APPENDIX A

MAIDSTONE BOROUGH COUNCIL

REVENUE AND CAPITAL ESTIMATES

2022/23

INDEX

APPENDIX A

STATEMENT OF ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

1. INTRODUCTION

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

- the robustness of the estimates made for the purposes of the budget calculations; and

- the adequacy of the proposed financial reserves.

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

1.3 The following statement seeks to fulfil this requirement in respect of the 2022/23 budget setting process for Maidstone Borough Council. I acknowledge my responsibility for ensuring the robustness of the estimates and the adequacy of the reserves as part of the process.

2. ROBUSTNESS OF ESTIMATES

Background

2.1 The budget contains estimates of future income and expenditure, which like any future events are subject to risk and uncertainty. The external environment at present is particularly challenging because of uncertainty about the pace of recovery from Covid-19 and the risk of continuing high levels of inflation.

2.2 The financial framework within which the Council operates is set by central government. Whilst the government has announced for 2022/23 the Council Tax referendum limit and the share of business rates to be retained locally, the position for future years is unclear, which makes longer term forecasting difficult.

2.3 The budget reflects careful consideration and prudent judgements about the risks posed by these elements of uncertainty, drawing on the lessons of previous years and seeking to take into account all relevant factors.

2.4 The Council's exposure to risk is mitigated by a strong financial position, with adequate but not excessive levels of reserves, and a track record of effective financial management.

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

Budget preparation

2.6 A structured approach has been taken to preparing the budget estimates. They are the outcome of an exhaustive process, which commenced with Members agreeing underlying assumptions and a plan for developing a Medium Term Financial Strategy at the meeting of Policy and Resources Committee on 20 July 2021. Given the high degree of uncertainty about the medium term financial position, various potential scenarios, representing favourable, neutral and adverse sets of circumstances have been tested. The current budget proposals are based on a neutral scenario, but additional resources have been set aside to address the potential impact of inflation running above the government's target of 2%.

2.7 There has been a thorough assessment of future spending pressures. In drawing up Strategic Revenue Projections, careful estimates have been made of the way in which income and expenditure are likely to change and the potential sources of new pressures. In 2020/21, Covid-19 had a major impact on the Council's finances. Income has recovered in 2021/22 but has not reached pre-Covid levels in all areas, so a careful judgement has had to be made about the extent to which there will be a continuing recovery in 2022/23.

2.8 Where possible, future financial projections have been validated against current performance as reported through the Council's regular quarterly budget monitoring. The budget estimates have been reviewed in the light of the latest budget monitoring information. Where appropriate, allowance has been included in respect of additional expenditure and shortfalls in income where these are likely to continue into 2022/23.

Factors considered in drawing up MTFS and setting budget

2.9 The table below sets out the specific factors that have been taken into account in the process of drawing up the MTFS and setting the 2022/23 budget.

The Council's corporate objectives and key priorities	The estimates are intended to support the priorities within the Council's Strategic Plan and to maintain service delivery. The MTFS addresses emerging new priorities within the framework of the Strategic Plan.
Consultation with the community	The results of the 2021 Residents' Budget Survey have beentaken into account when developing the budget proposals.
Consultation with Service Committees	The Policy & Resources Committee has consulted each of the Service Committees on the budget proposals and their responses were considered at its meeting on 9 February 2022.

The level of funding likely from Central Government towards the costs of local services	The Council no longer receives Revenue Support Grant. It received additional funding in 2021/22 to assist with the recovery from Covid-19 but no further one-off funding of this nature has been assumed in the budget.
Retained element of business rates	Since 1 April 2013 a proportion of business rates income has been retained by the Council. The amount of business rates income due to the Council under existing arrangements has been projected using prudent assumptions and has been reflected in the Strategic Revenue Projections. Additional income is anticipated as a result of the Council's participation in the Kent Business Rates Pool and is earmarked as a separate exercise from the main budget setting process.
Council Tax Base	The recommended council tax base for 2022/23 is 65,896.22, a 3.7% increase in the tax base over the 2021/22 figure.
Level of Council Tax	The level of Council Tax is an important determinant of the Council's financial resilience. A low Council Tax base and/or a low level of Council Tax have been demonstrated from analysis of local authority accounts to signal lack of resilience. It is therefore appropriate for the Council to maximise Council Tax income within the constraints imposed by the government's referendum limits. The recommended £5.40 increase in Band D Council Tax does this.
The Council's Capital Programme	The Council's capital programme is based on the principles of prioritisation, affordability and deliverability. The Council has adopted a Medium Term Financial Strategy for capital which sets out the planning process and priorities for capital. The revenue costs of the capital programme are reflected in the Strategic Revenue Projections.
The Prudential Code and its impact on Capital Planning	The Council uses a number of sources for the financing of its capital expenditure. The main source in recent years has been New Homes Bonus but external borrowing was employed for the first time in 2019/20 and will be the principal source of funding in future years. Borrowing will be undertaken in line with the requirements of the Prudential Code, which aims to ensure, within a clear framework, that the capital expenditure plans of the authority are affordable, prudent and sustainable. These principles are set out in the Medium Term Financial Strategy statement for capital with specific details contained in the Council's Treasury Management Strategy.

Availability of funding for capital programme	It is assumed that funding will continue to be available for the capital programme. Historically the main source of funding for local authorities has been the Public Works Loan Board. Other sources of borrowing will also be explored in order to mitigate the risk of future increases in interest rates.
Interest Rates	Interest costs and returns have been assumed based on the advice of the Council's treasury management advisors as set out in the Treasury Management Strategy. Where prudential borrowing is undertaken, interest costs are fixed at the start of the loan term.
Financial resilience	Maidstone Borough Council is in a strong financial position and holds adequate reserves, as is evidenced by its score in CIPFA's latest Financial Resilience Index, which gives the Council an average position of 7 amongst a comparator group of 16 (ie just above the mid-point for its peer group).
Adequacy of Balances	At the start of 2022/23 it is anticipated that the uncommitted general fund balance will be £9.2 million. This is equivalent to 40% of net income.
Earmarked Reserves	The Council maintains a series of Earmarked Reserves to manage the resources set aside for specific activities. At the start of 2022/23 these reserves are projected to be £6.8 million. Details are set out in Section 5 of the Budget Book.
Pay and Price Inflation	The MTFS takes account of the impact of inflation on service expenditure, based on current predictions of the future level of inflation. Included within service budgets is suitable provision for these increases. Additionally there is a corporate contingency of £800,000, approximately equivalent to 2% of gross expenditure, to address the risk of higher inflation than assumed in the base case projections.
Fees and Charges	The Council's strategy is to maximise income, subject to market conditions, opportunities, comparable charges elsewhere and the impact of charges on the delivery of key objectives. The Council has approved a policy on the use of fees and charges and service managers have regard to that policy when proposing changes to fees and charges. Increased levels of fees and charges are incorporated in the 2022/23 budget where these have been proposed and subsequently agreed by Members.

Growth Pressures	The Budget for 2022/23 and the projections within the MTFS for the revenue budget reflect an estimate of potential additional expenditure and shortfalls in income to the extent that the Council is aware of these at the present time. New pressures are anticipated to emerge over the period and in consequence, the strategy will be updated at least annually. There is an expectation that expenditure on expanding and improving services should be accommodated by direct charges to service users or reductions elsewhere within the Council's budget from efficiencies and low priority services through a prioritisation process.
Achieving budget savings	The MTFS depends on the delivery of budgeted savings. The Council has a good track record of delivering planned savings and regular budget monitoring ensures that prompt action is taken where savings are delayed. The deliverability of future savings is assessed as part of the budget preparation process.
Financial Management	The Council's financial information, management and reporting arrangements are sound. Officers and members are fully engaged in the budget setting process. Financial performance is reported promptly to officers and members. Where variances arise, prompt action is taken to address them The Council's external auditor has found the Council's budgetary control procedures to be sound and is satisfied with the overall internal financial control arrangements, the Council's arrangements for ensuring the legality of transactions and expects to give an unqualified opinion on the 2020/21 Accounts. It is anticipated that a similar position will be reported for future years.
Insurance Arrangements and Business Continuity	Risks identified via the preparation of Service Risk Registers have wherever possible been mitigated to an acceptable level. Any remaining risks have been transferred to an external insurance provider where possible. In addition, specific arrangements are in place to ensure the continuity of business in the event of both major and minor disruptions to services. As insurance premiums are reactive to the external perception of the risks faced by local authorities and to market pressures, both risks and excess levels are kept under constant review. The Council has a well-established Business Continuity Plan for key services.

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

3. Adequacy of Reserves

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

3.2 The Council has agreed a target for the minimum General Fund balance of £4 million, which is equivalent to approximately 10% of the Council's gross income or 20% of its net income.

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

- Contraction in retail sector
- Financial uncertainty
- Construction costs / insolvency
- Environmental damage
- Housing pressures increasing
- Major unforeseen emergency
- ICT security failure
- Not fulfilling residential property responsibilities
- Major contractor failure
- Governance changes
- Covid-19: Restrictions to Council operations
- Ability to access / leverage new funding
- Reduced effectiveness of relationships with strategic partners
- Resilience of the voluntary and community sector
- Covid-19: Community & business recovery

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

3.4 Specific financial risks facing the Council include the following:

- Financial impact from resurgence of Covid-19 virus
- Inflation rate is higher than the 2% government target
- Fees and Charges fail to deliver sufficient income
- Collection targets for Council Tax and Business Rates are missed
- Other income fails to achieve budget
- Adverse impact from changes in local government funding
- Capital programme cannot be funded
- Business Rates pool fails to generate sufficient growth
- Financial impact from IT security failure
- Planned savings are not delivered

- Constraints on council tax increases
- Failure to contain expenditure within agreed budgets
- Litigation costs exceed budgeted provisions
- Increased complexity of government regulation
- Shared services fail to meet budget
- Council holds insufficient balances

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

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

3.6 The uncommitted General Fund balance as at 31 March 2022 is projected to be £9.2 million. Other earmarked balances are expected to total £6.8 million. A balanced budget position is projected for the the coming year (2022/23). In this way, the uncommitted General Fund balance can be maintained at £9.2 million in 2022/23.

