme to acquire properties for temporary accommodation is substantially complete.

Brunswick Street and Union Street – Both phases are scheduled for completion by the end of the fourth quarter, with final costs being incurred in the first quarter of 2021/22. There have been some sales earlier than was forecast at Brunswick Street.

Springfield Mill Phases 1 & 2 – Both phases are scheduled for completion by the end of the fourth quarter.

Private Rented Sector Housing Programme – A number of schemes are being considered and are at various stages of development. Where a decision is taken to proceed a more detailed report will be brought forward for consideration. (This line was previously called 'Indicative Schemes' in prior reports).

Affordable Housing Programme – A property purchase is planned during the fourth quarter.

Strategic Planning and Infrastructure Committee

C3.3 The most (financially) notable SPI items in the table above are as follows:

Bridges Gyratory Scheme – the residual budget is being used to fund flood prevention works by the Medway Street subway. Designs have been drawn up and the work is now expected to take place during this year.

Economic Regeneration and Leisure Committee

C3.4 The most (financially) notable ERL items in the table above are as follows:

Mote Park Lane – Dam Works – the project is now substantially completed.

Mall Bus Station Project - work is progressing on the scheme with survey and design work being undertaken so far. It is anticipated that works will commence later in the year. There is a further update on this project below.

C3.5 Tenders for the bus station project have now been received. However they are greater than the current budget sum that has been set aside. The current overall budget is £1.090m, and a further £0.300m is required to proceed with the project. Funding for this has been identified as part of the business rates pilots update elsewhere in this report.

Part D

Third Quarter Local Tax Collection 2020/21

D1) Collection Fund

D1.1 The Council is increasingly reliant on income generated through local taxation (Council Tax and Business Rates), which is accounted for through the Collection Fund.

D1.2 Due to the risk in this area, including the risk of non-collection and the pooling arrangements in place for Business Rates growth, the Council monitors the Collection Fund very carefully.

D1.3 There are statutory accounting arrangements in place which minimise the in year impact of collection fund losses on the general fund revenue budget, however, losses incurred in one year must be repaid in subsequent years so there is a consequential impact on future budgets

D2) Collection Rates & Reliefs

D2.1 The collection rates achieved for local taxation are reported in the table below, alongside the target.

Table 11: Local Tax Collection Rates (Q3 2020/21)

Description	Target	Actual 2020/21	Actual 2019/20
Council Tax	82.25%	82.42%	83.62%
Business Rates	81.03%	81.95%	82.43%

D2.2 Note that although these collection rates are close to target, the targets have been adjusted in the light of what is currently considered to be collectible. The amount of Council Tax collected is 3.9% below the level achieved at this time last year and the amount of Business Rates collected is 5% below the equivalent level achieved at this time last year.

D2.3 Collection rates for Council Tax have been impacted by the Covid-19 pandemic as measures to pursue non-payment were put on hold at the end of March. Therefore telephone chasing and additional reminder letters which would normally have taken place over the first quarter of the year were suspended and are likely to have adversely impacted on the overall collection rate.

D2.4 Since the start of lockdown, hardship fund discounts of £150 have been awarded to 6,644 working age local council tax support (LCTS) recipients, using funding from the government's Covid-19 Hardship Fund scheme. A 12% increase in LCTS caseload has been observed since pre-Covid-19 budget expectations were set for 2020/21.

D2.5 The collection of business rates marginally exceeded performance during the first quarter of the year. It should be noted that as part of the government's support package to businesses in response to the Covid-19 pandemic, 100% business rates relief was granted to retail, hospitality, leisure businesses and nurseries for 2020/21. The government has reimbursed the council for its lost business rates income through grants which are expected to amount to £25.2m. This has improved the council's cash flow position for 2020/21, and also reduced risks associated with non-collection, to some extent.

D2.6 The grants do introduce some additional risks and complications to future business rates income. Firstly, if businesses cease trading during 2020/21 then the entitlement to rates relief is lost and the council will need to repay its share of the compensating grant to government. Secondly, since the reliefs were announced after councils had set their budgets for 2020/21, the reduction in income from business rates will create a significant deficit within the collection fund. It will be necessary to set aside a proportion of the grants to make good this deficit over the coming years. The future of the government's relief scheme will not be known until later in the year.

D3) Kent Business Rates Pool

D3.1 The council has continued to participate with other Kent authorities during 2020/21 in order to maximise the proportion of business rates growth it is able to retain. Forecast pooling gains for Maidstone Borough Council amount to £0.3m for 2020/21. As in previous years, this funding is allocated to spending which supports the delivery of the council's Economic Development Strategy.

D3.2 As part of the pooling arrangements, pool members share the risks, as well as the rewards of pool membership. The additional reliefs and associated grant funding mentioned previously within section D2 help to minimise the risks of pooling during 2020/21.

D3.3 The eventual impact of Covid-19 on the business rates retention scheme is extremely difficult to forecast, due to the number of unknowns e.g. how long the government's containment and business support measures will be in place for, and the longer term impacts on local, national and global economies.

D3.4 Some external analysis has therefore been commissioned to inform thinking around the future of the Kent Business Rates Pool. The results of this initial work indicate that pool members would need to incur uniform reductions in business rates income of over 11.9% before the pool would make an overall loss. At present, none of the pool members are forecasting losses at or close to this level, however, we will continue to monitor this closely.

D4) Write-Offs

D4.1 The Committee is asked to approve the write off of £69,381 in unpaid Business Rates debt identified in Appendix 5. Please note that information relating to individuals is restricted under the Data Protection Act and has therefore been redacted from this appendix.

D4.2 As noted above, the Council takes a robust approach to recovery of Business Rates. This involves progressive action which would typically include:

- Reminder for non-payment
- Final notice for non-payment
- Summons for non-payment
- Application to Magistrates Court for a Liability Order
- Instruction of Enforcement Agent to recover
- Bankruptcy or liquidation, where appropriate
- Proceeding to seek committal to prison (individuals).

D4.3 However, throughout the process the Council actively encourages contact from any business experiencing difficulty in order to negotiate arrangement for payment.

D4.4 The Council could continue to hold these debts as outstanding, but this option is not recommended as there is no prospect of recovery and this would distort the financial position of the Council.

D4.5 For the businesses listed in Appendix 5, the Council has exhausted all of the recovery processes in trying to collect the unpaid amounts. It is therefore suggested that these amounts are written off and the Council's accounts are amended to reflect the fact that the payments identified are not expected to be recovered. The Council maintains a provision for bad debts, and there is sufficient resource available within this balance to cover the value of the proposed write offs.

Part E

Reserves & Balances 2020/21

E1) Reserves & Balances

E1.1 The combined total of the General Fund balance and Earmarked Reserves as at 1 April 2020 was £16.6 million. The makeup of the balance, and the forecast movements during 2020/21 are presented in Table 13 below. The provisional year end position reflects an overall reduction of £2m in the unallocated general fund balance, however there are a number of factors which may alter this forecast over the coming months.

E1.2 The closing balance enables a minimum general fund balance of £2.0 million to be maintained, as agreed by full Council in February 2020.

Table 13: Reserves & Balances forecast 2020/21

	Balance at 1 April 2020	Forecast movement in 2020/21	Estimated Balance at 31 March 2021
	£000		
General Fund			
Unallocated balance	8,819	-156	8,663
Sub-total	**8,819**	**-156**	**8,663**
Earmarked Reserves			
Local Plan	309	-309	0
Neighbourhood Plans	75	0	75
Planning Appeals	286	0	286
Civil Parking Enforcement	165	-130	35
Homelessness Prevention & Temporary Accommodation	681	-103	578
Business Rates Growth Fund	3,887	-499	3,388
Occupational Health & Safety	31	0	31
Lockmeadow Complex	335	-335	0
Future Funding Pressures	1,589	1,589	3,178
Trading Accounts	30	-10	20
Future Capital Expenditure	432	-432	0
Sub-total	**7,820**	**-229**	**7,591**

Table 13: General Fund and Earmarked Balances, forecast at 31 December 2020

Part F

Treasury Management 2020/21

F1) Introduction

- The Council has adopted and incorporated into its Financial Regulations, the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code).

- The CIPFA Code covers the principles and guidelines relating to borrowing and investment operations. On 26th February 2020, the Council approved a Treasury Management Strategy for 2020/21 that was based on this code. The strategy requires that Policy & Resources Committee should formally be informed of Treasury Management activities quarterly as part of budget monitoring.

F2) Economic Headlines

- During the Quarter ended 31st December 2020, the Council's Advisors, Link Asset Services, reported:

  - The key quarterly meeting of the Bank of England Monetary Policy Committee (MPC) kept Bank Rate unchanged on 5th November 2020. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December 2020 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. However, there has been recent discussions with UK banks and the Bank of England to see how bank's technological infrastructure would deal with negative rates, so the chance of a first ever negative interest rate has not been totally dismissed.

  - The final agreement on Brexit was agreed 24th December 2020 which has eliminated a significant downside risk for the UK economy.

F3) Council Investments

- The council held investments totalling £24.19m as at 31st December 2020. A full list of investments held at this time is shown at Table 14 below. All investments are held in short term notices accounts and money market funds to be readily available when required so to be available for paying much needed funding to businesses by the way of grants and the capital programme.

Table 14: Short-Term Investments (3rd Quarter 2020/21)

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Interest Rate	MBC Credit Limits	
						Maximum Term	Maximum Deposit
Svenska Handelbanken	Notice Account Deposit	3,000,000			0.15%	12 Months	£3,000,000
HSBC Bank Plc	Notice Account Deposit	2,880,000			0.05%	12 Months	£3,000,000
Lloyds Bank Plc	Notice Account Deposit	1,000,000			0.01%	12 Months	£3,000,000
Lloyds Bank Plc	Call Account	2,000,000			0.01%	12 Months	£3,000,000
Aberdeen Asset Management	Money Market Fund	7,310,000			0.01%	2 Years	£8,000,000
Federated Investers LLP	Money Market Fund	5,570,000			0.01%	2 Years	£8,000,000
Goldman Sachs	Money Market Fund	430,000			0.00%	2 Years	£8,000,000
Nationwide Building Society	Fixed Term Deposit	2,000,000	15/12/2020	15/03/2021	0.02%	6 Months	£3,000,000
		24,190,000					

- Investment income to 31st December 2020 totals £21,000 against a budget of £75,000 with an average rate of 0.17%. The Bank of England cut rates in March 2020 and they are likely to remain low for a while. This has meant all investment rates are very low, especially in liquid instruments, which has meant the Council receiving such low returns.

F4) Council Borrowing

- The Council had borrowings of £9m as at 31st December 2021, all with Local Authorities. A list is shown at Table 15 below. The Council are currently looking at other borrowing options such as UK Municipal Bonds Agency, PWLB (after the positive result of the consultation) and other financial institutions. It is the Council's aim to have a mixture of short and long term borrowing in order to spread risks involving interest rates and refinancing.

Table 15: Council Borrowing (3rd Quarter 2020/21)

Counterparty	Type of Institution	Principal £	Start Date	Maturity Date	Interest Rate
Bridgend County BC	Local Authority	3,000,000	30/12/2020	30/06/2021	0.12%
Warwick District Council	Local Authority	2,000,000	30/12/2020	30/06/2021	0.12%
London Borough of Tower Hamlets	Local Authority	4,000,000	20/11/2020	20/05/2021	0.10%
		9,000,000			

Part G

Third Quarter Maidstone Property Holdings 2020/21

G1) Maidstone Property Holdings Ltd. (MPH)

G1.1 MPH is a wholly-owned subsidiary of the Council and was incorporated on 30th September 2016. It is primarily a vehicle for letting residential properties on assured short-hold tenancies. The company currently holds two properties on 22 year leases from the council.

G1.2 An Internal Audit review identified that there should be a mechanism in place to enable the company to formally report to the Council. Given the current level of activity within the company is relatively low, it was decided that this would be done via the quarterly budget monitoring process (to the Policy and Resources Committee). This section of the report provides an overview of the activity and performance of the company for the year to date.

G1.3 The MPH financial year-end was changed to 31 March, in order to align with the Council's financial reporting period. The external audit of the 2019/20 accounts is now complete and an unqualified audit opinion was received from the company's auditors, UHY Hacker Young. The audit accounts have now been filed in accordance with Companies House requirements.