3.7 The Council has a good track record of managing within budget. In any case, the Council has sufficient revenue reserves to ensure that the level of uncommitted General Fund balances will remain well above the minimum of £4 million at all times. The level of reserves will remain under regular review and is reported to Members as part of the quarterly budget monitoring process.

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

4. Conclusion

4.1 I am of the opinion that the approach taken in developing the 2022/23 budget meets the requirements contained in the Local Government Act 2003 to ensure the robustness of the estimates and the adequacy of reserves.

Mark Green
Director of Finance and Business Improvement

Date: 23 February 2022

REVENUE ESTIMATE 2022/23 to 2026/27
STRATEGIC REVENUE PROJECTION - NEUTRAL SCENARIO
2% COUNCIL TAX INCREASE

2021/22 £000		2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
17,216	COUNCIL TAX	18,207	18,848	19,511	20,198	20,909
3,430	RETAINED BUSINESS RATES	3,593	3,599	3,671	3,744	3,819
	SERVICES GRANT	225				
	LOWER TIER SERVICES GRANT	149				
620	BUSINESS RATES GROWTH	1,692	1,200	1,400	1,600	1,800
-114	COLLECTION FUND ADJUSTMENT (COUNCIL TAX)	319	-164			
-13,243	COLLECTION FUND ADJUSTMENT (BUSINESS RATES)	-952	-585			
11,786	SECTION 31 GRANT					
19,695	**PROJECTED NET BUDGET**	**23,232**	**22,897**	**24,582**	**25,542**	**26,528**
21,924	OTHER INCOME	21,335	21,732	22,370	22,953	23,990
-3,186	FORECAST CHANGE IN INCOME	398	637	583	1,037	2,030
84	SALES FEES & CHARGES COMPENSATION					
38,517	**TOTAL RESOURCES AVAILABLE**	**44,964**	**45,267**	**47,535**	**49,533**	**52,548**
42,996	CURRENT SPEND	41,888	44,913	46,051	48,354	51,623
	INFLATION & CONTRACT INCREASES					
850	PAY, NI & INFLATION INCREASES	1,287	1,186	1,205	1,244	1,285
	EXTERNAL BUDGET PRESSURES					
40	PENSION DEFICIT FUNDING	40	150	150	150	150
	LOCAL PRIORITIES					
-10	ADDITIONAL GROWTH AGREED BY P&R					
	OTHER SERVICE PRESSURES					
	PROVISION FOR MAJOR CONTRACTS		1,000			
221	REVENUE COSTS OF CAPITAL PROGRAMME			1,177	1,825	2,327
-1,589	CONTINGENCY FOR FUTURE PRESSURES	500				
50	GENERAL GROWTH PROVISION	50	50	50	50	50
	CONTINGENCY-INFLATION	800	-800			
42,559	**TOTAL PREDICTED REQUIREMENT**	**44,564**	**46,499**	**48,633**	**51,623**	**55,435**
-4,042	**SURPLUS / (SAVINGS REQUIRED)**	**400**	**-1,232**	**-1,098**	**-2,091**	**-2,887**
2,142	**PROPOSED SAVINGS / (GROWTH)**	**-324**	**448**	**279**	**0**	**0**
-2,541	**SURPLUS / (DEFICIT)**	**76**	**-784**	**-819**	**-2,091**	**-2,887**

APPENDIX A

THE MAIDSTONE BOROUGH COUNCIL

STATEMENT OF COUNCIL TAX REQUIREMENT - 2022/23

			BAND D
	£	£	£
MAIDSTONE BOROUGH COUNCIL NET SPEND		23,232,060	352.56
ADD:			
Parish Precepts		2,441,373	37.05
Collection Fund Adjustment (Business Rates)	952,386	952,386	14.45
DEDUCT:			
Retained Business Rates	-3,593,189		
Services Grant	-224,724		
Lower Tier Services Grant	-149,223		
Business Rates Growth	-1,691,596		
Collection Fund Adjustment (Council Tax)	-318,588	-5,977,320	-90.71
TOTAL COUNCIL TAX REQUIREMENT		20,648,499	313.35
ADD PRECEPTS			
Kent County Council Precept		84,873,672	1287.99
Kent County Council Adult Social Care Charge		11,416,520	173.25
Kent Police & Crime Commissioner Precept		15,034,223	228.15
Kent & Medway Fire & Rescue Authority Precept		5,426,554	82.35
TOTAL COUNCIL TAX REQUIREMENT		137,399,468	2,085.09
MAIDSTONE BOROUGH COUNCIL (EXCLUDING PARISH PRECEPTS)			276.30
TOTAL COUNCIL TAX (EXCLUDING PARISH PRECEPTS)			2,048.04
TAX BASE			65,896.22

MAIDSTONE BOROUGH COUNCIL REVENUE ESTIMATES

REVISED ESTIMATE 2021/22 AND ESTIMATE 2022/23

COMMITTEE SUMMARY

Committee	Original Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 £
Policy & Resources	7,223,280	7,039,050	9,003,090
Strategic Planning & Infrastructure	-508,250	-373,320	-343,470
Communities, Housing & Environment	8,182,870	8,129,650	8,756,340
Economic Regeneration & Leisure	979,500	1,282,710	1,149,910
	15,877,400	**16,078,090**	**18,565,870**
Invest to Save Contributions	10,000	0	0
Transfers to Reserves	3,807,440	3,616,750	4,666,190
Net Revenue Expenditure	**19,694,840**	**19,694,840**	**23,232,060**

POLICY & RESOURCES COMMITTEE

Cost Centre/Service	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
Contingency	287,110	-241,160	1,355,110	0	1,355,110
Unapportionable Central Overheads	1,459,050	1,459,050	1,499,050		1,499,050
Non Service Related Government Grants	-3,995,240	-3,995,240		-4,216,190	-4,216,190
Appropriation Account	1,106,340	1,173,010	1,781,780		1,781,780
Pensions Fund Appropriation	0	0	0		0
Balances, Pensions & Appropriation	**-1,142,740**	**-1,604,340**	**4,635,940**	**-4,216,190**	**419,750**
Council Tax Collection	55,050	55,050	94,700	-38,190	56,510
Council Tax Collection - Non Pooled	-357,010	-357,010	66,920	-423,340	-356,420
Council Tax Benefits Administration	-152,120	-152,120		-152,120	-152,120
NNDR Collection	1,520	1,520	2,750	-1,220	1,530
NNDR Collection - Non Pooled	-233,920	-233,920	15,600	-249,230	-233,630
MBC- BID	670	670	17,930	-17,260	670
Registration Of Electors	49,860	50,000	53,410	-2,390	51,020
Elections	143,310	291,130	147,980	-440	147,540
External Interest Payable	2,262,550	2,262,550	2,262,550		2,262,550
Interest & Investment Income	-100,000	-100,000		-100,000	-100,000
Central Services to the Public	**1,669,910**	**1,817,870**	**2,661,840**	**-984,190**	**1,677,650**
Lockmeadow	0	165,240	315,950	-148,870	167,080
Lockmeadow Complex	0	-1,389,160	1,110,630	-2,490,630	-1,380,000
Palace Gatehouse	-7,300	-7,500	4,500	-12,000	-7,500
Archbishops Palace	-95,320	-75,150	44,170	-141,280	-97,110
Parkwood Industrial Estate	-277,540	-284,940	4,370	-291,410	-287,040
Industrial Starter Units	-12,510	-17,180	29,620	-46,120	-16,500
Parkwood Equilibrium Units	-65,200	-77,560	46,930	-123,600	-76,670
Sundry Corporate Properties	-552,080	-506,760	44,050	-280,640	-236,590
Phoenix Park Units	-193,590	-178,400	34,470	-250,470	-216,000
Granada House - Commercial	-94,640	-94,480	37,300	-130,530	-93,230
MPH Residential Properties	-837,060	-833,120	18,610	-848,750	-830,140
Heronden Road Units	-151,420	-149,140	15,320	-162,990	-147,670
Boxmend Industrial Estate	-87,010	-96,370	18,650	-113,790	-95,140
Lockmeadow	-72,300	0	0	0	0
NEW Lockmeadow Complex	-1,081,490	0	0	0	0
Wren Industrial Estate	-128,280	-117,920	61,660	-181,810	-120,150
Commercial Investments	**-3,655,740**	**-3,662,440**	**1,786,230**	**-5,222,890**	**-3,436,660**
Performance & Development	13,140	12,590	11,930		11,930
Corporate Projects	6,200	0	50,000		50,000
Press & Public Relations	24,670	21,240	21,570	0	21,570
Corporate Management	600,520	600,520	476,770		476,770
Corporate Management	**644,530**	**634,350**	**560,270**	**0**	**560,270**
Democratic Services Section	189,110	202,340	264,770	-1,790	262,980
Mayoral & Civic Services Section	115,780	115,100	117,730		117,730
Chief Executive	183,830	183,690	188,160		188,160
Communications Section	188,470	192,580	198,910	-390	198,520
Policy & Information Section	239,810	363,170	395,400	0	395,400
Head of Policy and Communications	113,730	129,050	116,420		116,420
Registration Services Section	114,640	92,400	95,830		95,830
Director of Finance & Business Improvement	145,170	144,430	148,110		148,110
Accountancy Section	725,970	730,140	842,240	-23,420	818,820
Director of Regeneration & Place	144,170	143,430	148,250	-1,150	147,100
Procurement Section	109,750	109,750	126,530	-13,360	113,170
Property & Projects Section	469,380	503,690	571,640	-5,700	565,940
Corporate Support Section	245,860	270,480	283,260		283,260
Improvement Section	350,180	360,300	400,850	-26,010	374,840
Executive Support Section	172,690	108,470	91,250		91,250
Head of Commissioning and Business Improve	107,190	138,440	109,840		109,840
Customer Services Section	686,610	646,700	680,350	0	680,350
Emergency Planning & Resilience	25,740	26,930	65,120	0	65,120
Salary Slippage	-248,930	-261,010	-284,570		-284,570
Corporate Support Services	**4,079,150**	**4,200,080**	**4,560,090**	**-71,820**	**4,488,270**
Civic Occasions	42,750	42,900	44,010		44,010
Members Allowances	396,290	396,560	408,000		408,000
Members Facilities	29,610	25,050	17,870	0	17,870
Democratic Representation	**468,650**	**464,510**	**469,880**	**0**	**469,880**
Emergency Centre	26,040	23,890	22,040		22,040
Emergency Planning	**26,040**	**23,890**	**22,040**	**0**	**22,040**
Housing Benefits Administration	-353,730	-353,730	28,790	-368,240	-339,450
Housing Benefit Administration	**-353,730**	**-353,730**	**28,790**	**-368,240**	**-339,450**
Medway Conservancy	126,080	126,080	127,990		127,990
Levies	**126,080**	**126,080**	**127,990**	**0**	**127,990**
Maidstone House Floors 1,2,3&4	0	0	324,820	-127,850	196,970
Town Hall	109,620	115,930	122,310	-1,500	120,810
South Maidstone Depot	152,350	188,040	170,630		170,630
The Link	98,560	105,530	384,360	-264,420	119,940
Maidstone House	1,082,570	1,052,020	371,770	-97,060	274,710
Museum Buildings	295,540	278,290	253,900	-1,110	252,790
Office Accommodation	**1,738,640**	**1,739,810**	**1,627,790**	**-491,940**	**1,135,850**
Rent Allowances	-124,720	-115,330	33,398,340	-33,513,670	-115,330
Non HRA Rent Rebates	-10,770	-8,760	867,370	-876,130	-8,760
Discretionary Housing Payments	1,450	1,450	226,200	-224,750	1,450
Rent Rebates	**-134,040**	**-122,640**	**34,491,910**	**-34,614,550**	**-122,640**
Revenues Section	509,820	515,170	917,180	-385,850	531,330
Benefits Section	490,090	485,620	794,670	-287,280	507,390