G1.4 On 18th December 2019, full Council accepted the Policy and Resources Committee recommendations and formally adopted the new Articles of Association, Operational Agreement, Services Agreement and Business Plan. The Services Agreement and Operational Agreement have subsequently been signed and sealed, and the amended Articles of Association submitted to Companies House.

G2) MPH Headlines Q3 2020/21

G2.1 Net rental income for the first three quarters of 2020/21 totals £121,512. This represents rent charged to tenants, less costs recharged by the managing agent. As at 31 December 2020, rent arrears totalled £5,220. The majority of this balance has now been paid and all rent arrears are expected to be recovered before year end. There was one vacant flat in Lenworth House at 31 December, however this will be occupied from 28 January 2021.

G2.2 The Council receives income from the company through charges made for services provided, and the property lease. After these charges and other expenses, it is anticipated that the company will achieve a breakeven position for 2020/21.

G2.3 As company activity increases over time, governance and reporting arrangements will be kept under review to ensure that they remain appropriate and commensurate with the scope of activity and associated risks.

Appendix 2

Third Quarter Performance Monitoring 2020/21

Key to performance ratings

RAG Rating	
	Target not achieved
	Target slightly missed (within 10%)
	Target met
	Data Only

Direction	
	Performance has improved
	Performance has been sustained
	Performance has declined
N/A	No previous data to compare

Strategic Scorecard

Performance Indicator	Q3 2020/21				
	Value	Target	Status	Short Trend (Last Quarter)	Long Trend (Last Year)
The percentage of relevant land and highways that is assessed as having acceptable levels of litter	97.17%	98.00%			
Percentage of successful Relief Duty outcomes	35.29%	60%			
Percentage of successful Prevention Duty outcomes	74.88%	60%			
Satisfaction with Local Area as a place to live	Annual KPI				
Net additional homes provided (NI 154)	Annual KPI				
New Businesses started in borough	Annual PI				
Council Investment in long term assets	Annual PI				

* Indicates data that has not been authorised

Q3 2020/21 Targets that were missed by more than 10%

Performance Indicator	Q3 2020/21				
	Value	Target	Status	Short Trend (Last Quarter)	Long Trend (Last Year)
Footfall in the Town Centre (‘*A Thriving Place*’)	1,706,128	2,231,792 .15		↓	↓
Number of students benefitting from the museums educational service (‘*A Thriving Place*’)	60	2,250		↑	↓
Footfall at the Museum and Visitors Information Centre (‘*A Thriving Place*’)	3,625	7,373.55		↑	↓
Number of users at the Leisure Centre (‘*A Thriving Place*’)	49,630	185,209		↓	↓
Percentage of priority 1 enforcement cases dealt with in time (‘*Embracing Growth & Enabling Infrastructure*’)	66.67%	95%		↓	↓
Percentage of successful Relief Duty outcomes (‘*Homes & Communities*’)	35.29%	60%		↓	↓
Percentage of unauthorised encampments on Council owned land removed within 5 working days (‘*Safe, Clean & Green*’)	0%	100%		↓	N/A
Percentage of fly tips with evidential value resulting in enforcement action (‘*Safe, Clean & Green*’)	76.2%	87.0%		↓	↓
Percentage of fly tips assessed within 2 working days (‘*Safe, Clean & Green*’)	84.44%	94.00%		↓	N/A

A Thriving Place

One KPI met its Q3 2020/21 target. The four KPIs mentioned below missed their Q3 2020/21 target by more than 10%. One KPI is information only and one KPI relates to the Hazlitt Theatre, which is still closed so not providing any data for its KPI.

The first KPI which missed its Q3 target by more than 10% is the ‘**Footfall in the Town Centre**’ KPI; its target was 2,231,792.15 and it achieved 1,706,128. Last quarter the figure for this KPI was higher at 2,274,557, and in the same quarter last year this figure was 2,840,806. The Economic Development team state that the lower figure is a result of the COVID-19 pandemic and expect numbers to rise as the country is lifted out of COVID-19 restrictions over time.

Secondly, the ‘**Footfall at the Museum and Visitors Information Centre**’ was 3,625 visitors in Q3 – the target was 7,373.55. The Q2 figure for this KPI was lower at 3,200 and in the same quarter last year, it was 17,127. Most visitors came to the museum in October and early November, before the second national lockdown came into force on 5 November and the doors closed once again to the public. The closing of the museum was disappointing for the team because visitor figures suggested that they were recovering from the first lockdown earlier in the year. For instance, the October half-term saw a return of family groups and, for the first time since numbers had been limited, there had been a queue of people to enter the museum building.

Leading on to the second KPI for the museum, the '**Number of students benefitting from the museums educational service**' KPI missed its quarterly target of 2,250 as it achieved a figure of 60. Last quarter the figure for this KPI was zero, and in the same quarter last year it was 2,640. Although COVID-19 has affected direct teaching, the Learning team have nonetheless been busy and have secured external funding for the 2021/22 year. Below lists some of the work the team have accomplished in Q3:

Interaction with schools/teachers

- Individual support; sending resources to schools requesting specific information.
- Loans box collection/returns.
- Outreach – successfully booked and delivered two outreaches in October and November between lockdown and tier rule changes.
- Workshop adaptation – workshops adapted to allow children to still get up close but not handle objects, creating cleanable resources (three workshops adapted) and put in place safety procedures to be able to deliver outreach and sessions in the museum.
- Ongoing promotion and interaction with schools linked to loans boxes, outreach, safe visits into the building (when allowed).

Films

- Three scripts researched and written. These are for films aimed at schools that can be used for pre- or post-visit, and as a session in place of currently coming to museum (do not replace the main workshops) focusing on Museum objects.
- Two days spent filming. The films are in the final editing stage and should be ready in next couple of weeks. Once complete, a teacher pack will be created to accompany them that will include further info about the objects that are focussed on and some simple activities linked to the objects.

SEND (Special Educational Needs)

- Created a 4th fidget backpack for autistic visitors and families.

Planning/Coming Up

- Researching and investigating methods of delivering virtual sessions to schools, both live sessions and pre-recorded.
- Survey to be sent to schools asking about the virtual platforms they use to virtually teach classes, length of sessions, themes etc.
- Writing sessions to be delivered virtually. Looking at the themes teachers want most and writing accordingly. Ensuring that the sessions do not replicate the main workshops, so as not to dissuade schools from visiting the Museum (when allowed) in the future. Sessions will be similar or different, but not identical to core offer.

Finally, the '**Number of users at the Leisure Centre**' was 49,630 in the quarter, compared with a target of 185,209. Last quarter the number of users at the Leisure Centre was higher at 52,016 and in the same quarter last year, this figure was 172,004. There has been a lower number of customer visits to the Leisure Centre due to COVID-19 restrictions, including the second national lockdown imposed in early November. Although the Leisure Centre was able to offer reduced services during the Tier 3 restrictions, from 20 December they were required to close completely as new Tier 4 restrictions came into force across Kent. During the quarter, when the Leisure Centre was operating, there were reduced opening times and capacity levels, which were imposed to adhere to social distancing requirements and other COVID-19 management systems. The team responsible for the Leisure Centre had been adjusting the centre's new operating times and procedures as they looked to gradually increase capacity. In January, the third national lockdown was imposed and the Leisure Centre closed its doors once more.

Embracing Growth & Enabling Infrastructure

Three KPIs met their Q3 2020/21 targets. The same number missed their targets – of these, two missed their targets within 10%: '**Percentage of Priority 2 enforcement cases dealt with in time**'; and '**Processing of planning applications: Minor applications (NI 157b)**'. The '**Open planning enforcement cases (as of start of each month)**' KPI is information-only, where data is tracked on a monthly basis. The '**Number of enforcement complaints received**' KPI is also an information only KPI and is reported quarterly.

The '**Percentage of priority 1 enforcement cases dealt with in time**' KPI missed its target by more than 10% in Q3 2020/21; the figure achieved was 66.67% and the target was 95%. There were three priority 1 cases received in total this quarter; just one of them was visited out of time. For comparison, last quarter the KPI achieved 100% (1 of 1), and in the same quarter last year, it also achieved 100% (3 of 3). The turn-around time for priority 1 sites to be visited is just one-day. With the current COVID-19 restrictions in place, it can be difficult to attend the site in such a short turn-around time. However, the team aim to prioritise priority 1 enforcement cases, given their importance.

Homes & Communities

Five KPIs met their Q3 2020/21 targets. Three missed their targets – of these, two missed these within 10%: '**Percentage of gas safety certificates in place on all residential properties**'; and '**Percentage of all electrical safety certificates on all residential properties**'. The '**Number of households living in temporary accommodation last night of the month (NI 156 & SDL 009-00)**' and '**Number of households living in nightly paid temporary accommodation last night of the month**' KPIs are for information-only purposes.

It should be noted that both the gas safety and electrical safety indicators were missed due to occupants of the properties refusing entry to the contractors, due to shielding or other COVID-19 concerns. Where Maidstone Borough Council (as the landlord) is responsible for fully maintaining its properties, full compliance is being achieved. However, MBC have some tenants on a Fully Repairing Lease, where the Council has taken the decision to ensure good standard housing via compliance, however it is not a requirement of the landlord to carry out this function. The properties missed in this quarter, fell under these tenancies. However, the Housing team have confirmed that all properties are now fully compliant.

The '**Percentage of successful Relief Duty outcomes**' KPI missed its target by more than 10% in Q3; the figure achieved was 35.29% and the target was 60%. Last quarter this figure was 57.48% and last year it was 69.29%. In Q3, there were 119 applicants whose relief duty had ended and there were 42 applications where relief duty had ended because the applicant had suitable accommodation for at least 6 months. The Housing Advice team state that the target is ambitious and much higher than the national figures on the percentage of successful relief duty outcomes. Nationally, from the latest published homelessness statistics for the quarter Jan - March 2020, the percentage of successful relief duty outcomes was 39.7%; and for the quarter April - June 2020 this percentage is 37.6%.

A change in approach to provide earlier intervention and focus on homelessness prevention, including moving away from direct letting of social housing to homeless households, and prioritising those at risk of homelessness, will have impacted on the number of households whose homelessness has been relieved in this quarter.

There has also been additional focus during the quarter on open cases, but where contact was lost with the applicant. This resulted in 24% of the relief duties in this quarter being ended due to the applicant withdrawing their application or due to lost contact. Additionally, if the Council is unable to relieve homelessness within the 56-day Relief duty period, applicants who are in priority need and unintentionally homeless, proceed to be owed the main housing duty by the Authority from day 57 and whilst these applicants are subsequently secured settled accommodation, these outcomes are not able to be recorded as a successful relief of homelessness. In this quarter 29% of applicants whose relief duty was ended after day 56 were owed the main housing duty.

Safe, Clean & Green

Please note that data for two KPIs do not include data for November and December as this data is yet to be provided from Kent County Council. Updated figures for Q3 2020/21 shall be shared in the next quarterly report. These two KPIs are: '**Percentage of household waste sent for reuse, recycling and composting**'; and, '**Contamination: Tonnage per month rejected**'. The former has a Q3 figure of 49.97% so far, against a target of 52.00%, and has missed its quarterly target within 10%. The latter has a Q3 figure of 127.21 so far, against a target of 287.50, and has achieved its quarterly target.

Considering the data that Maidstone Borough Council currently has access to, under 'Safe, Clean & Green', five KPIs missed their targets in Q3, where three were missed by more than 10%. The two KPIs which missed their quarterly targets within 10% are: '**Percentage of household waste sent for reuse, recycling and composting**'; and '**The percentage of relevant land and highways that is assessed as having acceptable levels of litter**'. The '**The average weight of fly tipped material collected**' KPI is for information-only purposes.

The '**Percentage of unauthorised encampments on Council owned land removed within 5 working days**' was 0%. Whilst this result appears drastic, it is worth noting that there was just one unauthorised encampment on Council owned land in this quarter. This encampment was not removed within 5 working days and remains in situ (as of 4 January 2021). Officers attended the encampment at Bircholt Road and welfare checks were made. As there were no reports of criminality or anti-social behaviour, there were not any powers to remove the unauthorised encampment expediently. Under the current COVID-19 guidelines, the people involved were permitted to stay and are currently regularly monitored. So far, there have been no issues.