POLICY & RESOURCES COMMITTEE

Cost Centre/Service	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
Fraud Section	30,720	39,110	236,490	-204,570	31,920
Mid Kent Audit Partnership	232,510	227,220	676,250	-464,590	211,660
Legal Services Section	483,100	483,100	699,140	-71,280	627,860
Mid Kent ICT Services	550,860	550,690	1,608,040	-1,034,200	573,840
GIS Section	116,400	118,830	200,940	-78,720	122,220
Director of Mid Kent Services	45,850	45,450	145,090	-96,720	48,370
Mid Kent HR Services Section	389,780	404,940	656,720	-257,220	399,500
MBC HR Services Section	177,100	90,800	172,560	-2,130	170,430
Head of Revenues & Benefits	72,680	71,780	117,850	-41,140	76,710
Revenues & Benefits Business Support	87,670	98,750	351,750	-243,080	108,670
Dartford HR Services Section	-23,460	-13,240	54,750	-68,430	-13,680
IT Support for Revenues and Benefits	39,600	29,490	42,990	-17,310	25,680
I.T. Operational Services	582,680	650,460	624,630		624,630
Central Telephones	15,210	15,210	15,510		15,510
Shared Services	**3,800,610**	**3,813,380**	**7,314,560**	**-3,252,520**	**4,062,040**
Apprentices Programme	50,160	75,140	51,300		51,300
Internal Printing	-4,630	-4,630	53,340	-56,920	-3,580
Debt Recovery Service	-16,510	-35,160	882,850	-897,000	-14,150
Debt Recovery MBC Profit Share	-73,100	-73,120		-95,470	-95,470
Trading Accounts	**-44,080**	**-37,770**	**987,490**	**-1,049,390**	**-61,900**
Policy & Resources	**7,223,280**	**7,039,050**	**59,274,820**	**-50,271,730**	**9,003,090**

POLICY & RESOURCES COMMITTEE - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 £
Agency & Contractor	966,730	964,920	1,181,560
Allowances	392,000	392,000	403,760
Benefits	37,434,600	34,504,080	34,491,910
Employee Direct	9,351,840	9,362,170	9,709,410
Employee Other	1,549,540	1,736,620	2,008,220
Equipment & Furniture	906,650	990,220	943,830
Fees & Charges	-850,040	-812,610	-960,610
General Insurances	13,930	14,320	14,630
Grants & Contributions Paid	2,380,340	2,380,690	2,364,780
Grants & Contributions Receiv	-45,604,360	-44,167,180	-42,773,690
Income Other	-1,117,760	-1,831,530	-1,921,490
Information & Communicatior	4,470	45,160	21,290
Leasing & Capital Charges	1,110,640	1,175,210	1,783,800
Premises Other	1,745,600	1,791,720	1,882,100
Printing & Stationery	131,390	164,030	122,760
Professional Services	465,690	1,454,450	1,417,670
Rent	-4,365,320	-4,974,120	-4,615,940
Repairs & Maintenance	552,160	846,830	696,580
Security & Protection	40,140	40,140	40,940
Subsistence & Training	178,290	133,240	186,340
Supplies & Services Other	1,309,810	2,202,380	1,357,260
Utilities	468,340	469,840	502,540
Vehicle & Transport	158,600	156,470	145,440
Policy & Resources	**7,223,280**	**7,039,050**	**9,003,090**

STRATEGIC PLANNING & INFRASTRUCTURE COMMITTEE

Cost Centre/Service	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
Building Regulations Chargeable	-346,920	-346,920	7,380	-361,670	-354,290
Building Control	-990	-990		-990	-990
Street Naming & Numbering	-73,350	-73,350		-73,350	-73,350
Building Control	**-421,260**	**-421,260**	**7,380**	**-436,010**	**-428,630**
Land Charges	-264,950	-264,960	25,710	-290,400	-264,690
Central Services to the Public	**-264,950**	**-264,960**	**25,710**	**-290,400**	**-264,690**
Spatial Policy Planning Section	421,770	440,050	452,660		452,660
Head of Planning and Development	110,760	110,280	113,410		113,410
Development Management Enforcement Section	185,030	-2,300	-2,220		-2,220
Building Surveying Section	446,150	442,030	457,530		457,530
Heritage Landscape and Design Section	209,240	205,750	212,950		212,950
CIL Management Section	45,210	61,200	94,260	-30,000	64,260
Development Management Section – Majors	282,700	287,540	298,260		298,260
Development Management Section – Others	683,040	858,450	971,580		971,580
Parking Services Section	341,700	317,450	458,860	-134,710	324,150
Salary Slippage	-85,050	-91,680	-97,490		-97,490
Corporate Support Services	**2,640,550**	**2,628,770**	**2,959,800**	**-164,710**	**2,795,090**
Development Control Advice	-237,940	-252,940	35,300	-292,700	-257,400
Development Control Appeals	129,260	129,260	131,850		131,850
Development Control Majors	-511,020	-511,020	21,680	-532,320	-510,640
Development Control - Other	-640,500	-640,500	6,370	-646,790	-640,420
Development Control Enforcement	69,840	69,840	71,240		71,240
Development Control	**-1,190,360**	**-1,205,360**	**266,440**	**-1,471,810**	**-1,205,370**
Environment Improvements	6,440	6,960	6,960	0	6,960
Name Plates & Notices	19,060	19,060	19,440		19,440
Network & Traffic Management	**25,500**	**26,020**	**26,400**	**0**	**26,400**
On Street Parking	-322,450	-322,250	427,650	-738,050	-310,400
Residents Parking	-206,700	-204,530	58,560	-261,280	-202,720
Pay & Display Car Parks	-1,239,320	-1,187,740	621,080	-1,801,750	-1,180,670
Non Paying Car Parks	16,690	14,500	14,860	-10	14,850
Off Street Parking - Enforcement	-114,230	-117,850	164,680	-276,690	-112,010
Mote Park Pay & Display	-186,020	-185,840	47,980	-233,380	-185,400
Sandling Road Car Park	3,280	3,230	55,000	-55,000	0
Parking Services	**-2,048,750**	**-2,000,480**	**1,389,810**	**-3,366,160**	**-1,976,350**
Planning Policy	200,000	310,940	200,000	0	200,000
Neighbourhood Planning	0	0	0	-20,000	-20,000
Conservation	-11,210	-11,390	4,210	-15,600	-11,390
Planning Policy	**188,790**	**299,550**	**204,210**	**-35,600**	**168,610**
Former Park & Ride Sites	162,390	160,450	137,160		137,160
Other Transport Services	-4,530	-4,480	31,790	-36,110	-4,320
Public Transport	**157,860**	**155,970**	**168,950**	**-36,110**	**132,840**
Mid Kent Planning Support Service	313,850	314,690	528,970	-204,340	324,630
Mid Kent Local Land Charges Section	90,520	93,740	218,800	-134,800	84,000
Shared Services	**404,370**	**408,430**	**747,770**	**-339,140**	**408,630**
Strategic Planning & Infrastructure	**-508,250**	**-373,320**	**5,796,470**	**-6,139,940**	**-343,470**

STRATEGIC PLANNING & INFRASTRUCTURE COMMITTEE - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 £
Agency & Contractor	576,690	576,460	459,810
Employee Direct	3,226,100	3,218,890	3,339,570
Employee Other	97,580	125,260	142,260
Equipment & Furniture	91,640	100,390	93,210
Fees & Charges	-5,477,730	-5,482,170	-5,397,300
General Insurances	16,400	17,060	17,210
Grants & Contributions Paid	19,380	19,380	19,670
Grants & Contributions Received	-426,400	-569,401	-489,770
Income Other	-178,650	-245,390	-245,820
Information & Communications	190	190	190
Premises Other	341,410	345,970	352,650
Printing & Stationery	30,490	32,670	30,820
Professional Services	502,430	621,181	498,360
Rent	-7,170	-7,050	-7,050
Repairs & Maintenance	203,890	257,960	231,660
Security & Protection	76,850	102,900	79,200
Subsistence & Training	2,690	4,050	2,690
Supplies & Services Other	292,250	394,230	416,770
Utilities	16,870	27,780	29,350
Vehicle & Transport	86,840	86,320	83,050
Strategic Planning & Infrastructure	**-508,250**	**-373,320**	**-343,470**

COMMUNITIES, HOUSING & ENVIRONMENT COMMITTEE

Cost Centre/Service	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
Cemetery	64,930	62,750	207,430	-139,380	68,050
National Assistance Act	-400	-400	2,200	-2,610	-410
Crematorium	-838,930	-898,230	508,010	-1,357,780	-849,770
Bereavement Services	**-774,400**	**-835,880**	**717,640**	**-1,499,770**	**-782,130**
Grants	165,950	165,950	165,950		165,950
Delegated Grants	2,140	2,140	2,140		2,140
Parish Services	129,880	134,490	144,490		144,490
Central Services to the Public	**297,970**	**302,580**	**312,580**	**0**	**312,580**
Community Hub	0	0	0	0	0
Community Development	**0**	**0**	**0**	**0**	**0**
Community Safety	28,420	28,420	29,030	0	29,030
PCC Grant - Building Safer Communities	0	0	31,880	-31,880	0
C C T V	77,250	77,310	72,680		72,680
Community Safety	**105,670**	**105,730**	**133,590**	**-31,880**	**101,710**
Head of Environment and Public Realm	110,340	109,780	114,060		114,060
Bereavement Services Section	254,960	261,210	262,470		262,470
Community Partnerships & Resilience Section	390,910	395,570	464,020	0	464,020
Licensing Section	114,320	114,560	117,790		117,790
Environmental Protection Section	272,240	272,240	280,410		280,410
Food and Safety Section	266,720	266,720	274,720		274,720
Depot Services Section	801,360	875,730	930,080	-42,560	887,520
Biodiversity & Climate Change	61,780	62,000	98,480		98,480
Head of Housing & Community Services	111,200	110,620	113,750		113,750
Homechoice Section	216,280	216,780	274,900	-52,080	222,820
Housing & Inclusion Section	416,710	417,150	1,005,560	-730,460	275,100
Housing & Health Section	273,820	273,390	563,410	-282,010	281,400
Housing Management	273,370	284,280	413,120	-126,980	286,140
Homelessness Outreach	3,930	5,950	301,080	-297,320	3,760
Salary Slippage	-151,110	-193,750	-190,280		-190,280
Corporate Support Services	**3,416,830**	**3,472,230**	**5,023,570**	**-1,531,410**	**3,492,160**
Drainage	32,400	32,400	32,440		32,440
Climate change	0	26,000	0		0
Flood Defences & Land Drainage	**32,400**	**58,400**	**32,440**	**0**	**32,440**
Homeless Temporary Accommodation	397,520	327,520	457,850	-170,470	287,380
Homelessness Prevention	191,900	55,420	191,020	0	191,020
Predictive Analysis and Preventing Homelessne	0	0	0	0	0
Aylesbury House	14,940	28,060	116,090	-69,140	46,950
Magnolia House	7,730	-1,460	52,970	-49,910	3,060
St Martins House	60	4,060	12,300	-12,240	60
Marsham Street	60,650	60,650	166,960	-104,220	62,740
Sundry Temporary Accomm (TA) Properties	3,210	-13,960	72,090	-84,430	-12,340
2 Bed Property - Temporary Accommodation	-57,140	-16,850	105,060	-137,760	-32,700
3 Bed Property - Temporary Accommodation	-35,820	-71,450	76,530	-147,180	-70,650
4 bed Property - Temporary Accommodation	-670	9,520	51,130	-40,990	10,140
1 Bed Property- Temporary Accommodation	3,190	3,150	9,120	-5,920	3,200
Supported Accommodation	-27,600	0	0	0	0
The Trinity Foyer	0	20,680	20,850		20,850
Chillington House	0	-5,720	10,640	-16,250	-5,610
Homelessness	**557,970**	**399,620**	**1,342,610**	**-838,510**	**504,100**
Housing Register & Allocations	10,820	13,820	14,090		14,090
Housing Advice	**10,820**	**13,820**	**14,090**	**0**	**14,090**
General Fund Residential Properties	-101,350	-77,470	12,330	-89,450	-77,120
Strategic Housing Role	14,610	11,610	11,840	0	11,840
Housing Strategy	**-86,740**	**-65,860**	**24,170**	**-89,450**	**-65,280**
Parks & Open Spaces	995,740	965,070	1,113,150	-136,550	976,600
Playground Maintenance & Improvements	138,520	147,800	144,010		144,010
Parks Pavilions	36,740	44,850	45,630	-10	45,620
Mote Park	257,240	249,390	273,230	-16,570	256,660
Parks & Open Spaces Leisure Activities	17,180	-1,600		-1,600	-1,600
Mote Park Leisure Activities	-37,710	-18,930		-18,930	-18,930
Allotments	13,120	13,210	13,480		13,480
Open Spaces	**1,420,830**	**1,399,790**	**1,589,500**	**-173,660**	**1,415,840**
Marden Caravan Site (Stilebridge Lane)	19,330	19,390	49,800	-30,340	19,460
Ulcombe Caravan Site (Water Lane)	6,590	6,640	46,680	-40,000	6,680
Other Council Properties	**25,920**	**26,030**	**96,480**	**-70,340**	**26,140**
Private Sector Renewal	-47,160	-47,160	2,900	-50,000	-47,100
HMO Licensing	-20,380	-20,380		-20,380	-20,380
Private Sector Housing Renewal	**-67,540**	**-67,540**	**2,900**	**-70,380**	**-67,480**
Public Health - Obesity	0	0	0	0	0
Public Health - Misc Services	0	0	0	0	0
Public Health	**0**	**0**	**0**	**0**	**0**
Recycling Collection	713,310	745,260	2,385,310	-1,473,330	911,980
Recycling	**713,310**	**745,260**	**2,385,310**	**-1,473,330**	**911,980**
Licences	-5,300	-5,300	24,300	-28,890	-4,590
Licensing Statutory	-62,650	-62,650	81,030	-141,320	-60,290
Licensing Non Chargeable	7,870	7,870	8,110		8,110
Dog Control	30,480	28,200	32,600	-3,900	28,700

COMMUNITIES, HOUSING & ENVIRONMENT COMMITTEE

Cost Centre/Service	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
Health Improvement Programme	9,520	9,520	9,710		9,710
Pollution Control - General	12,230	32,600	23,460	-10,100	13,360
Contaminated Land	580	580	1,100	-500	600
Waste Crime	38,870	37,740	109,250	-67,560	41,690
Food Hygiene	9,310	9,310	12,630	-3,070	9,560
Sampling	3,580	3,580	3,650		3,650
Occupational Health & Safety	-6,450	-6,450		-6,450	-6,450
Infectious Disease Control	1,150	1,140	1,170		1,170
Noise Control	1,210	1,210	1,210		1,210
Pest Control	-11,840	-11,840	160	-12,000	-11,840
Public Conveniences	197,210	207,540	312,870		312,870
Licensing - Hackney & Private Hire	-61,200	-61,200	80,050	-139,120	-59,070
Regulatory Services	**164,570**	**191,850**	**701,300**	**-412,910**	**288,390**
Street Cleansing	1,142,830	1,141,850	1,211,610	-20,700	1,190,910
Street Cleansing	**1,142,830**	**1,141,850**	**1,211,610**	**-20,700**	**1,190,910**
Commercial Waste Services	-55,700	-55,540	201,340	-251,170	-49,830
Trade Waste	**-55,700**	**-55,540**	**201,340**	**-251,170**	**-49,830**
Fleet Workshop & Management	244,990	225,950	232,570		232,570
MBS Support Crew	-59,990	-58,610	115,390	-173,320	-57,930
Grounds Maintenance - Commercial	-152,030	-140,560	162,590	-293,010	-130,420
Trading Accounts	**32,970**	**26,780**	**510,550**	**-466,330**	**44,220**
Household Waste Collection	1,245,160	1,270,530	1,557,970	-171,470	1,386,500
Waste Collection	**1,245,160**	**1,270,530**	**1,557,970**	**-171,470**	**1,386,500**
Communities, Housing & Environment	**8,182,870**	**8,129,650**	**15,857,650**	**-7,101,310**	**8,756,340**

COMMUNITIES HOUSING & ENVIRONMENT COMMITTEE - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 £
Agency & Contractor	4,412,300	4,478,850	4,895,870
Employee Direct	5,811,780	6,281,200	6,472,290
Employee Other	-22,650	370,330	290,490
Equipment & Furniture	415,090	461,570	444,150
Fees & Charges	-3,054,050	-3,101,200	-3,094,200
General Insurances	14,420	14,940	15,150
Grants & Contributions Paid	334,470	333,920	344,190
Grants & Contributions Received	-741,300	-3,275,410	-1,528,910
Income Other	-1,406,960	-1,570,980	-1,527,830
Information & Communications	49,790	37,910	46,200
Leasing & Capital Charges	20,010	20,010	20,010
Premises Other	471,510	483,800	494,110
Printing & Stationery	16,900	16,900	17,220
Professional Services	942,020	936,490	782,780
Rent	-1,035,820	-950,370	-950,370
Repairs & Maintenance	762,600	817,170	801,150
Security & Protection	78,470	78,470	80,040
Subsistence & Training	200	35,240	100
Supplies & Services Other	569,890	2,085,030	576,150
Utilities	168,600	171,970	183,760
Vehicle & Transport	375,600	403,810	393,990
Communities, Housing & Environment	**8,182,870**	**8,129,650**	**8,756,340**