The '**Percentage of fly tips with evidential value resulting in enforcement action**' KPI missed its Q3 target by 10.8 percentage points. There were 42 fly-tips with evidential value and 32 enforcement actions against these offenders during the quarter. Last quarter, this was 93.1%, whereas the same quarter last year was 82.1%. This target was missed due to staff shortages during the quarter. The staff shortages came about due to staff members needing to self-isolate or because they had tested positive for COVID-19. Of those 32 enforcement actions taken in the quarter; 13 fixed penalty notices were issued, 10 warnings were handed out, 3 statutory notices were given, and 6 vehicles were seized. There were no prosecutions.

The '**Percentage of fly tips assessed within 2 working days**' KPI also missed its quarterly target by more than 10%; it achieved 84.44% compared to the target set of 94.00%. In this quarter, there were 752 fly-tips reported and 635 of these were assessed within 2 working days. The target was missed due to a peak workflow in December combined with low staff numbers to action the reports. A high number were self-isolating and had received a positive test for COVID-19. Of the 117 reports that did not get assessed within two working days, only 25 of these were not cleared within the two working day period.

Additionally, in the previous performance report for the Policy & Resources committee, the '**Percentage of household waste sent for reuse, recycling and composting**' and '**Contamination: Tonnage per month rejected**' KPIs' figures for Q2 2020/21 excluded data for September 2020. This is because there is currently a delay in receiving information from Kent County Council.

The updated Q2 2020/21 figure for the '**Percentage of household waste sent for reuse, recycling and composting**' KPI is 50.85% - this is made up of 8,416.01 tonnes of household waste sent for reuse, recycling or composting and 16,550 tonnes of household waste collected.

The updated Q2 2020/21 figure for the '**Contamination: Tonnage per month rejected**' KPI is 395.43 – made up of 134.25 in July, 132.06 in August, and 129.12 in September 2020.

Appendix 3

Third Quarter Risk Update 2020/21

Corporate Risk Update – January 2021

Introduction

Effective risk management sits at the heart of the Council and is a cornerstone of good governance. The events of the last year has shown how important it is for us to be aware of key risk issues and have mechanisms in place to plan and respond to risks before they materialise. The risk management framework and processes enable us to be aware of risks on the horizon and to understand the severity and likelihood. By understanding our risks, we can better plan and prepare, this in turn, increases our ability to deliver and achieve our ambitions and objectives.

Since November 2020 we have included a more regular update of the corporate risk portfolio as part of the wider financial and performance quarterly monitoring. This enables us to flag risk issues and to keep Members up to date with any changes to the risk profile as they arise. This report includes the most recent updates to the corporate risks and introduces our first initial scan of the horizon for future risk issues. These horizon risks will be drawn down and incorporated into the corporate risk register as we gather more information and undertake more analysis to help inform an overall evaluation. This will also allow us to align our corporate risks to any changes arising from the refresh of the strategic plan, priorities, and recovery.

The Risk Process

Risk management is a continuous process and primarily seeks to identify and understand those things that are uncertain.

The illustration shows how we move through the process from initial risk identification, evaluation and then to response. As we identify new risks and uncertainties, older risks become more familiar and turn into **events**. At this point the impact becomes 'known' and the risk is moved off the register as we manage any consequence as part of our daily business operations and management.

As such, the regular and ongoing monitoring of risks becomes vital in ensuring that our resources are deployed and focussed on the biggest issues which carry the highest level of uncertainty and impact.

We identify risks at across 3 levels, corporate (strategy), operational and projects. All Council services maintain an operational risk register, including Shared Services and these risks are updated, monitored, and reported through Wider and Corporate Leadership Team.

A step by step summary of the process is attached in **Appendix 3B**, along with matrices used to guide our assessment of risk in **Appendix 3C**.

Risk Appetite

Our **risk appetite** guides how much risk we are willing to seek or accept to achieve our objectives. We recognise effective risk management considers not just threats but also opportunities. So, our approach to risk is to seek the right opportunities and, where possible, minimise threats. To achieve our ambitions, we recognise that taking risks and facing risks will be inevitable. Our risk appetite encourages managed risk taking for minor to moderate level risks but seeks to more closely control those risks that come further up the scale.

Beyond our risk appetite is our **risk tolerance**. This sets the level of risk that is unacceptable, whatever opportunities might follow. In such instances we will aim to reduce the risk to a level that is within our appetite. We illustrate our risk tolerance in the matrix below. As we are currently facing significantly challenging times following the pandemic, our tolerance level is set in the **RED** shaded area and above. Risks in and above this area require direct focus and oversight above that of risks within the **AMBER** line and below.

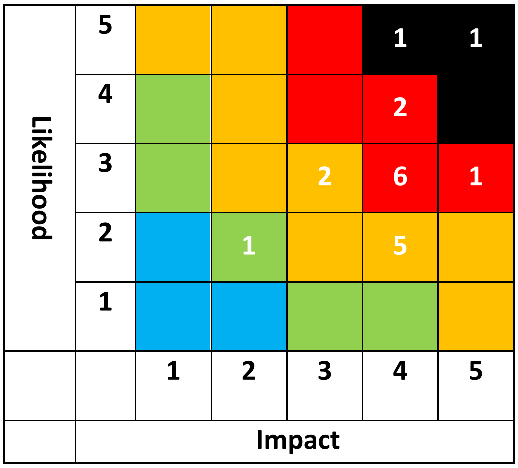
Corporate Risks

The Council's corporate risks are those risks which could impede the achievement of our strategic objectives. The corporate risk register was last reported to Members in **November 2020**.

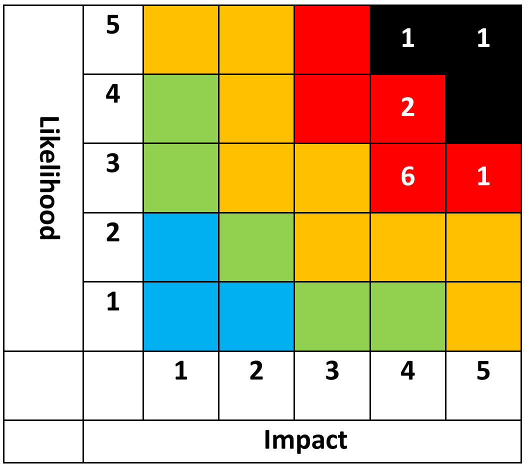
The matrices below provide a snapshot of the corporate risk profile. Each of the corporate risks has been plotted on the matrix based on the score of likelihood and impact. The number of risks in each square of the matrix is set out in white. Scores are based on the **current** risk, i.e. the risk impact and likelihood (as defined in **Appendix 3C**) considering any existing controls in place to manage the risk, but **before** any further planned controls are introduced.

As outlined above, this report focusses on those risks that sit on or above the risk tolerance for the Council:

Risk Profile – November 2020



Risk Profile – January 2021



Our corporate risks are reported to Corporate Leadership Team on a regular basis to ensure effective oversight. Since the last update in November we have maintained a watching eye on the top risks and updated controls accordingly to reflect any changes.

As the table below illustrates, we continue to bear uncertainty from 11 top scoring risks (those scored in the **RED** or **BLACK**). We have not changed any of the risk scores since November in recognition of the significant uncertainties we continue to face during the pandemic and national lockdown.

Further detail on the corporate risks, including a description of the risk and details of existing and planned key controls can be found in **Appendix 3A**.

Risk Title	Score before mitigation			
	Jun 20	Nov 20	Jan 21	Movement
Contraction in retail & leisure sectors	25	25	25	-
Financial restrictions	20	20	20	-
Environmental damage	16	16	16	-
Brexit / EU transition	16	16	16	-
Major unforeseen emergency	15	15	15	-
Covid-19: Restrictions to Council operations	20	12	12	-
Covid-19: Community & business recovery		12	12	-
Housing pressures increasing	12	12	12	-
IT security failure	12	12	12	-
Not fulfilling residential property responsibilities	12	12	12	-
Major contractor failure		12	12	-

Since our last update we have transferred the risks falling below the risk tolerance into the operational risk registers. Each of the risks below has been added to the relevant service risk registers and will continue to be reviewed and updated and monitored through the Wider Leadership Team:

Risk Title	Risk Score
Building of incomplete communities	9
Loss of community engagement	9
Major project failure	8
Contract Monitoring	8
Poor partner relationships	8
Governance failures	8
Not fulfilling commercial property responsibilities	8
Insufficient workforce capacity & skills	4

Risk Horizon

Long-term horizon scanning allows us to be aware of key risks which are, as yet, too uncertain to assess or quantify. By keeping our eye on and tracking these issues we are able to draw them down into the corporate risk register when the timing is right.

Having a longer-term view of these risks also enables us to be aware of local, sector-wide, and even global issues. The chart below shows some of issues we are keeping on our radar for potential future inclusion into the corporate risk register:

Next Steps

As we review and update the recovery plan and strategic plan, we will undertake further risk work to identify any gaps between our priorities and corporate risks. In addition, we are currently wrapping up work to refresh all of the operational risks across each service, including specific work to identify any risks arising from our new ways of working, working under crisis and resilience risks arising from COVID-19. We will report the outcomes of this work as part of our next quarterly update.

Appendix 3A

Corporate Risks

The table below sets out each of the corporate risks in detail. Risk owners have assessed the impact and likelihood of the risks and identified the key controls and planned actions necessary to further manage the risk to an acceptable level where possible:

Risk (title & full description)	Risk Owner	Key Existing Controls	Current rating (I x L)	Controls planned	Mitigated rating (I x L)
Major unforeseen emergency with national / international impact (e.g. new pandemic, environmental disaster)	Alison Broom	• Strong existing emergency planning framework • Active engagement with Local Resilience Forum • Flexible, committed and appropriately trained workforce • Quarterly oversight & monitoring through the Emergency Planning Group (EPG) • Some financial reserves • Good partnership working as demonstrated during Covid-19 pandemic • Continued update to Business Continuity Plans and arrangements	(5 x 3) 15	• Plan for dealing with different types of major emergencies • Review of the level of financial reserves • Review and update of the Council's IT Disaster Recovery arrangements • Embedding arrangements over the quarterly review of emergency threats and risks through the EPG including horizon scanning and early warnings	(5 x 3) 15
Covid-19: Restrictions impact negatively on our ability to deliver core / statutory services	Alison Broom	• Strong existing business continuity planning arrangements • Emergency response plans have been made Covid secure • Learning from current pandemic has been captured • Member Covid-19 consultative forum established • Risk assessments in place for all Council buildings • Plans in place to enable staff who cannot work from home to work safely in our workplaces/activities including grounds maintenance, street cleansing, museum, and some office activities • Plans in place to enable return to work in our offices safely when appropriate • Flexible / remote working arrangements in place and embedded • Regular internal communications with all staff • Embedded performance monitoring and reporting	(4 x 3) 12	• Build up stocks of appropriate equipment and PPE • Regular review of flexible and remote working arrangements • Ongoing review and development of new ways of working because of Covid-19	(4 x 2) 8

Risk (title & full description)	Risk Owner	Key Existing Controls	Current rating (I x L)	Controls planned	Mitigated rating (I x L)
Covid-19: Inability to support the response and recovery from Covid for the community and local businesses	Alison Broom	• Active engagement with Local Resilience Forum • Member consultative forum on recovery arrangements • Continued engagement with community groups and volunteers • Continuing engagement with local public health officers to ensure rapid response • Support model for residents and businesses is well embedded • Enforcement with respect to non-compliant businesses is in place • Funding has been provided to the Council • Core officer group established for recovery • Joint working with partners through the Inclusion Board & Maidstone Economic Business Partnership • Strategic approach to engagement with voluntary sector agreed by Communities Housing and Environment Committee in November 2020	(4 x 3) 12	• Continued scanning of horizon with respect to changes to legislation, regulations, and guidance • Implementation, development and strengthening of the agreed strategic approach to engagement with community groups • Completion and monitoring of action plan themes for recovery	(4 x 3) 12
Increased effects from climate change or reduction in air quality causes **environmental damage** reducing residents' quality of life and increasing risks from adverse weather events	Angela Woodhouse	• Biodiversity and Climate Change Strategy and action plan in place • Air Quality Action Plan in place (2) Emergency planning arrangements (3) Parks strategy • Budget available to deliver actions • Communication / engagement strategy for adverse weather events • Member of the Kent Climate Change Network • Fixed-term Biodiversity and Climate Change officer in post	(4 x 4) 16	• Review by Carbon Trust towards the Council becoming carbon neutral by 2030 • Implementation of the B&CCS action plan • Review of our own estate in line with ambition to be carbon neutral by 2030 • Seeking to recruit into a permanent Biodiversity and Climate Change officer • Review of governance for delivery and oversight of BD&CC Strategy	(4 x 4) 16