ECONOMIC REGENERATION & LEISURE COMMITTEE

Cost Centre/Service	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
Sandling Road Site	26,290	24,100	29,380		29,380
Innovation Centre	0	-14,050	275,900	-451,810	-175,910
Town Centre Management Sponsorship	0	11,450	0		0
Business Terrace	81,890	82,280	179,490	-95,050	84,440
Business Terrace Expansion (Phase 3)	-10,540	-10,480	187,580	-196,860	-9,280
Business Support	**97,640**	**93,300**	**672,350**	**-743,720**	**-71,370**
Leisure Services Section	55,620	55,970	101,600	-44,240	57,360
Cultural Services Section	370,910	413,180	479,050		479,050
Visitor Economy Section	116,960	118,100	120,210		120,210
Economic Development Section	177,210	222,030	195,910	-13,900	182,010
Market Section	86,600	86,440	89,920		89,920
Head of Regeneration and Economic Developr	97,010	92,720	100,450	-1,540	98,910
Innovation Centre Section	-2,950	200,710	257,230	-60,490	196,740
Salary Slippage	-30,210	-33,730	-26,710		-26,710
Corporate Support Services	**871,150**	**1,155,420**	**1,317,660**	**-120,170**	**1,197,490**
Cultural Development Arts	11,840	9,950	10,720		10,720
Museum	14,340	20,180	94,070	-73,670	20,400
Carriage Museum	4,190	3,610	5,570	-1,600	3,970
Museum-Grant Funded Activities	0	10	0	0	0
Hazlitt Arts Centre	292,470	291,760	298,530		298,530
Festivals and Events	-25,070	-25,070	5,050	-30,020	-24,970
Culture & Heritage	**297,770**	**300,440**	**413,940**	**-105,290**	**308,650**
Market	-55,530	-38,420	132,100	-155,890	-23,790
Economic Dev - Promotion & Marketing	1,480	36,620	5,340	-3,500	1,840
Economic Development	**-54,050**	**-1,800**	**137,440**	**-159,390**	**-21,950**
Mote Park Adventure Zone	-71,800	-71,530	6,450	-78,000	-71,550
Mote Park Cafe	-32,830	-36,020	7,780	-40,030	-32,250
Maintenance of Closed Churchyards	11,000	1,500	10,500		10,500
Open Spaces	**-93,630**	**-106,050**	**24,730**	**-118,030**	**-93,300**
Lettable Halls	-3,510	-3,470	7,450	-10,900	-3,450
Community Halls	76,020	59,330	66,340	-16,710	49,630
Leisure Centre	-176,130	-176,130	21,880	-200,000	-178,120
Cobtree Golf Course	-35,000	-35,000		-35,000	-35,000
Recreation & Sport	**-138,620**	**-155,270**	**95,670**	**-262,610**	**-166,940**
Tourism	17,940	17,940	34,050	-15,450	18,600
Museum Shop	-18,700	-21,270	11,630	-32,900	-21,270
Tourism	**-760**	**-3,330**	**45,680**	**-48,350**	**-2,670**
Economic Regeneration & Leisure	**979,500**	**1,282,710**	**2,707,470**	**-1,557,560**	**1,149,910**

ECONOMIC REGENERATION & LEISURE COMMITTEE - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 £
Agency & Contractor	278,350	276,190	295,460
Employee Direct	1,194,710	1,128,020	1,034,920
Employee Other	-179,250	42,850	108,610
Equipment & Furniture	31,870	27,130	35,100
Fees & Charges	-481,510	-461,310	-639,110
General Insurances	37,540	39,640	39,800
Grants & Contributions Paid	17,840	20,840	18,120
Grants & Contributions Received	-60,490	-340,570	-285,820
Income Other	-616,610	-560,550	-598,320
Information & Communications	40,050	44,210	65,960
Premises Other	340,780	377,380	406,220
Printing & Stationery	6,920	7,900	11,060
Professional Services	12,860	48,870	26,430
Rent	-34,310	-34,310	-34,310
Repairs & Maintenance	142,160	155,700	170,330
Security & Protection	0	3,660	3,750
Subsistence & Training	810	7,910	810
Supplies & Services Other	165,260	364,990	313,540
Utilities	62,800	113,990	159,290
Vehicle & Transport	19,720	20,170	18,070
Economic Regeneration & Leisure	**979,500**	**1,282,710**	**1,149,910**

MAIDSTONE BOROUGH COUNCIL REVENUE ESTIMATES

REVISED ESTIMATE 2021/22 AND ESTIMATE 2022/23

PRIORITY SUMMARY

Priority	**Original Estimate 2021/22 £**	**Revised Estimate 2021/22 £**	**Estimate 2022/23 £**
Safe, Clean and Green	6,270,940	6,364,610	6,975,710
Homes and Communities	1,085,450	973,080	963,230
Thriving Place	1,103,340	1,422,480	1,269,920
Embracing Growth and Enabling Infrastructure	-423,200	-281,640	-245,980
Central and Democratic	7,840,870	7,599,560	9,602,990
	15,877,400	**16,078,090**	**18,565,870**
Invest to Save Contributions	10,000	0	0
Transfers to Reserves	3,807,440	3,616,750	4,666,190
Net Revenue Expenditure	**19,694,840**	**19,694,840**	**23,232,060**

SAFE, CLEAN & GREEN

Cost Centre/Service	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
Mote Park Adventure Zone	-71,800	-71,530	6,450	-78,000	-71,550
Parks & Open Spaces	995,740	965,070	1,113,150	-136,550	976,600
Playground Maintenance & Improvements	138,520	147,800	144,010		144,010
Parks Pavilions	36,740	44,850	45,630	-10	45,620
Mote Park	257,240	249,390	273,230	-16,570	256,660
Mote Park Cafe	-32,830	-36,020	7,780	-40,030	-32,250
Parks & Open Spaces Leisure Activities	17,180	-1,600		-1,600	-1,600
Mote Park Leisure Activities	-37,710	-18,930		-18,930	-18,930
Allotments	13,120	13,210	13,480		13,480
Cemetery	64,930	62,750	207,430	-139,380	68,050
National Assistance Act	-400	-400	2,200	-2,610	-410
Crematorium	-838,930	-898,230	508,010	-1,357,780	-849,770
Maintenance of Closed Churchyards	11,000	1,500	10,500		10,500
Community Safety	28,420	28,420	29,030	0	29,030
PCC Grant - Building Safer Communities	0	0	31,880	-31,880	0
C C T V	77,250	77,310	72,680		72,680
Drainage	32,400	32,400	32,440		32,440
Licences	-5,300	-5,300	24,300	-28,890	-4,590
Licensing Statutory	-62,650	-62,650	81,030	-141,320	-60,290
Licensing Non Chargeable	7,870	7,870	8,110	0	8,110
Dog Control	30,480	28,200	32,600	-3,900	28,700
Health Improvement Programme	9,520	9,520	9,710		9,710
Pollution Control - General	12,230	32,600	23,460	-10,100	13,360
Contaminated Land	580	580	1,100	-500	600
Waste Crime	38,870	37,740	109,250	-67,560	41,690
Food Hygiene	9,310	9,310	12,630	-3,070	9,560
Sampling	3,580	3,580	3,650		3,650
Occupational Health & Safety	-6,450	-6,450		-6,450	-6,450
Infectious Disease Control	1,150	1,140	1,170		1,170
Noise Control	1,210	1,210	1,210		1,210
Pest Control	-11,840	-11,840	160	-12,000	-11,840
Public Conveniences	197,210	207,540	312,870		312,870
Licensing - Hackney & Private Hire	-61,200	-61,200	80,050	-139,120	-59,070
Street Cleansing	1,142,830	1,141,850	1,211,610	-20,700	1,190,910
Household Waste Collection	1,245,160	1,270,530	1,557,970	-171,470	1,386,500
Commercial Waste Services	-55,700	-55,540	201,340	-251,170	-49,830
Recycling Collection	713,310	745,260	2,385,310	-1,473,330	911,980
Climate change	0	26,000	0		0
Medway Conservancy	126,080	126,080	127,990		127,990
Head of Environment and Public Realm	110,340	109,780	114,060		114,060
Bereavement Services Section	254,960	261,210	262,470		262,470
Community Partnerships & Resilience Section	390,910	395,570	464,020	0	464,020
Licensing Section	114,320	114,560	117,790		117,790
Environmental Protection Section	272,240	272,240	280,410		280,410
Food and Safety Section	266,720	266,720	274,720		274,720
Depot Services Section	801,360	875,730	930,080	-42,560	887,520
Fleet Workshop & Management	244,990	225,950	232,570		232,570
MBS Support Crew	-59,990	-58,610	115,390	-173,320	-57,930
Grounds Maintenance - Commercial	-152,030	-140,560	162,590	-293,010	-130,420
Safe, Clean & Green	**6,270,940**	**6,364,610**	**11,637,520**	**-4,661,810**	**6,975,710**

SAFE, CLEAN & GREEN - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 £
Agency & Contractor	4,411,970	4,478,850	4,895,870
Employee Direct	3,944,980	4,012,950	4,093,600
Employee Other	50,660	113,390	172,540
Equipment & Furniture	377,470	408,400	389,930
Fees & Charges	-2,963,330	-3,010,480	-3,003,480
General Insurances	20,410	21,200	21,390
Grants & Contributions Paid	26,380	24,220	24,350
Grants & Contributions Received	-31,250	-144,490	-31,880
Income Other	-1,521,930	-1,615,830	-1,600,830
Information & Communications	33,000	28,520	29,080
Leasing & Capital Charges	20,010	20,010	20,010
Premises Other	253,600	249,710	256,800
Printing & Stationery	16,750	16,750	17,070
Professional Services	246,200	239,820	243,140
Rent	-23,340	-25,620	-25,620
Repairs & Maintenance	445,910	446,590	443,070
Security & Protection	22,370	22,370	22,820
Subsistence & Training	200	26,510	100
Supplies & Services Other	359,980	467,640	413,100
Utilities	244,040	239,040	249,460
Vehicle & Transport	336,860	345,060	345,190
Safe, Clean & Green	**6,270,940**	**6,364,610**	**6,975,710**