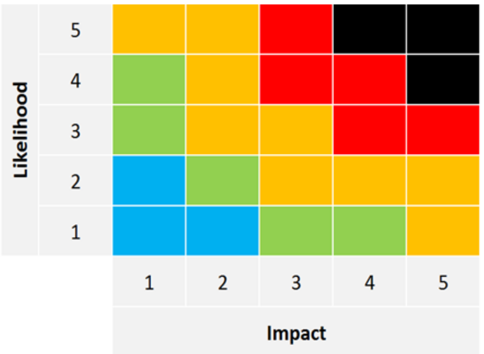
Risk (title & full description)	Risk Owner	Key Existing Controls	Current rating (I x L)	Controls planned	Mitigated rating (I x L)
General financial downturns, unexpected changes to government funding or failure to achieve income or savings targets places further **financial restrictions** on the Council resulting in difficulty maintaining standards or meeting aims.	Mark Green	• Agreed work programmes in transformation and commissioning • Budget monitoring in place • MTFS in place and monitored • Scenario planning in budget setting • Financial independence strategy to maximise our income • Strategies for maintaining income (e.g. pricing policies and purchase of Lockmeadow) • Commercial investment strategy • Holding reserves to mitigate impact of financial restrictions	(4 x 5) 20	• Currently updating MTFS to reflect impact of Covid-19 and need to support recovery due to go to Policy and Resources in November 2020 • Review of reserves policy as part of MTFS development • Lobbying to avoid unfavourable financial changes to government funding • Cost recovery through bidding for additional government support for one-off costs (e.g. Brexit) • Identifying measures to address future budget gaps	(4 x 4) 12
Security breach or system weakness leading to **IT security failure** results in system unavailability and increased legal and financial liability.	Steve McGinnes	• Regular backup programmes • External testing of IT security by specialists –resulting findings and actions are implemented and tested • ICT policies & staff training, including disaster recovery plan • Mandatory cyber security training was rolled out and completed • CLT monitoring of performance indicators, including ICT incidents • Nessus scanning software reporting daily on system vulnerabilities • New firewall tested and installed	(4 x 3) 12	• Ongoing programme of awareness raising through Cyber events, training, and tests • Ongoing programme of IT campaigns including phishing • IT infrastructure replacement programme being considered to ensure that IT equipment is fit for purpose	(4 x 3) 12

Risk (title & full description)	Risk Owner	Key Existing Controls	Current rating (I x L)	Controls planned	Mitigated rating (I x L)
The broader housing crisis leads to **housing pressures increasing** on the Council, affecting both costs associated with homelessness and ability to meet wider housing needs in the borough.	William Cornall	• Homelessness prevention team in place with increased resource • Access to our own housing stock to use for temporary accommodation & market rented housing (within Maidstone Property Holdings) • Closer working with private sector & housing associations • Key policies are in place: Temporary Accommodation Strategy • Implementation of Housing Management Team • CHE approval in place for MBC to develop up to 250 affordable homes of its own • We work closely with the voluntary sector and community partners • Home Finders scheme in place and supported through Government funding • Affordable Housing supplementary guidance adopted in Summer 2020	(4 x 3) 12	• Continued progress towards the temporary accommodation acquisition programme funded through the MBC capital programme • Approval secured to provide hostel and 'move on' type TA in the town centre • Purchase of more housebuilder stock off plan. Recent approval to acquire a further 21 units of PRS accommodation	(3 x 3) 9
Insufficient awareness / expertise leads to **not fulfilling residential property responsibilities** resulting in possible health & safety breaches.	William Cornall	• Faithfull Farrell & Timms have been retained as a critical friend to allow the new housing management function to up skill. • West Kent Housing Association (WKHA) engaged to provide an asset management service for the whole MBC residential portfolio. • The whole MBC residential portfolio is now being managed by a single team within Housing & Communities, where previously it was split between Housing & Property. • H&S KPI's are now recorded and reported through an interim software solution, FIXFLO. • The H&S KPI's are reported monthly to Corporate Leadership Team. • Good level of awareness from officers around H&S obligations and compliance	(4 x 3) 12	• A permanent replacement housing management software package has been procured and be implemented early 2021. This will incorporate KPI and management information. This will take over from the previous system, and the interim system (FIXFLO). • Possible due diligence review by Mid Kent Audit to advise on integrity with respect of KPI production and reporting. • Eventual goal of real time reporting in terms of gas safety, via the WKHA contractor. • Review of existing resources and skills underway to support the housing portfolio and management of properties	(3 x 3) 9

Risk (title & full description)	Risk Owner	Key Existing Controls	Current rating (I x L)	Controls planned	Mitigated rating (I x L)
General and localised economic pressure leads to **contraction in retail & leisure sectors,** limiting the appeal of Maidstone town centre threatening social cohesion and business rates income.	William Cornall	• Working with Key stakeholders including One Maidstone to safely reopen the High Street. • Regular network meetings with town centre retailers • Town Centre strategic advisory board • Public realm improvement work • Supporting One Maidstone Business Improvement District • Acquisition of key property (Royal Mail / Grenada House) • Work commissioned to promote Maidstone as business destination • Planning Guidelines documents have now been approved by SPI for the Five town Centre Opportunity sites • Active management of Lockmeadow to enhance the local economy • Support delivered to the sector through Business Rates grants and assistance grants • Town Centre Opportunity guidance published and actively being used	(5 x 5) 25	• Taking advantage of opportunities to support infrastructure investment • Consider a targeted programme of place promotion campaign activities • Launch of town centre shop fronts improvement grant scheme closer to being made available • Development of a Town Centre action plan to guide the reallocation of land uses within the Town Centre (including retail)	(4 x 5) 20
Failure of a major contractor: One of the Councils contractors goes into liquidation / administration	Mark Green	• Regular contract monitoring and communication with contractors • Procurement expertise made available through the Partnership with Tunbridge Wells • Financial performance and sustainability embedded into the procurement process • Contactor business continuity plans in place • 'Exit plan' included as a requirement in the ITT document for all relevant contracts	(4 x 3) 12	• Ongoing financial performance and resilience checks of our suppliers and contractors • Risk register work being completed for each of the Council's strategic contracts	(4 x 3) 12
Exit of EU on unfavourable terms results in adverse **short-term Brexit / EU transition impacts** disrupting the Council's ability to offer services and increasing liabilities.	Mark Green	• Close working with other members of KRF on the EU transition planning • Regular briefings for officers & members	(4 x 4) 16	• Continued liaison with partners • More frequent updates and communication in the run up to 31.12.20 with Members and Officers • Liaison with local business about the support that could be provided • Refresh business continuity and contingency plans to reflect possible impacts of EU transition, specifically with regards to transport	(3 x 4) 12

Appendix 3B

Maidstone Risk Management Process: One Page Summary

Step 1 – Identify Risks	Step 2 – Evaluate Risks	Step 3 – Risk Response	Step 4 – Monitor & Review
Best done in groups, by those responsible for delivery objectives. **RISK** is a *potential future* event that, if it materialises, has an *effect* on the achievement of our objectives. Consider both threats and opportunities. When to consider: • Setting business aims and objectives • Service planning • Target setting • Partnerships & projects • Options appraisal Establish the **risk owner**. Document in the **risk register**.	Combination of the **impact** and **likelihood** of an event (the ***CURRENT RISK***). Impact score is the highest from the different categories. Establish your **key existing controls** and whether they are managing the impact and/or likelihood of the risk. Scores can be depicted in the **risk matrix:** 	**Black** – Above our ***tolerance***, immediate action and reporting to directors. Red – Outer limit of our ***appetite***, immediate action. Amber – Medium risk, review existing controls. Green – Low risk, limited action, include in plans. Blue – Minimal risk, no action but annual review. Risk Response – 4Ts • Treat (i.e. apply controls) • Tolerate (i.e. accept risk) • Transfer (e.g. insurance / partnership) • Terminate (i.e. stop activity) After your response; where does the risk score now? (the ***MITIGATED RISK***)	Completed risk registers returned to **Mid Kent Audit.** • **Corporate Leadership Team** monthly monitoring of **black** risks. Quarterly reporting of all high level (**black** and **red**) risks. • 6-monthly reporting to **Wider Leadership Team.** • Risk registers sent quarterly to **directors** and **heads of service**. • 6-monthly monitoring at **Policy & Resources Committee.** • Annual monitoring of process by **Audit, Governance & Standards Committee.** Mid Kent Audit facilitate the review and update of risk actions (as per your risk register) during the year for and high-level (**red** / **black**) risks.

Appendix 3C

Impact & Likelihood Scales

Risk Impact

Level	Service	Reputation	H&S	Legal	Financial	Environment
Catastrophic (5)	Ongoing failure to provide an adequate service	Perceived as a failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend Breaches of law punishable by imprisonment	Uncontrollable financial loss or overspend over £500k	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor Service, 5+ days disruption	Significant adverse national publicity	Fails to prevent death, causes extensive permanent injuries or long term sick	Litigation expected and uncertain if defensible Breaches of law punishable by significant fines	Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1+ yrs)
Moderate (3)	Unsatisfactory performance Service disrupted 3-5 days	Adverse national publicity of significant adverse local publicity	Fails to prevent extensive permanent injuries or long term sick	Litigation expected but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1 yr)
Minor (2)	Marginal reduction in performance Service disrupted 1-2 days	Minor adverse local publicity	Medical treatment required Long term injuries or sickness	Complaint or litigation possible Breaches of regulations or standards	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No performance reduction Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend under £10k	Environmental incident with no lasting detrimental effect

Risk Likelihood

Level	Probability	Description
Almost Certain (5)	90% +	Without action is likely to occur; frequent similar occurrences in local government / Council history
Probable (4)	60% - 90%	Strong possibility; similar occurrences known often in local government / Council history
Possible (3)	40% - 60%	Might occur; similar occurrences experienced in local government / Council history
Unlikely (2)	10% - 40%	Not expected; rare but no unheard of occurrence in local government / Council history
Rare (1)	0% - 10%	Very unlikely to occur; no recent similar instances in local government / Council history

Appendix 4

Policy Resources Committee
2 February 2021
Business Rates Pilot Projects

#	Project	Budget	Spend	Budget Remaining	Carry Forward Requested	Recommendation
1	Property Asset Review	£55,000	£42,500	£12,500	£10,000	Progress
2	Staplehurst Village Centre Masterplan	£15,000	£359	£14,641	£14,641	Hold
3	Archbishop’s Palace Options	£60,000	£10,050	£49,950	£25,000	Progress
4	Phoenix Park Regeneration	£75,000	£1,588	£73,412	£40,000	Progress
5	Inclusion Through Enterprise	£67,500	£20,145	£47,355	£47,355	Release Funding
6	Cycle Parking Infrastructure	£60,000	£0	£60,000	£60,000	Hold
7	Domestic Abuse Awareness	£6,200	£982	£5,218	£5,218	Release Funding
8	St Philips Community Centre	£17,000	£0	£17,000	£17,000	Progress
9	A Sense of Place	£22,000	£0	£22,000	£22,000	Hold
10	Housing Delivery Partnership	£40,000	£25,000	£15,000	£15,000	Reallocate to LPR
					£256,214	

Appendix 5

Business Rates - Proposed Write Offs
December 2020

Business Name	Property Address	Fin. Year	O/S debt	Costs	Total to be written off	Reason for write off	Action taken
Turn a Tap Ltd	5-7 The Parade Staplehurst TN12 0LA	2019/20 2018/19	£3,037.45 £14,292.16		**£17,329.61**	Liquidation	Company went into liquidation 25.06.19 Notification of no dividend to unsecured creditors received
Fusion Fine Dining Ltd	452 Tonbridge Road Maidstone ME16 9LW	2018/19 2017/18	£7,595.51 £7,167.04	£400.00	**£15,162.55**	Liquidation	Debt was with Enforcement Agent. Company went into liquidation 29.01.20. Dividend to unsecured creditors not expected.
The Bar Company Medway Ltd	ME1 Market Buildings Maidstone ME14 1HP	2019/20	£23,877.21	£200.00	**£24,077.21**	Liquidation	Debt was with Enforcement Agent. Company went into liquidation 25.03.19. Notice of no dividend to unsecured creditors received.
Orchard Shopfitting Ltd	Unit D Orchard Business Centre St Barnabas Close Maidstone ME16 0JZ	2019/20 2018/19	£8,525.64 £3,886.00	£200.00 £200.00	**£12,811.64**	Liquidation	Debt was with Enforcement Agent. Company in liquidation 13.02.20. Dividend to unsecured creditors not expected.
			Total		**£69,381.01**		

Appendix 6

Housing Benefit Overpayments - Proposed Write Offs
December 2020

Name	Address	Fin. Year	O/S debt	Costs	Total to be written off	Reason for write off	Action taken
Redacted	Redacted	2013/14	£33.08				Order received July 2020.
		2015/16	£17,107.39		**£17,335.47**	Bankrupt	Recovery withdrawn from the DWP.
		2018/19	£195.00				

Policy and Resources Committee	**10 February 2021**

Medium Term Financial Strategy and Budget Proposals 2021/22

Final Decision-Maker	Council
Lead Head of Service/Lead Director	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Mark Green, Director of Finance and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

This report represents the final stage in this Committee's consideration of the budget for 2021/22. It brings together revenue and capital budget proposals for 2021/22, including a proposed level of Council Tax, so that a balanced budget may be recommended to Council on 24th February 2021. The budget proposals are consistent with the draft Medium Term Financial Strategy considered by this Committee on 25th November 2020. The budget proposals have been considered by Service Committees and their comments have been reflected in the latest proposals included within this report.

The report also deals with the proposed capital programme 2021/22 to 2025/26 and the Council's level of reserves.

This report makes the following recommendations to this Committee:

It is recommended that the Committee:

1. Notes the outcomes of consideration of budget proposals by the Service Committees;
2. Agrees the updated Strategic Revenue Projection set out in Appendix A;
3. Agrees the Budget Savings Proposals set out in Appendix B;
4. Agrees a £5.31 increase in Band D Council Tax for 2021/22 for recommendation to Council;
5. Agrees the Revised Estimates for 2020/21 and the Budget Estimates for 2021/22 set out in Appendix C for recommendation to Council;
6. Agrees the Capital Programme set out at Appendix D for recommendation to Council;
7. Agrees the Treasury Management Strategy, Investment Strategy and Capital Strategy set out in Appendix E for recommendation to Council;

8. Agrees an increase in the recommended minimum level of reserves to £4 million;
9. Agrees the updated Medium Term Financial Strategy set out in Appendix G;
10. Recommends to Council the appropriate matters for decision to set a balanced budget for 2021/22 and the necessary level of Council Tax in accordance with the Local Government Finance Act 1992 and the Localism Act 2011 including the decisions made above.

Timetable	
Meeting	***Date***
Policy and Resources Committee	10 February 2021
Council	24 February 2021

Medium Term Financial Strategy and Budget Proposals

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Section 151 Officer & Finance Team
Cross Cutting Objectives	The MTFS and the budget support the cross-cutting objectives in the same way that they support the Council's other strategic priorities.	Section 151 Officer & Finance Team
Risk Management	This has been addressed in section 5 of the report.	Section 151 Officer & Finance Team
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process. It is important that the committee gives consideration to the strategic financial consequences of the recommendations in this report.	Section 151 Officer & Finance Team
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Section 151 Officer & Finance Team
Legal	Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management. The Medium Term Financial Strategy demonstrates the Council's commitment to fulfilling it's duties under the Act. The Council is required to set a council tax by the 11 March in any year and has a statutory obligation to set a balanced budget. The budget requirements and basic amount of Council Tax must be calculated in accordance with the requirements of sections 31A and 31B to the Local Government Finance Act	Legal Services

	1992 (as amended by sections 73-79 of the Localism Act 2011). The Council is required to determine whether the basic amount of council tax is excessive as prescribed in regulations - section 52ZB of the 1992 Act as inserted under Schedule 5 to the Localism Act 2011. The Council is required to hold a referendum of all registered electors in the borough if the prescribed requirements regarding whether the increase is excessive are met. Approval of the budget is a matter reserved for full Council upon recommendation by Policy and Resources Committee on budget and policy matters.	
Privacy and Data Protection	Privacy and Data Protection is considered as part of the development of new budget proposals. There are no specific implications arising from this report.	Policy and Information Team
Equalities	The MFTS report scopes the possible impact of the Council's future financial position on service delivery. When a policy, service or function is developed, changed or reviewed, an evidence-based equalities impact assessment will be undertaken. Should an impact be identified appropriate mitigations with be sought.	Equalities and Corporate Policy Officer
Public Health	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Public Health Officer
Crime and Disorder	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Section 151 Officer & Finance Team
Procurement	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Section 151 Officer & Finance Team

2. INTRODUCTION AND BACKGROUND

2.1 This section sets out revenue and capital budget proposals for 2021/22 as follows:

- Background
- Local Government Finance Settlement 2021/22
- Feedback from Service Committees on budget proposals
- Updates to budget proposals
- Updates to Strategic Revenue Projection
- Revenue Estimates
- Capital Programme
- Balances / Earmarked Reserves

Background

2.2 At its meeting on 25 November 2020, this Committee considered an updated Medium Term Financial Strategy (MTFS) for the next five years. The MTFS sets out in financial terms how the Strategic Plan will be delivered, given the resources available. The MTFS builds on the previous year's MTFS, but reflects the impact of Covid-19 by incorporating a re-prioritisation of Strategic Plan objectives, together with proposals for transformational budget savings to address the financial challenges that the Council now faces.

2.3 The financial projections underlying the MTFS were prepared under three different scenarios - adverse, neutral and favourable. All three scenarios assumed that budget proposals for future years which have already been agreed by Council will be delivered, and that Council Tax is increased by 2% in 2021/22. A further set of scenarios has been prepared assuming a zero increase in Council Tax.

Local Government Finance Settlement 2021/22

2.4 The Provisional Local Government Finance Settlement for 2021/22 was announced on 17 December 2020. This confirmed several of the key assumptions incorporated in the MTFS.

- The Council Tax referendum limit will be 2%.
- The existing Business Rates regime will remain in place. Whilst the business rates multiplier will be frozen for ratepayers, local authorities will be compensated for the consequent loss of an inflationary increase.
- There will be no negative Revenue Support Grant.

2.5 Additionally, the Finance Settlement recognised the likely continuing impact of Covid-19 in 2021/22, and included a number of measures intended to support local government:

- a further £1.55 billion unringfenced grant to manage the immediate and long-term impacts of the pandemic;
- £670 million to help address the loss of Council income arising from more taxpayers requiring Council Tax Support;

- ongoing compensation for 75% of lost sales, fees and charges for the first three months of 2021/22.

2.6 The government expects councils to use the £1.55 billion unringfenced grant for priority pressures such as household waste collection, homelessness and rough sleeping, support for re-opening the country and the additional costs associated with local elections in May 2021. Councils have been told to plan on the basis of not receiving any additional funding for these pressures, so a careful assessment is needed of the financial impact of the pressures.

2.7 Maidstone’s share of the unringfenced grant amounts to £860,000. In line with government guidance, the first call on this grant should be for the immediate Covid-19 response in 2021/22. However, to the extent that there are unused funds, it would be appropriate to deploy them to support the recovery from Covid-19. A further report will be brought to Policy and Resources Committee setting out the recovery strategy and likely funding requirements. As this is a one-off grant, it would not be prudent to use it to offset underlying budget pressures and it is has not therefore been included within the Strategic Revenue Projection.

2.8 As announced in the Chancellor's Spending Review on 25 November, Public Works Loan Board (PWLB) lending terms have been altered to prevent the use of PWLB borrowing for investment property bought primarily for yield. In return lending rates have been reduced by 1%, reducing the cost of borrowing. Along with a rephasing of the capital programme, this has reduced the cost of borrowing in the Strategic Revenue Projection.

2.9 There will be a new round of New Homes Bonus (NHB) payments in 2021/22, but there will be no ongoing payments in future years (as envisaged when NHB was introduced originally). In Maidstone's case, this means that New Homes Bonus will fall from £4.4 million in 2020/21 to £3.8 million in 2021/22. Other authorities have seen much bigger reductions, so to prevent those authorities seeing an overall reduction in their Core Spending Power, the government is using a new grant, the Lower Tier Services Grant (LTSG), to cushion the impact. Maidstone’s LTSG amounts to £139,000 and it is proposed to use this in the same way as the Council uses New Homes Bonus, ie it is ringfenced for capital expenditure unless required to bridge the budget gap over the coming three years.

2.10 The outcome for the Council's budget gap of the above measures, before allowing for any further growth or savings, is to reduce the gap from £2.4 million to £1.6 million in 2021/22.

2.11 This is still a significant gap, and as explained in the draft MTFS, it may take 3 - 4 years to deliver savings to cover it. It is therefore proposed that any budget gap not covered within the year that it arises will be covered by other revenue resources.

2.12 The MTFS outlined an approach to addressing the budget gap that combined a re-prioritisation of Strategic Plan objectives, together with proposals for transformational budget savings. These proposals were presented to Service Committees in January 2021.

Feedback from Service Committees on Budget Proposals

2.13 Communities, Housing and Environment Committee (5 January 2021)

The revenue budget proposals for services within the remit of the Committee were agreed for submission to Policy and Resources Committee.

2.14 Strategic Planning and Infrastructure Committee (12 January 2021)

The Committee felt that further resources should be directed to the formation and strengthening of the Council's planning policies, including those linked to climate change. There were concerns expressed that the Local Plan Review budget was insufficient, with further funding requested. Reference was made to the projected savings figures outlined for future years, and in particular the £75,000 service improvements saving scheduled for 2023/24, which aimed to simplify the Local Plan process along the lines suggested in the Government's 'Planning for the Future' White Paper.

The Committee resolved to agree the budget proposals subject to the following:

a) the expected £75,000 service improvements saving for 2023/24 be removed;
b) Policy and Resources Committee be requested to allocate £140,000 of the funding available from the Biodiversity and Climate Change Action Fund for planning policy development; and
c) Policy and Resources Committee be requested to allocate the £139,000 in Local Tax Support Grant to the Local Plan Review budget.

2.15 Policy and Resources Committee (20 January 2021)

The revenue budget proposals for services within the remit of the Committee were agreed.

2.16 Economic Regeneration and Leisure Committee (26 January 2020)

The Committee expressed concern over deleting the two Economic Development team posts, in light of the local economic recovery from Covid-19 and proposed use of the £860,000 unringfenced government Covid-19 funding to allow a 2-year fixed term contract for an ED post.

Reference was made to the agreed savings for Maidstone Museum and resolutions from the 12 November 2020 meeting (Maidstone Museum Review item) and that a report be presented to ERL Committee in March or April to outline proposals to commence in December 2021. Policy & Resources Committee would be requested to progress the scheme.

Subject to the above points, the revenue budget proposals for services within the remit of the Committee were agreed.

2.17 Democracy and General Purposes Committee (27 January 2021)

This Committee considered whether to consult on holding Whole Council Elections, which formed part of a proposed restructure of democratic representation budget saving of £120,000, scheduled to be delivered in 2023/24. It decided not to proceed with consultation, which will prevent this element of the budget saving proposal from being delivered.

Updates to budget proposals

Service improvements and restructuring of democratic representation

2.18 The decisions of the Strategic Planning & Infrastructure Committee and the Democracy and General Purposes Committee demand reconsideration of two transformation-related savings proposed for 2023/24 (£75,000 for service improvements and £120,000 for structure of democratic representation).

2.19 The draft MTFS described how the Council would need to embrace transformation in order to meet ongoing financial pressures, and this remains the case. So whilst the specific draft budget proposals presented to Service Committees will require reconsideration, it is still important that transformation budget proposals are developed. **It is therefore proposed that these savings targets are retained for 2023/24, under the generic headings of service improvement and restructuring.** As they are not due to be delivered until 2023/24, there remains time to develop specific proposals to meet the savings remit.