HOMES & COMMUNITIES

Cost Centre/Service	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
Grants	165,950	165,950	165,950		165,950
Delegated Grants	2,140	2,140	2,140		2,140
Parish Services	129,880	134,490	144,490		144,490
MPH Residential Properties	-837,060	-833,120	18,610	-848,750	-830,140
General Fund Residential Properties	-101,350	-77,470	12,330	-89,450	-77,120
Strategic Housing Role	14,610	11,610	11,840	0	11,840
Housing Register & Allocations	10,820	13,820	14,090		14,090
Private Sector Renewal	-47,160	-47,160	2,900	-50,000	-47,100
HMO Licensing	-20,380	-20,380		-20,380	-20,380
Homeless Temporary Accommodation	397,520	327,520	457,850	-170,470	287,380
Homelessness Prevention	191,900	55,420	191,020	0	191,020
Aylesbury House	14,940	28,060	116,090	-69,140	46,950
Magnolia House	7,730	-1,460	52,970	-49,910	3,060
St Martins House	60	4,060	12,300	-12,240	60
Marsham Street	60,650	60,650	166,960	-104,220	62,740
Sundry Temporary Accomm (TA) Properties	3,210	-13,960	72,090	-84,430	-12,340
2 Bed Property - Temporary Accommodation	-57,140	-16,850	105,060	-137,760	-32,700
3 Bed Property - Temporary Accommodation	-35,820	-71,450	76,530	-147,180	-70,650
4 bed Property - Temporary Accommodation	-670	9,520	51,130	-40,990	10,140
1 Bed Property- Temporary Accommodation	3,190	3,150	9,120	-5,920	3,200
Supported Accommodation	-27,600	0	0	0	0
The Trinity Foyer	0	20,680	20,850		20,850
Chillington House	0	-5,720	10,640	-16,250	-5,610
Marden Caravan Site (Stilebridge Lane)	19,330	19,390	49,800	-30,340	19,460
Ulcombe Caravan Site (Water Lane)	6,590	6,640	46,680	-40,000	6,680
Homechoice Section	216,280	216,780	274,900	-52,080	222,820
Housing & Inclusion Section	416,710	417,150	1,005,560	-730,460	275,100
Housing & Health Section	273,820	273,390	563,410	-282,010	281,400
Housing Management	273,370	284,280	413,120	-126,980	286,140
Homelessness Outreach	3,930	5,950	301,080	-297,320	3,760
Homes & Communities	**1,085,450**	**973,080**	**4,369,510**	**-3,406,280**	**963,230**

HOMES & COMMUNITIES - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 £
Agency & Contractor	330	0	0
Employee Direct	1,930,750	2,317,770	2,442,470
Employee Other	-154,660	233,020	36,710
Equipment & Furniture	37,520	53,070	54,120
Fees & Charges	-90,720	-90,720	-90,720
General Insurances	150	150	150
Grants & Contributions Paid	307,650	309,260	319,390
Grants & Contributions Received	-710,050	-3,130,920	-1,497,030
Income Other	-3,060	-73,180	-45,030
Information & Communications	16,790	9,390	17,120
Premises Other	225,770	250,400	256,870
Printing & Stationery	150	150	150
Professional Services	695,820	696,670	539,640
Rent	-1,855,920	-1,773,500	-1,773,500
Repairs & Maintenance	333,410	375,410	375,410
Security & Protection	56,100	56,100	57,220
Subsistence & Training	0	8,730	0
Supplies & Services Other	209,330	1,616,810	162,460
Utilities	50,640	59,010	62,290
Vehicle & Transport	35,450	55,460	45,510
Homes & Communities	**1,085,450**	**973,080**	**963,230**

THRIVING PLACE

Cost Centre/Service	Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
Cultural Development Arts	11,840	9,950	10,720		10,720
Museum	14,340	20,180	94,070	-73,670	20,400
Carriage Museum	4,190	3,610	5,570	-1,600	3,970
Hazlitt Arts Centre	292,470	291,760	298,530		298,530
Festivals and Events	-25,070	-25,070	5,050	-30,020	-24,970
Lettable Halls	-3,510	-3,470	7,450	-10,900	-3,450
Community Halls	76,020	59,330	66,340	-16,710	49,630
Leisure Centre	-176,130	-176,130	21,880	-200,000	-178,120
Cobtree Golf Course	-35,000	-35,000		-35,000	-35,000
Tourism	17,940	17,940	34,050	-15,450	18,600
Museum Shop	-18,700	-21,270	11,630	-32,900	-21,270
Sandling Road Site	26,290	24,100	29,380		29,380
Innovation Centre	0	-14,050	275,900	-451,810	-175,910
Town Centre Management Sponsorship	0	11,450	0		0
Business Terrace	81,890	82,280	179,490	-95,050	84,440
Business Terrace Expansion (Phase 3)	-10,540	-10,480	187,580	-196,860	-9,280
Market	-55,530	-38,420	132,100	-155,890	-23,790
Economic Dev - Promotion & Marketing	1,480	36,620	5,340	-3,500	1,840
Leisure Services Section	55,620	55,970	101,600	-44,240	57,360
Cultural Services Section	370,910	413,180	479,050		479,050
Visitor Economy Section	116,960	118,100	120,210		120,210
Economic Development Section	177,210	222,030	195,910	-13,900	182,010
Market Section	86,600	86,440	89,920		89,920
Head of Regeneration and Economic Development	97,010	92,720	100,450	-1,540	98,910
Innovation Centre Section	-2,950	200,710	257,230	-60,490	196,740
Thriving Place	**1,103,340**	**1,422,480**	**2,709,450**	**-1,439,530**	**1,269,920**

THRIVING PLACE - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 £
Agency & Contractor	278,350	276,190	295,460
Employee Direct	1,234,840	1,168,150	1,066,530
Employee Other	-189,170	36,450	103,710
Equipment & Furniture	31,870	27,130	35,100
Fees & Charges	-481,510	-461,310	-639,110
General Insurances	31,340	33,170	33,350
Grants & Contributions Paid	17,840	20,840	18,120
Grants & Contributions Received	-60,490	-340,570	-285,820
Income Other	-498,580	-442,520	-480,290
Information & Communications	40,050	44,210	65,960
Premises Other	339,300	375,890	404,460
Printing & Stationery	6,920	7,900	11,060
Professional Services	12,860	48,870	26,430
Rent	-34,310	-34,310	-34,310
Repairs & Maintenance	125,440	151,680	153,810
Security & Protection	0	3,660	3,750
Subsistence & Training	810	7,910	810
Supplies & Services Other	165,260	364,990	313,540
Utilities	62,800	113,990	159,290
Vehicle & Transport	19,720	20,170	18,070
Thriving Place	**1,103,340**	**1,422,490**	**1,269,920**

EMBRACING GROWTH & ENABLING INFRASTRUCTURE

Cost Centre/Service	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
Building Regulations Chargeable	-346,920	-346,920	7,380	-361,670	-354,290
Building Control	-990	-990		-990	-990
Street Naming & Numbering	-73,350	-73,350		-73,350	-73,350
Development Control Advice	-237,940	-252,940	35,300	-292,700	-257,400
Development Control Appeals	129,260	129,260	131,850		131,850
Development Control Majors	-511,020	-511,020	21,680	-532,320	-510,640
Development Control - Other	-640,500	-640,500	6,370	-646,790	-640,420
Development Control Enforcement	69,840	69,840	71,240		71,240
Planning Policy	200,000	310,940	200,000	0	200,000
Neighbourhood Planning	0	0	0	-20,000	-20,000
Conservation	-11,210	-11,390	4,210	-15,600	-11,390
Land Charges	-264,950	-264,960	25,710	-290,400	-264,690
Environment Improvements	6,440	6,960	6,960	0	6,960
Name Plates & Notices	19,060	19,060	19,440		19,440
On Street Parking	-322,450	-322,250	427,650	-738,050	-310,400
Residents Parking	-206,700	-204,530	58,560	-261,280	-202,720
Pay & Display Car Parks	-1,239,320	-1,187,740	621,080	-1,801,750	-1,180,670
Non Paying Car Parks	16,690	14,500	14,860	-10	14,850
Off Street Parking - Enforcement	-114,230	-117,850	164,680	-276,690	-112,010
Mote Park Pay & Display	-186,020	-185,840	47,980	-233,380	-185,400
Sandling Road Car Park	3,280	3,230	55,000	-55,000	0
Former Park & Ride Sites	162,390	160,450	137,160		137,160
Other Transport Services	-4,530	-4,480	31,790	-36,110	-4,320
Spatial Policy Planning Section	421,770	440,050	452,660		452,660
Head of Planning and Development	110,760	110,280	113,410		113,410
Development Management Enforcement Section	185,030	-2,300	-2,220		-2,220
Building Surveying Section	446,150	442,030	457,530		457,530
Mid Kent Planning Support Service	313,850	314,690	528,970	-204,340	324,630
Heritage Landscape and Design Section	209,240	205,750	212,950		212,950
CIL Management Section	45,210	61,200	94,260	-30,000	64,260
Mid Kent Local Land Charges Section	90,520	93,740	218,800	-134,800	84,000
Development Management Section – Majors	282,700	287,540	298,260		298,260
Development Management Section – Others	683,040	858,450	971,580		971,580
Parking Services Section	341,700	317,450	458,860	-134,710	324,150
Embracing Growth & Enabling Infrastructure	**-423,200**	**-281,640**	**5,893,960**	**-6,139,940**	**-245,980**

GROWTH & INFRASTRUCTURE - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 £
Agency & Contractor	576,690	576,460	459,810
Allowances			
Benefits			
Employee Direct	3,339,050	3,331,840	3,454,940
Employee Other	69,680	103,990	124,380
Equipment & Furniture	91,640	100,390	93,210
Fees & Charges	-5,477,730	-5,482,170	-5,397,300
General Insurances	16,400	17,060	17,210
Grants & Contributions Paid	19,380	19,380	19,670
Grants & Contributions Received	-426,400	-569,401	-489,770
Income Other	-178,650	-245,390	-245,820
Information & Communications	190	190	190
Leasing & Capital Charges			
Premises Other	341,410	345,970	352,650
Printing & Stationery	30,490	32,670	30,820
Professional Services	502,430	621,181	498,360
Rent	-7,170	-7,050	-7,050
Repairs & Maintenance	203,890	257,960	231,660
Security & Protection	76,850	102,900	79,200
Subsistence & Training	2,690	4,050	2,690
Supplies & Services Other	292,250	394,230	416,770
Utilities	16,870	27,780	29,350
Vehicle & Transport	86,840	86,320	83,050
Growth & Infrastructure	**-423,200**	**-281,640**	**-245,980**