Development of planning policies and local plan review

2.20 Recommendations b) and c) of the Strategic Planning and Infrastructure Committee sought to address under-funding of planning work. There are a number of factors that have created pressure on the budget for the Local Plan Review:

- further work on sustainability appraisals and transport modelling
- accelerated timetable for LPR completion
- extension of contracts for specialist contractors
- volume of responses to December 2020 consultation.

2.21 Normally, budget pressures are dealt with through the annual budget setting process, with growth bids submitted for additional pressures that cannot be accommodated within existing budgets. It is important that proposed budget growth is considered within the overall budget context, so that members may make an informed decision about where to prioritise limited resources across the whole range of Council services.

2.22 Where pressures arise unexpectedly during the course of the financial year, provision exists within financial standing orders for budget transfers to be made to fund unavoidable budget pressures. If possible, such pressures are managed within the service area concerned, but if this is not possible, a corporate contingency fund is available.

2.23 The recommendations from Strategic Planning and Infrastructure Committee arise from substantive issues about the pressure on planning budgets. However, it is proposed that these issues are dealt with through the normal budget setting and monitoring process, as follows:

- Current year pressures on the planning service budget will be addressed as described in the Quarter 3 budget monitoring report, which can be found elsewhere on this agenda.
- So far as the overall funding of the local plan review is concerned, officers will review the budget for the current local plan review, through to its prospective adoption in 2023, and will bring forward growth proposals for future years and/or proposals for budget transfers in 2021/22 in future reports to Policy and Resources and Strategic Planning and Infrastructure Committees. These will be dealt with through the budget virement process within the 2021/22 financial year.

This approach will avoid having to utilise funds which it is intended be earmarked for Biodiversity and Climate Change and capital capital expenditure respectively.

Deletion of Economic Development team posts

2.24 As set out in paragraph 2.7 above, a report will be brought to Policy and Resources Committee setting out the recovery strategy and likely funding requirements and this will include reference to economic development support as appropriate.

Updates to Strategic Revenue Projection

Council Tax

2.25 Policy and Resources Committee agreed at its meeting on 20 January 2021 that the Council Tax Base for 2021/22 will be 63,550.10. This is slightly more than the increase in the Council Tax Base assumed in the MTFS. The agreed Council Tax Base will yield total Council Tax income of £17,215,722 if Band D Council Tax is increased by 2% (£5.31), as set out in the agreed Medium Term Financial Strategy. This is £148,000 more than in the original Strategic Revenue Projection in the MTFS.

2.26 The government has recognised that the level of Council Tax Support assumed within the Council Tax base is unfortunately likely to increase, with growing unemployment and financial hardship generally, and is providing a Local Council Tax Support grant of £ in 2020/21. This will be applied to costs of providing local council tax support and other help to economically vulnerable households following the pandemic in line with government guidance and will therefore mitigate any shortfall in the projected Council Tax income set out here.

2.27 Taking into account expected increases in precepts from other organisations, the overall level of Band D Council Tax will be as follows:

	% change from last year	
Kent County Council	2.0	1,259.64
Kent County Council Social Care Precept	3.0	159.12
Kent Police and Crime Commissioner	7.4	218.15
Kent Fire and Rescue Service	1.9	80.82
Maidstone Borough Council	2.0	270.90
ANNUAL CHARGE FOR 2021/22	**4.7**	**£1,988.63**

2.28 The Council Tax base report to Policy and Resources Committee on 20 January 2021 projected a deficit of £3.1 million in total for current year (2020/21) collections. As set out in that report, this amount is spread across three years for the purpose of General Fund accounting, and is reduced by a surplus brought forward from earlier years. Maidstone's share of the deficit on this basis is £114,000. The risk of a deficit had already been recognised in quarterly monitoring reports during the course of 2020/21 and the potential future impact on reserves taken into account.

2.29 This deficit will ultimately be reduced as a result of the government's local tax income guarantee for 2020/21, which will compensate local authorities for 75% of irrecoverable losses. As both the £114,000 deficit and any related compensation relate to 2020/21, they are excluded from the calculation of the 2021/22 budget gap set out below.

Business Rates

2.30 The Business Rates income estimate for 2021/22 is based on the recently completed NNDR1 return that has to be provided to the Department of Housing Communities and Local Government each January.

2.31 The Business Rates baseline, ie the notional amount of business rates due to the Council, after payments to preceptors and the government's tariff, excluding any growth, is £3.430 million, as set out in the Provisional Local Government Finance Settlement. As described above, the government has increased the Business Rates baseline by inflation even though business rate payers will not face an increase. This is worth an additional £170,000 compared with the amount anticipated in the MTFS.

2.32 The NNDR1 return indicates that, as in previous years, business rates will be higher than the baseline, owing to growth in excess of inflation over the years since the baseline was set in 2013/14. Maidstone's share of this growth amounts to £620,000, which is £15,000 more than assumed in the MTFS. This estimate is based on the existing methodology for projecting business rates income, with appropriate allowances for bad debts and business rates appeals. However, there is a risk that many businesses will appeal their assessments on the basis of a material change in circumstances following the Covid-19 pandemic, which could have the effect of reducing business rates growth or even eliminating it altogether.

2.33 Kent County Council and ten of the Kent districts continue to pool their business rates growth, which has the effect of reducing the levy on business rates growth that would otherwise be payable to central government. As previously agreed by Council, Maidstone's 30% share of the saving on the levy is ringfenced for investment in the Council's economic development strategy. A further 30% represents a Growth Fund, spent in consultation with Kent County Council. Neither of these amounts are reflected in the Strategic Revenue Projection, as they have been earmarked for specific purposes.

2.34 As set out above, there is a risk that business rates appeals will have an impact on business rates growth or even eliminate it altogether. Whilst business rates pool proceeds have therefore been earmarked for specific purposes, no specific spending commitments should be made until there is more certainty about the likely outcome.

2.35 As with Council Tax income, an adjustment is made in respect of the deficit arising in 2020/21. This amounts to £1.456 million for business rates after allowing for the benefit of S 31 grant to cover business rates income that would otherwise be payable by businesses eligible for 100% relief.

2.36 Again, as with Council Tax income, this deficit will ultimately be reduced as a result of the government's local tax income guarantee for 2020/21. Both the deficit and any related compensation relate to 2020/21 and therefore excluded budget gap calculation.

Fees and Charges

2.37 The level of fees and charges made by each Service Area were considered by Service Committees at their meetings in December 2020. The combined effect of changes in fees and charges has been incorporated in the budget proposals in Appendix B. After allowing for an anticipated reduction in income in 2021/22 arising from the ongoing impact of Covid-19, and offsetting the likely benefit of the government's ongoing compensation for 75% of lost sales, fees and charges for the first three months of 2021/22, the latest projection is £8,000 less than in the MTFS.

Inflation

2.38 The core inflation assumption for general expenditure in the MTFS is 2%. Although CPI inflation is currently running at less than this amount, 2% remains the government's inflation target. Within the overall allowance for inflation, a reduced assumption has been made for payroll costs, representing a 1% envelope for all pay increases excluding increments.

2.39 The Council's inflation assumptions are applied to service budgets on a line-by-line basis when drawing up the budget. The draft inflation allowance included in the MTFS Strategic Revenue Projection is calculated on costs across the board, so when detailed budgets are finalised there is always an adjustment, which has led this year to the projected allowance for inflation in the Strategic Revenue Projection increasing by £85,000.

Revenue costs of capital programme

2.40 An allowance is made in the Strategic Revenue Projection for the revenue costs of the capital programme, ie financing costs and Minimum Revenue

Provision. These costs have reduced significantly, owing both to the reduction in PWLB borrowing costs described above and the updating of the capital programme, as reported to Policy and Resources Committee at its meeting on 20 January, the which has led to a number of schemes being reprofiled into future years.

Summary

2.41 In summary, the impact of the above changes to the Strategic Revenue Projection for 2021/22, as compared with the position shown in the draft Medium Term Financial Strategy as considered by this Committee on 25 November 2020, is as follows:

	£000
Projected budget deficit for 2021/22 as per draft MTFS	2,489
Add:	
Reduction in projected other income (fees and charges) Additional inflation Adjustments to existing savings	8 85 30
Less:	
Higher than projected increase in Council Tax base Government recalculation of business rates baseline Increase in business rates growth Revenue effects of updating capital programme and reduced financing costs	-148 -170 -15 -671
Updated budget deficit for 2021/22	1,611

As envisaged in the MTFS, it is not possible to close the budget gap entirely in 2021/22, so the deficit of £1.6 million will be covered by reserves. The budget proposals set out in Appendix B will allow the budget gap to be closed over a period of three years.

Revenue Estimates

2.42 Attached at Appendix C is a summary of the revenue budget for 2021/22, based on the assumptions above. The summary shows the Original Estimate 2020/21 as approved by Council in February 2020; the Revised Estimate 2020/21 calculated as part of the budget development work completed this year; and the Estimate for 2021/22 based upon the details set out in this report. The Estimate for 2021/22 is analysed between gross expenditure, income and net expenditure, so that Members may see clearly how income generated by the Council contributes towards expenditure budgets.

2.43 Appendix C presents the Committee with the budget structured in line with the relevant Service Committees and separately structured in line with the strategic priorities set out in the Strategic Plan.

2.44 The Revised Estimate 2020/21 shown in Appendix C totals £21,186,730. This figure is net of all income with the exception of the use of balances and the council tax requirement.

2.45 The Estimate for 2021/22 shown in Appendix C totals £21,134,820. This incorporates all the items discussed above. The figure is net of all income with the exception of Council Tax and Business Rates income. It excludes precepts.

Capital Programme

2.46 A draft Capital Programme was reported to Committee at its meeting on 20 January 2021. The Capital Programme totals £130 million over five years and includes a number of major schemes intended to achieve the Council's long term strategic objectives. Details are set out Appendix D.

2.47 The Council has the power to borrow to finance capital expenditure subject to the guidance set out in the Prudential Code. In 2012 the Council approved in principle the use of prudential borrowing. The proposals set out in this report indicate a need for up to £103 million additional prudential borrowing over the life of the programme. The revenue costs of this borrowing are reflected in the Strategic Revenue Projections.

2.48 The arrangements for funding the capital programme are set out in the Treasury Management Strategy, Investment Strategy and Capital Strategy, which were considered by the Audit Governance & Standards Committee at its meeting on 18 January 2021. The Audit Governance & Standards Committee was made aware of the potential for prudential borrowing arising from approval of the recommendations in this report. It agreed the Treasury Management Strategy, Investment Strategy and Capital Strategy, subject to any amendments arising from consideration of the Capital Programme by Policy and Resources Committee. The updated Treasury Management Strategy, Investment Strategy and Capital Strategy are accordingly included as Appendix E.

Balances / Earmarked Reserves

2.49 Attached at Appendix F is a statement of general fund balances and details of earmarked reserves. The earmarked reserves incorporate a capital reserve that includes all of the retained New Homes Bonus and other revenue support to the capital programme available from previous years.

2.50 General fund balances are estimated to be £7,714,000 by 31 March 2021. In considering the level of reserves that should be maintained the Committee should consider the minimum below which the Committee cannot approve the use of balances without agreement by the Council. Hitherto this figure has been set at £2 million. It is recommended that Committee propose to Council that the minimum level of balances be increased to £4 million in light of the heightened level of risk highlighted by the Covid-19 pandemic.

2.51 It can be seen that the level of reserves is comfortably in excess of the minimum level described, even if the minimum is increased from £2 million to £4 million.

Medium Term Financial Strategy

2.52 Attached as Appendix G is the Medium Term Financial Strategy, updated to reflect the latest position as described in this report.

2.53 The financial projection that complements the Medium Term Financial Strategy is the Strategic Revenue Projection given at Appendix A. The financial projection considers the need for growth and savings over the period of the Medium Term Financial Strategy and incorporates assumptions about inflation and changes in local and national initiatives.

2.54 The financial projection that complements the Capital Medium Term Financial Strategy Statement is the capital programme given at Appendix E.

2.55 The Strategy may require amendment following Committee's consideration of this report or following consideration by Council on 24th February 2020. The final versions will be published as part of the budget documents on the Council's website following the Council meeting.

---

3 AVAILABLE OPTIONS

3.1 **Option 1:** To not recommend a budget or recommend a budget that is not balanced to Council.

3.2 The Council is statutorily required to set a balanced budget in time for the new financial year and in time for council tax billing to be achieved. If the Committee were to decide not to recommend a budget or recommend a budget that was not balanced Council would not be able to accept the proposal. A budget would need to be set and this would happen without the information or guidance from this Committee's work over the past year.

3.3 **Option 2:** The Committee could amend the budget set out in this report but would need to take care that the final recommendation to Council is a balanced budget.

3.4 The Director of Finance and Business Improvement (section 151 Officer) must provide confirmation to Council that "the budget calculations are based upon robust estimates and that the level of reserves is sufficient for the purposes of the budget exercise". Care must be taken in amending the budget set out in this report so that the Director of Finance and Business Improvement is able to make the necessary confirmation.

3.5 **Option 3:** the Committee recommend the budget set out in this report, including the proposed council tax charge.

---

4 PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 Option 3 is the preferred option.

---

5 RISKS

5.1 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 of its meetings.

---

6 CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 Policy and Resources Committee received an initial report on the MTFS at its meeting on 21 July 2020 and has subsequently received further reports on the development of the budget for 2021/22.

6.2 A Residents' Survey was carried out in Autumn 2020 to obtain their views on the issues to be considered when setting a budget. The findings were reported to Service Committees in November and December 2020.

6.3 Detailed budget proposals were considered by individual Service Committees. The outcomes of this consultation are set out in this report at paragraphs 2.13 to 2.17.

---

7 NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The timetable for setting the budget for 2021/22 is set out below.

Date	***Meeting***	***Action***
10 February 2020	Policy and Resources Committee	Agree 2021/22 budget proposals for recommendation to Council
24 February 2020	Council	Approve 2021/22 budget

---

8 REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Strategic Revenue Projection 2021/22 to 2025/26 – to follow
- Appendix B: Budget Savings Proposals 2021/22 to 2025/26
- Appendix C: Revised Estimates for 2020/21 and Draft Budget Estimates for 2021/22 – to follow
- Appendix D: Capital Programme 2021/22 to 2025/26
- Appendix E: Treasury Management Strategy, Investment Strategy and Capital Strategy
- Appendix F: Statement of General Fund Balances and Earmarked Reserves
- Appendix G: Updated Medium Term Financial Strategy 2021/22 to 2025/26

---

9 BACKGROUND PAPERS

There are no background papers.

Revenue Budget Proposals 2021/22 - 2025/26

Service	Proposal	21/22	22/23	23/24	24/25	25/26	Total
		£000					
New commercial investments	Income from new acquisitions	-143	-143				**-286**
Elections	Spread elections cost over 4 years	-28					**-28**
Housing & Regeneration	Income from new MPH developments	-598	-400	-200			**-1,198**
Asset management	Implement recommendations of Gen2 review	-25					**-25**
Total Existing Savings		**-794**	**-543**	**-200**	**0**	**0**	**-1,537**

Service	Proposal	21/22	22/23	23/24	24/25	25/26	Total
		£000					
Transformation Savings:							
Corporate Support	Better use of technology		-30				**-30**
MKS Planning Support	Better use of technology	-20					**-20**
Corporate Property	Reconfigure office accommodation	-20		-125	-125		**-270**
Corporate Property	Service improvements		-25	-25			**-50**
Revenues and Benefits	Review of management roles	-28					**-28**
ICT	Review of structure			-20			**-20**
Internal Audit	New collaboration agreement		-17				**-17**
Legal	New staffing arrangements	-35					**-35**
HR	Income generation		-18				**-18**
Planning Support	Change in management structure	-19					**-19**
All	Green Travel - Changes to essential user & lease car allowances		-40	-40	-40		**-120**
All	Service improvements and restructuring			-120			**-120**
Other:							
Electoral Services	Restructure of team	-23					**-23**
Finance & Procurement	Delete vacant post / shared service savings	-25					**-25**
Total Amendments and New Savings		**-170**	**-130**	**-330**	**-165**	**0**	**-795**

OVERALL CHANGE IN BUDGET (£000)		**-964**	**-673**	**-530**	**-165**	**0**	**-2,332**

Negative figures shown above represent a reduction in expenditure budgets, or increased income targets.
Positive figures indicate increased expenditure, or a reduction in the income budget.

Revenue Budget Proposals 2021/22 - 2025/26

Service	Proposal	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	Total £000
Voluntary Sector Grants	Phased reduction of grants	-11					**-11**
Gypsy & Caravan Sites	Transfer of sites to KCC	-25					**-25**
Climate Change	Permanent appointment of a climate change officer	30					**30**
Total Existing Savings		**-6**	**0**	**0**	**0**	**0**	**-6**

Service	Proposal	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	Total £000
Gypsy & Caravan Sites	Transfer of sites to KCC	25	-25				**0**
Housing	Better use of external grant funding	-190					**-190**
Garden Waste Collection	Additional income from increased charge	-145					**-145**
Housing	Capital investment to reduce cost of TA	-25	-50	-75			**-150**
Fleet workshop	Service improvements	-20					**-20**
Community Partnerships	Uncommitted budget	-23					**-23**
Community Partnerships	Restructure of community liaison	-34					**-34**
Housing	Changes to Home Finder scheme	-80					**-80**
Parks Grounds Maintenance	Operational Changes	-30					**-30**
Heritage & Landscape	Additional local nature reserves	12					**12**
Total Amendments and New Savings		**-510**	**-75**	**-75**	**0**	**0**	**-660**

OVERALL CHANGE IN BUDGET (£000)	**-516**	**-75**	**-75**	**0**	**0**	**-666**

Negative figures shown above represent a reduction in expenditure budgets, or increased income targets.
Positive figures indicate increased expenditure, or a reduction in the income budget.

Revenue Budget Proposals 2021/22 - 2025/26

Service	Proposal	21/22	22/23	23/24	24/25	25/26	Total
		£000					
Mote Park Centre	New Café construction deferred	-40					**-40**
Museum	NNDR saving currently subject to appeal	-119					**-119**
	Savings shortfall funded from service reserves (reversal of one-off	159					**159**
Total Existing Savings		**0**	**0**	**0**	**0**	**0**	**0**

Service	Proposal	21/22	22/23	23/24	24/25	25/26	Total
		£000					
Economic Development	Delete vacant posts	-72					**-72**
Regeneration	Capitalisation of staff costs	-38					**-38**
Mote Park Adventure Zone	Reduce income target	36					**36**
Mote Park Café	Adjust income target	64		-30			**34**
Museum	Remove existing saving (NNDR)	119					**119**
Museum	Reduction in running costs	-138	-14				**-152**
Parks Leisure Activities	Reduce income target	22					**22**
Visitor Economy	Increased digital marketing	-10					**-10**
Total Amendments and New Savings		**-17**	**-14**	**-30**	**0**	**0**	**-61**

OVERALL CHANGE IN BUDGET (£000)		**-17**	**-14**	**-30**	**0**	**0**	**-61**

Negative figures shown above represent a reduction in expenditure budgets, or increased income targets.
Positive figures indicate increased expenditure, or a reduction in the income budget.

Appendix B

Strategic Planning and Infrastructure Committee
Revenue Budget Proposals 2021/22 - 2025/26

Service	Proposal	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	Total £000
Planning Policy	Offset staff costs with CIL	-15					**-15**
Planning	Adoption of commercial business practices	-15					**-15**
Parking Services	Increase income budget	-30					**-30**
Total Existing Savings		**-60**	**0**	**0**	**0**	**0**	**-60**

Service	Proposal	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	Total £000
Parking Services	Increase income budget - reprofiled	30	-30				**0**
Parking Services	Loss of parking bays in King Street	26					**26**
Planning	Better use of technology		-75				**-75**
All	Service improvements			-75			**-75**
Total Amendments and New Savings		**56**	**-105**	**-75**	**0**	**0**	**-124**

OVERALL CHANGE IN BUDGET (£000)	**-4**	**-105**	**-75**	**0**	**0**	**-184**

Negative figures shown above represent a reduction in expenditure budgets, or increased income targets.
Positive figures indicate increased expenditure, or a reduction in the income budget.

APPENDIX D

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**

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2021/22

INDEX

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.

<u>Gilt yields / PWLB rates</u>

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

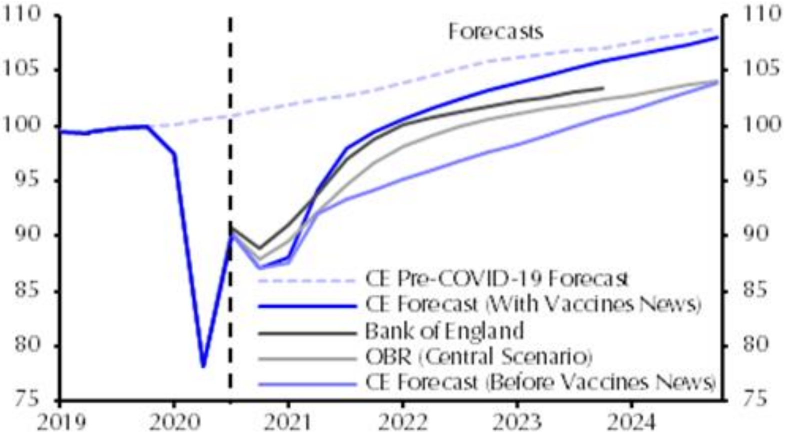
risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2nd December, a 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.

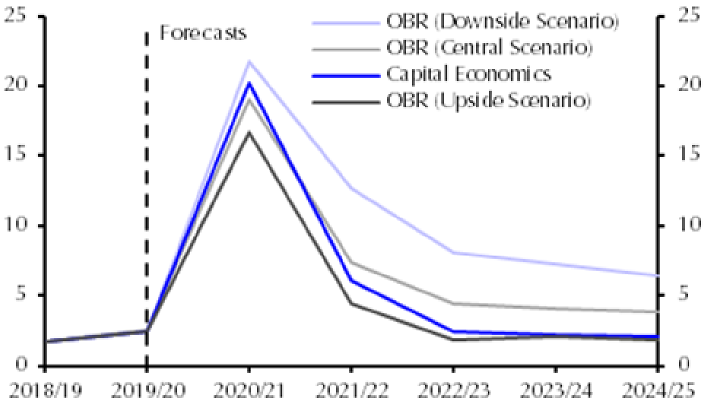
Chart: Level of real GDP (Q4 2019 = 100)



(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.

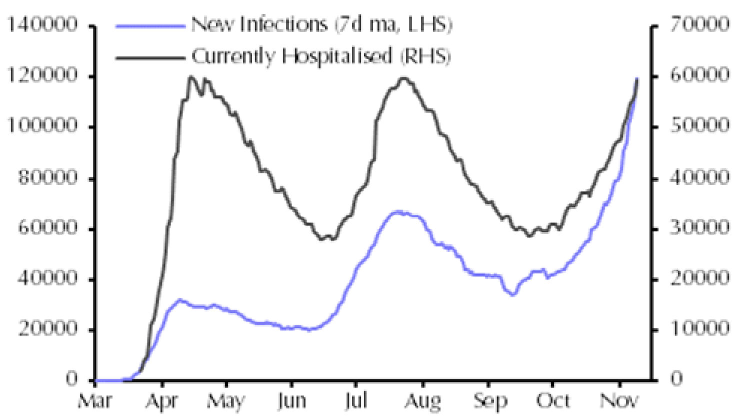
- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to 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

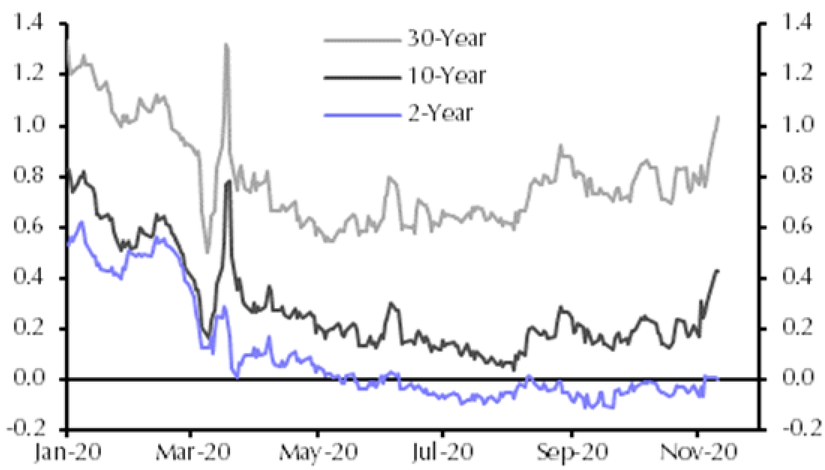
Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using 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
2020/21

Introduction

The Authority invests its money for three broad purposes:

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

This investment strategy 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 2020/21 financial year.