CENTRAL & DEMOCRATIC

Cost Centre/Service	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
Lockmeadow	0	165,240	315,950	-148,870	167,080
Lockmeadow Complex	0	-1,389,160	1,110,630	-2,490,630	-1,380,000
Maidstone House Floors 1,2,3&4	0	0	324,820	-127,850	196,970
Civic Occasions	42,750	42,900	44,010		44,010
Members Allowances	396,290	396,560	408,000		408,000
Members Facilities	29,610	25,050	17,870	0	17,870
Contingency	287,110	-241,160	1,355,110	0	1,355,110
Performance & Development	13,140	12,590	11,930		11,930
Corporate Projects	6,200	0	50,000		50,000
Press & Public Relations	24,670	21,240	21,570	0	21,570
Corporate Management	600,520	600,520	476,770		476,770
Unapportionable Central Overheads	1,459,050	1,459,050	1,499,050		1,499,050
Council Tax Collection	55,050	55,050	94,700	-38,190	56,510
Council Tax Collection - Non Pooled	-357,010	-357,010	66,920	-423,340	-356,420
Council Tax Benefits Administration	-152,120	-152,120		-152,120	-152,120
NNDR Collection	1,520	1,520	2,750	-1,220	1,530
NNDR Collection - Non Pooled	-233,920	-233,920	15,600	-249,230	-233,630
MBC- BID	670	670	17,930	-17,260	670
Registration Of Electors	49,860	50,000	53,410	-2,390	51,020
Elections	143,310	291,130	147,980	-440	147,540
Emergency Centre	26,040	23,890	22,040		22,040
External Interest Payable	2,262,550	2,262,550	2,262,550		2,262,550
Interest & Investment Income	-100,000	-100,000		-100,000	-100,000
Palace Gatehouse	-7,300	-7,500	4,500	-12,000	-7,500
Archbishops Palace	-95,320	-75,150	44,170	-141,280	-97,110
Parkwood Industrial Estate	-277,540	-284,940	4,370	-291,410	-287,040
Industrial Starter Units	-12,510	-17,180	29,620	-46,120	-16,500
Parkwood Equilibrium Units	-65,200	-77,560	46,930	-123,600	-76,670
Sundry Corporate Properties	-552,080	-506,760	44,050	-280,640	-236,590
Phoenix Park Units	-193,590	-178,400	34,470	-250,470	-216,000
Granada House - Commercial	-94,640	-94,480	37,300	-130,530	-93,230
Heronden Road Units	-151,420	-149,140	15,320	-162,990	-147,670
Boxmend Industrial Estate	-87,010	-96,370	18,650	-113,790	-95,140
Lockmeadow	-72,300	0	0	0	0
NEW Lockmeadow Complex	-1,081,490	0	0	0	0
Wren Industrial Estate	-128,280	-117,920	61,660	-181,810	-120,150
Non Service Related Government Grants	-3,995,240	-3,995,240		-4,216,190	-4,216,190
Rent Allowances	-124,720	-115,330	33,398,340	-33,513,670	-115,330
Non HRA Rent Rebates	-10,770	-8,760	867,370	-876,130	-8,760
Discretionary Housing Payments	1,450	1,450	226,200	-224,750	1,450
Housing Benefits Administration	-353,730	-353,730	28,790	-368,240	-339,450
Democratic Services Section	189,110	202,340	264,770	-1,790	262,980
Mayoral & Civic Services Section	115,780	115,100	117,730		117,730
Chief Executive	183,830	183,690	188,160		188,160
Communications Section	188,470	192,580	198,910	-390	198,520
Policy & Information Section	239,810	363,170	395,400	0	395,400
Head of Policy and Communications	113,730	129,050	116,420		116,420
Biodiversity & Climate Change	61,780	62,000	98,480		98,480
Revenues Section	509,820	515,170	917,180	-385,850	531,330
Registration Services Section	114,640	92,400	95,830		95,830
Head of Housing & Community Services	111,200	110,620	113,750		113,750
Benefits Section	490,090	485,620	794,670	-287,280	507,390
Fraud Section	30,720	39,110	236,490	-204,570	31,920
Mid Kent Audit Partnership	232,510	227,220	676,250	-464,590	211,660
Director of Finance & Business Improvement	145,170	144,430	148,110		148,110
Accountancy Section	725,970	730,140	842,240	-23,420	818,820
Legal Services Section	483,100	483,100	699,140	-71,280	627,860
Director of Regeneration & Place	144,170	143,430	148,250	-1,150	147,100
Procurement Section	109,750	109,750	126,530	-13,360	113,170
Property & Projects Section	469,380	503,690	571,640	-5,700	565,940
Corporate Support Section	245,860	270,480	283,260		283,260
Improvement Section	350,180	360,300	400,850	-26,010	374,840
Executive Support Section	172,690	108,470	91,250		91,250
Head of Commissioning and Business Improvemen	107,190	138,440	109,840		109,840
Mid Kent ICT Services	550,860	550,690	1,608,040	-1,034,200	573,840
GIS Section	116,400	118,830	200,940	-78,720	122,220
Customer Services Section	686,610	646,700	680,350	0	680,350
Director of Mid Kent Services	45,850	45,450	145,090	-96,720	48,370
Mid Kent HR Services Section	389,780	404,940	656,720	-257,220	399,500
MBC HR Services Section	177,100	90,800	172,560	-2,130	170,430
Head of Revenues & Benefits	72,680	71,780	117,850	-41,140	76,710
Revenues & Benefits Business Support	87,670	98,750	351,750	-243,080	108,670
Dartford HR Services Section	-23,460	-13,240	54,750	-68,430	-13,680
IT Support for Revenues and Benefits	39,600	29,490	42,990	-17,310	25,680
Emergency Planning & Resilience	25,740	26,930	65,120	0	65,120
Salary Slippage 1PR	-248,930	-261,010	-284,570		-284,570
Salary Slippage 2SPI	-85,050	-91,680	-97,490		-97,490
Salary Slippage 3CHE	-151,110	-193,750	-190,280		-190,280
Salary Slippage 4ERL	-30,210	-33,730	-26,710		-26,710
Town Hall	109,620	115,930	122,310	-1,500	120,810
South Maidstone Depot	152,350	188,040	170,630		170,630

CENTRAL & DEMOCRATIC

Cost Centre/Service	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 (Expenditure) £	Estimate 2022/23 (Income) £	Estimate 2022/23 £
The Link	98,560	105,530	384,360	-264,420	119,940
Maidstone House	1,082,570	1,052,020	371,770	-97,060	274,710
Museum Buildings	295,540	278,290	253,900	-1,110	252,790
I.T. Operational Services	582,680	650,460	624,630		624,630
Central Telephones	15,210	15,210	15,510		15,510
Apprentices Programme	50,160	75,140	51,300		51,300
Internal Printing	-4,630	-4,630	53,340	-56,920	-3,580
Debt Recovery Service	-16,510	-35,160	882,850	-897,000	-14,150
Debt Recovery MBC Profit Share	-73,100	-73,120		-95,470	-95,470
Appropriation Account	1,106,340	1,173,010	1,781,780		1,781,780
Pensions Fund Appropriation	0	0	0		0
Central & Democratic	**7,840,870**	**7,599,550**	**59,025,970**	**-49,422,980**	**9,602,990**

CENTRAL & DEMOCRATIC - SUBJECTIVE ANALYSIS

Subjective Analysis	Original Approved Estimate 2021/22 £	Revised Estimate 2021/22 £	Estimate 2022/23 £
Agency & Contractor	966,730	964,920	1,181,560
Allowances	392,000	392,000	403,760
Benefits	37,434,600	34,504,080	34,491,910
Employee Direct	9,134,810	9,159,570	9,498,650
Employee Other	1,668,710	1,788,210	2,112,240
Equipment & Furniture	906,750	990,320	943,930
Fees & Charges	-850,040	-812,610	-960,610
General Insurances	13,990	14,380	14,690
Grants & Contributions Paid	2,380,780	2,381,130	2,365,230
Grants & Contributions Received	-45,604,360	-44,167,180	-42,773,690
Income Other	-1,117,760	-1,831,530	-1,921,490
Information & Communications	4,470	45,160	21,290
Leasing & Capital Charges	1,110,640	1,175,210	1,783,800
Premises Other	1,739,220	1,776,900	1,864,300
Printing & Stationery	131,390	164,030	122,760
Professional Services	465,690	1,454,450	1,417,670
Rent	-3,521,880	-4,125,370	-3,767,190
Repairs & Maintenance	552,160	846,020	695,770
Security & Protection	40,140	40,140	40,940
Subsistence & Training	178,290	133,240	186,340
Supplies & Services Other	1,310,390	2,202,960	1,357,850
Utilities	342,260	343,760	374,550
Vehicle & Transport	161,890	159,760	148,730
Central & Democratic Core	**7,840,870**	**7,599,550**	**9,602,990**

Maidstone Borough Council
Medium Term Financial Strategy 2022/23

Estimate of General Fund Balances and Earmarked Reserves to 31 March 2023

	Unallocated General Fund	Earmarked Reserves	Grand Total
	£,000	£,000	£,000
Balance as at 31st March 2021	9,196	24,057	33,253
Movement in balances during 2021/22		-17,226	-17,226
Estimated Balance as at 31 March 2022	**9,196**	**6,831**	**16,027**
Expected movement during 2022/23		-775	-775
Estimated Balance as at 31 March 2023	**9,196**	**6,056**	**15,252**

Estimate of Earmarked Reserves to 31 March 2023

	31/03/2021	Transfers in 2021/22	Transfers out 2021/22	Est. Balance at 31/3/22	Transfers in 2022/23	Transfers out 2022/23	Est. Balance at 31/3/23
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Local Plan Review	0	140	-140	0	1,000	-1,000	0
Neighbourhood Planning	96	0	0	96	0	-20	76
Planning Appeals	286	0	0	286	0	0	286
Civil Parking Enforcement	169	0	0	169	0	-50	119
Homelessness Prevention & TA Reserve	773	125		898	0		898
Business Rates Earmarked Balances	3,789	698	-3,154	1,333	1,014	-89	2,258
Trading Accounts	30	0	-30	0	0		0
Future Capital Expenditure	1,131	3,856	-4,987	0	3,216	-3,216	0
Contingency for future funding pressures	969	0	0	969	500	0	1,469
Covid-19 Response & Recovery	0	860	-160	700	0	-700	0
Funding for Future Collection Fund Deficits	14,737	0	-13,357	1,380	0	-1,380	0
Commercial Risk	500	0	0	500	0	0	500
Invest to save	500	0	0	500	0	-50	450
Resources carried forward from 2020/21	1,077	0	-1,077	0	0	0	0
Total	**24,057**	**5,679**	**-22,905**	**6,831**	**5,730**	**-6,505**	**6,056**

ESTIMATED CAPITAL PROGRAMME RESOURCES 2022/23 - 2026/27

Source of Funding	Estimate 2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
External Sources	1,950	1,250	1,250	1,250	1,250	6,950
Own resources (including Internal borrowing)	5,026	3,514	4,568	5,699	6,582	25,389
External Borrowing	20,554	26,335	45,586	46,626	62,106	201,207
Total	**27,530**	**31,099**	**51,404**	**53,575**	**69,938**	**233,546**

PROPOSED CAPITAL PROGRAMME 2022/23 - 2026/27

		Five Year Plan					
	Projected Budget 2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total 21/22 to 25/26
	£000	£000	£000	£000	£000	£000	£000
Housing - Disabled Facilities Grants Funding	1,017	1,500	800	800	800	800	4,700
Temporary Accommodation	3,008	1,560					1,560
Brunswick Street	233						
Union Street	217						
Springfield Mill - Phase 1							
Springfield Mill - Phase 2	2,045	200					200
Private Rented Sector Housing Programme	1,125	2,316	4,632	11,579	11,579	16,211	46,317
Affordable Housing Programme - Trinity Place		500					500
1,000 Homes Affordable Housing Programme	750	5,679	11,358	28,396	28,396	39,754	113,582
Market Sale Housing Programme - Costs of Scheme		515	5,682	5,682	5,167	5,167	22,213
Market Sale Housing Programme - Receipts				-1,853	-12,400	-12,400	-26,653
Acquisitions Officer - Social Housing Delivery P/ship	160	160	160	160	160	160	800
Granada House Refurbishment Works	20	980	1,000				1,980
Street Scene Investment	50	50	50	50	50	50	250
Flood Action Plan	244	200	200	200	150		750
Electric Operational Vehicles	84						
Vehicle Telematics & Camera Systems	35						
Rent & Housing Management IT System	19						
Installation of Public Water Fountains	15						
Crematorium & Cemetery Development Plan	378						
Continued Improvements to Play Areas	200						
Parks Improvements	149	50	50	50	50	50	250
Gypsy & Traveller Sites Refurbishment	50	1,900					1,900
Waste Crime Team - Additional Resources		25					25
Section 106 funded works - Open Spaces	400	400	400	400	400	400	2,000
Sub-total Communities, Housing & Environment	**10,198**	**16,035**	**24,332**	**45,464**	**34,352**	**50,192**	**170,374**
Mote Park Visitor Centre & Estate Services	1,233	1,543					1,543
Mote Park Lake - Dam Works	672						
Mall Bus Station Redevelopment	1,006						
Museum Development Plan		389					389
Leisure Provision		100	100	500	14,300	15,000	30,000
Cobtree Golf Course New Clubhouse		4	111	333			449
Tennis Courts Upgrade		20					20
Riverside Walk Works		250	250				500
Sub-total Economic Regeneration & Leisure	**2,910**	**2,306**	**461**	**833**	**14,300**	**15,000**	**32,901**
Corporate Property Acquisitions	11,809	2,500	2,500	2,500	2,500	2,500	12,500
Kent Medical Campus - Innovation Centre	3,000	250					250
Lockmeadow Ongoing Investment	932	500	1,300				1,800
Garden Community	1,613	200	200	200	200	200	1,000
Infrastructure Delivery		1,000	1,000	1,000	1,000	1,000	5,000
Asset Management / Corporate Property	1,653	175	175	175	175	175	875
Other Property Works		980					980
Biodiversity & Climate Change	100	1,400		500	500	500	2,900
Feasibility Studies	162	50	50	50	50	50	250
Digital Projects	25	25	25	25	25	25	125
Software / PC Replacement	342	200	200	200	200	200	1,000
Maidstone House Works		1,000					1,000
Automation Projects		200					200
New Ways of Working - Make the Office Fit		40					40
Archbishop's Palace		400	400				800
Fleet Vehicle Replacement Programme	748	149	456	457	270	96	1,428
Sub-total Policy & Resources	**20,384**	**9,069**	**6,306**	**5,107**	**4,920**	**4,746**	**30,148**
Bridges Gyratory Scheme	86	120					120
Sub-total Strategic Planning & Infrastructure	**86**	**120**					**120**
TOTAL	**33,579**	**27,530**	**31,099**	**51,404**	**53,572**	**69,938**	**233,543**

APPENDIX A

MAIDSTONE BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2022/23 – 2026/27

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's Strategic Plan, agreed in December 2018, covers the period 2019 to 2045. The Strategic Plan incorporates 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 challenging because of uncertainty about the pace of recovery from Covid-19 and the risk of continuing high levels of inflation. 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. The three year Spending Review announced by the Chancellor in October 2021 set out a more favourable outcome for local government than expected but the Local Government Finance Settlement, announced in December 2021, only covers 2022/23. A consideration of the funding likely to be available in the future is set out in **Section 5**.

1.4 In view of these different elements of uncertainty, it is imperative that the MTFS both ensures Maidstone Council's continuing financial resilience and is sufficiently flexible to accommodate a range of potential scenarios. The Council has prepared financial projections under different scenarios, continuing 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 have been modelled, described as adverse, neutral and favourable. The table below shows projections under the neutral scenario, before taking account of budget changes, which were considered by members at Service Committee meetings in January 2022, and other updates.

Table 1: MTFS Revenue Projections 2022/23 – 2026/27

	22/23	23/24	24/25	25/26	26/27
	£m	£m	£m	£m	£m
Council Tax	18.2	18.8	19.5	20.2	20.9
Retained Business Rates	3.5	3.6	3.6	3.7	3.8
Business Rates Growth	1.2	-	0.2	0.4	0.5
Collection Fund adjustment	-0.2	-0.7	-	-	-

Budget requirement	22.7	21.7	23.3	24.3	25.2
Fees and Charges	21.9	23.3	24.5	24.9	25.4
Total Funding Available	44.6	45.0	47.8	49.2	50.6
Predicted Expenditure	43.8	47.0	48.6	49.7	50.7
Budget Surplus / Gap	0.8	-2.0	-0.8	-0.5	-0.1

In accordance with legislative requirements the Council must set a balanced budget. The MTFS sets out a proposed approach that enables the Council to do this for 2022/23.

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, using prudential borrowing, and further funding may be available by taking advantage of opportunities to bid for external funding, eg the Levelling-Up Fund.

1.7 The MTFS concludes by describing the process of agreeing a budget for 2022/23, including consultation with all relevant stakeholders, in **Section 9.**

2. CORPORATE OBJECTIVES AND KEY PRIORITIES

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

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

<u>'Embracing growth and enabling infrastructure'</u> recognises the Council's role in leading and shaping the borough as its economy and population grows. This means taking an active role in policy and master planning for key sites in the borough, and where appropriate, investing directly and delivering projects ourselves.

<u>'Homes and communities'</u> expresses the objective of making Maidstone a place where people love to live and can afford to live. This means providing a range of different types of housing, including affordable housing, and meeting our statutory obligations to address homelessness and rough sleeping. It also recognises that, as reflected in our Covid 19 recovery and renewal objectives and plans, we will work with our partners to improve the quality of community services and facilities and to encourage and support residents to volunteer and play a full part in their communities, the need for which has been accentuated by the impacts of the pandemic.

<u>'A thriving place'</u> is a borough that is open for business, attractive for visitors and an enjoyable and prosperous place to live for our residents. We will work to regenerate the County town and rural service centres and will continue to grow our leisure and cultural offer. Our recovery and renewal strategy responds to the challenges in achieving this priority by identifying investment opportunities, for example bringing forward employment sites and a Town Centre Strategy for renewal and rejuvenation .

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

2.2 Since the adoption of the Strategic Plan in December 2018, the objective of 'Embracing growth and enabling infrastructure' has started to be realised, for example through our work on the Innovation Centre and a new Garden Community. The Maidstone Local Plan is due to be updated and a new Town Centre Strategy will be developed, setting out a clear framework for delivery of regeneration and growth.

2.3 Amongst initiatives to help make Maidstone a 'Thriving Place' are MBC investment at Lockmeadow and on the Parkwood Industrial Estate. Preparations for the future include options appraisal for our leisure provision. We will continue to leverage the Council's borrowing power, if appropriate in conjunction with partners, to realise our ambitions for the borough.

2.4 Our 'Homes and Communities' aspirations are being achieved by investment in temporary accommodation and the Trinity Centre and the Leader's commitment to build 1,000 new affordable homes.

2.5 The objective of a 'Safe, Clean and Green' place has been emphasised by the Council's commitment to a carbon reduction target and the capital investment to help enable this to be delivered and timely preparation for new waste management arrangements.

2.6 Within the framework of the existing Strategic Plan, the Council is therefore prioritising:

- development of the Local Plan and related strategies and policies, in particular the Town Centre Strategy
- continued investment to make Maidstone a thriving place
- investment in 1,000 new affordable homes
- measures to enable the Council's carbon reduction target to be met
- recovery from the Covid 19 pandemic.

The governance framework within which these priorities will be delivered is due to change, with the reintroduction of a Cabinet system in 2022, which will itself have financial implications in terms of potential additional support costs.