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

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

Service Investments: Loans

Contribution: The Council lends money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. The Council has made loans to Kent Savers for £25k in 2017/18 which is repayable in 2022/23 at an interest rate of 1% and an interest free loan to One Maidstone CIC Limited with a current amount owing of £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.

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

	31/03/20	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**

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 are currently being 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.

Table 1: MTFS 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	4.0	3.5	3.7	4.0	4.3
Other Income	21.7	18.8	21.5	22.7	24.4	25.2
Total Funding	43.0	40.0	42.8	44.9	47.5	49.3

Available						
Predicted Expenditure	43.0	42.5	43.6	45.1	47.1	49.0
Budget Gap	0.0	-2.5	-0.8	-0.2	0.4	0.3
Existing Planned Savings		0.9	0.6	0.2		
Contribution to Reserves					0.4	0.3
Residual Budget Gap		-1.6	-0.2	0.0	0.0	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.

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

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

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

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

2.2 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

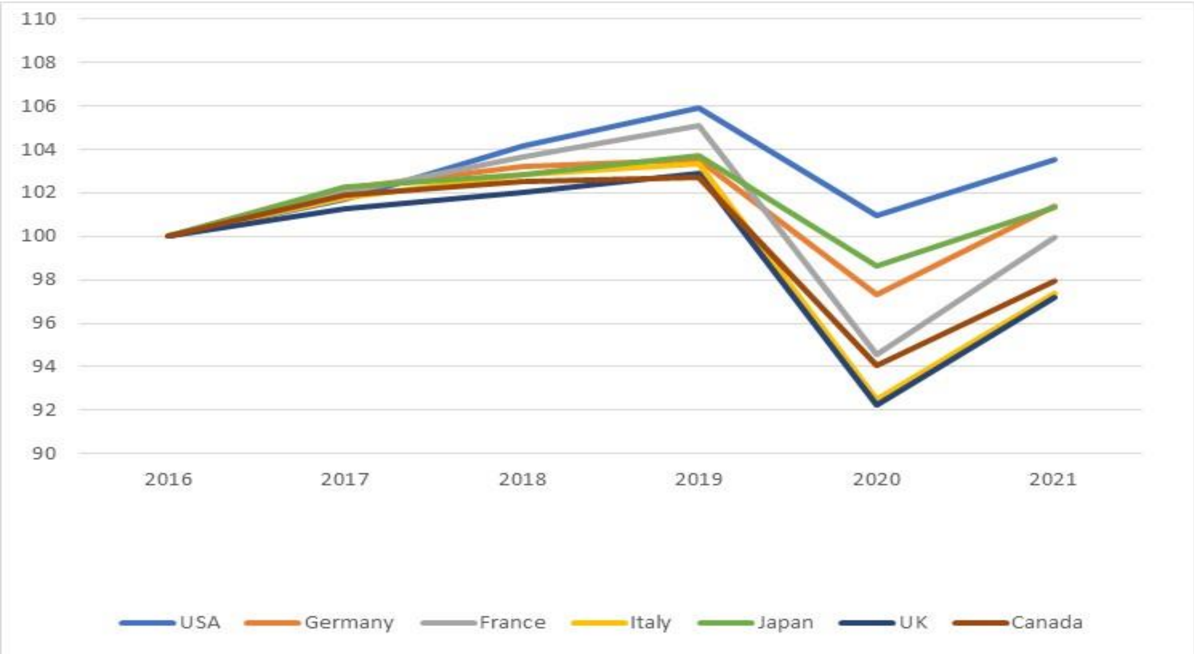
Macro outlook

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.

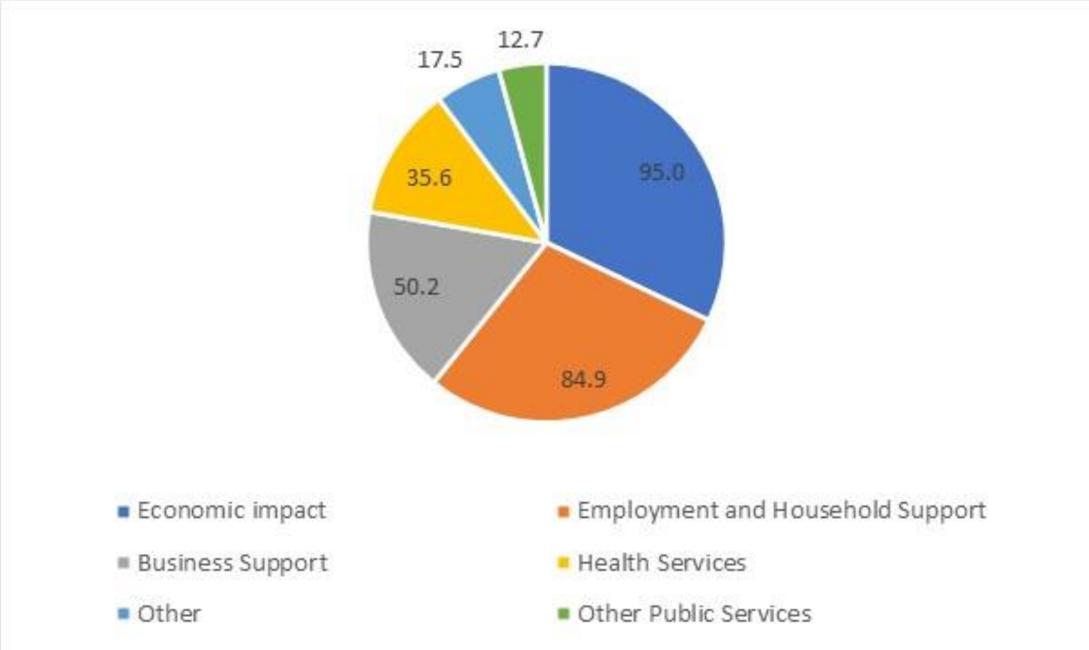
3.6 The low cost of borrowing and the need to promote economic recovery means that there is currently a strong justification for continued large scale public expenditure. However, this is not sustainable in the long term. Prior to the pandemic, public sector net debt was around 80% of national income, 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

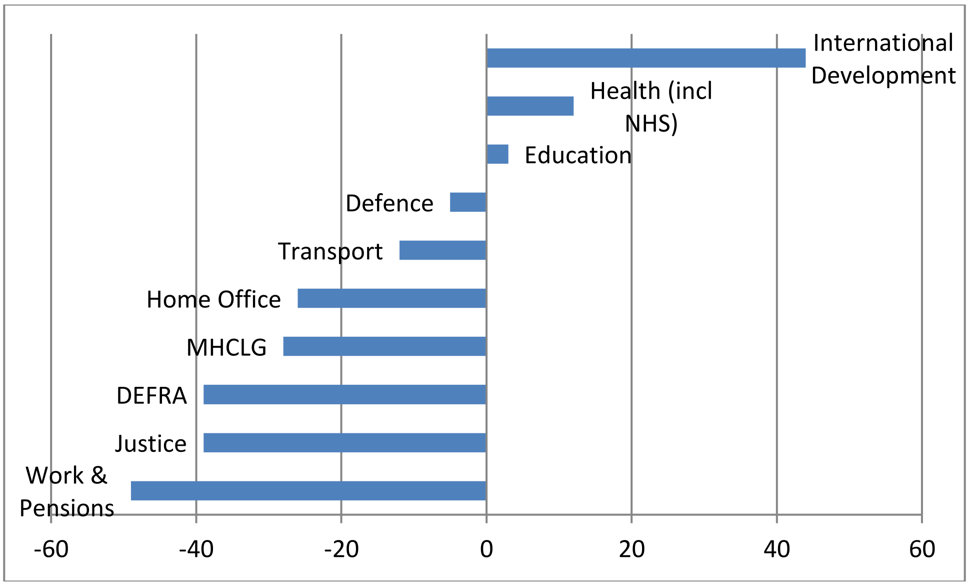
3.8 By comparison with the amounts being spent on direct support for businesses and individuals and on the NHS, local government has received relatively little support. Direct unringfenced government grants have amounted to £4.6 billion, which has been paid out in a number of different tranches as the 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).

Table 2: Maidstone Borough Council balance sheet

	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.

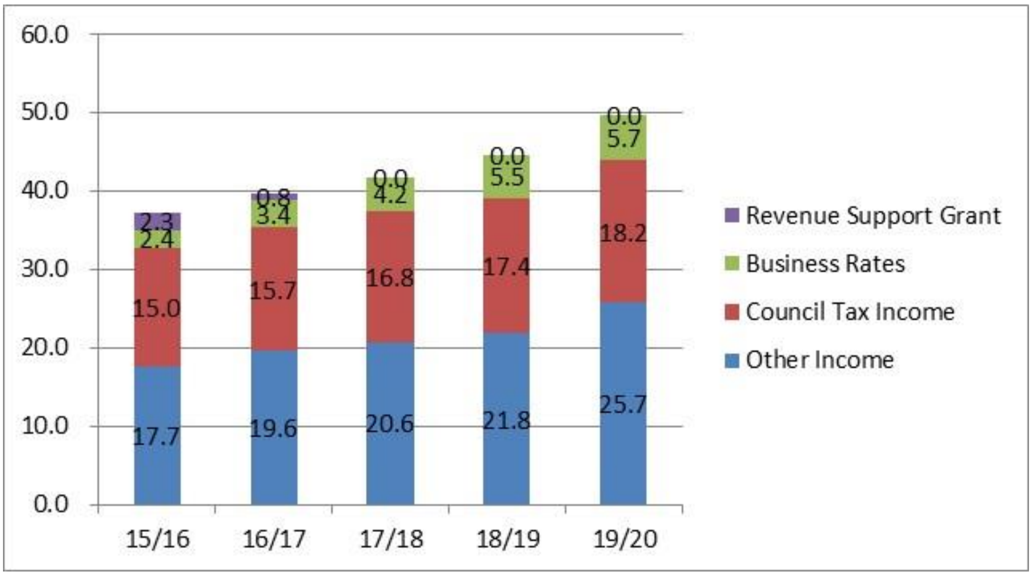
Conclusion

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 is being held in reserve to address likely future funding pressures.

6.7 The starting point for future business rates income is therefore assumed to be the current baseline share of business rates income, as adjusted for inflation in 2021/22, less £1.589 million. It is not accepted that this would be a fair allocation of business rates income but it is nevertheless prudent to make this assumption for forecasting purposes.

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	4.0	3.5	3.7	4.0	4.3
Other Income	21.7	18.8	21.5	22.7	24.4	25.2
Total Funding Available	43.0	40.0	42.8	44.9	47.5	49.3
Predicted Expenditure[1]	43.0	42.5	43.6	45.1	47.1	49.0
Budget Gap	0.0	-2.5	-0.8	-0.2	0.4	0.3
Existing Planned Savings		0.9	0.6	0.2		
Contribution to Reserves					0.4	0.3
Residual Budget Gap		-1.6	-0.2	0.0	0.0	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 2020/21, and one-off additional expenditure will reduce. 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 a deficit, smaller than the £6.0 million projected in the current year, but still very significant.

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 resources hitherto earmarked for other purposes, such as New Homes Bonus and uncommitted Business Rates Growth proceeds. 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 7)	-1.6	-0.2	0.0	0.0	0.0
Proposed savings	0.6	0.5	0.3	0.2	0.0
Savings shortfall b/f		-1.0	-0.7	-0.4	0.2
Savings shortfall c/f	**-1.0**	**-0.7**	**-0.4**	**0.2**	**0.5**

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
10.02.20	Final draft to Policy & Resources Committee	Updates to reflect Local Government Finance Settlement and latest budget proposals

Agenda Item 19

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

Agenda Item 21

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted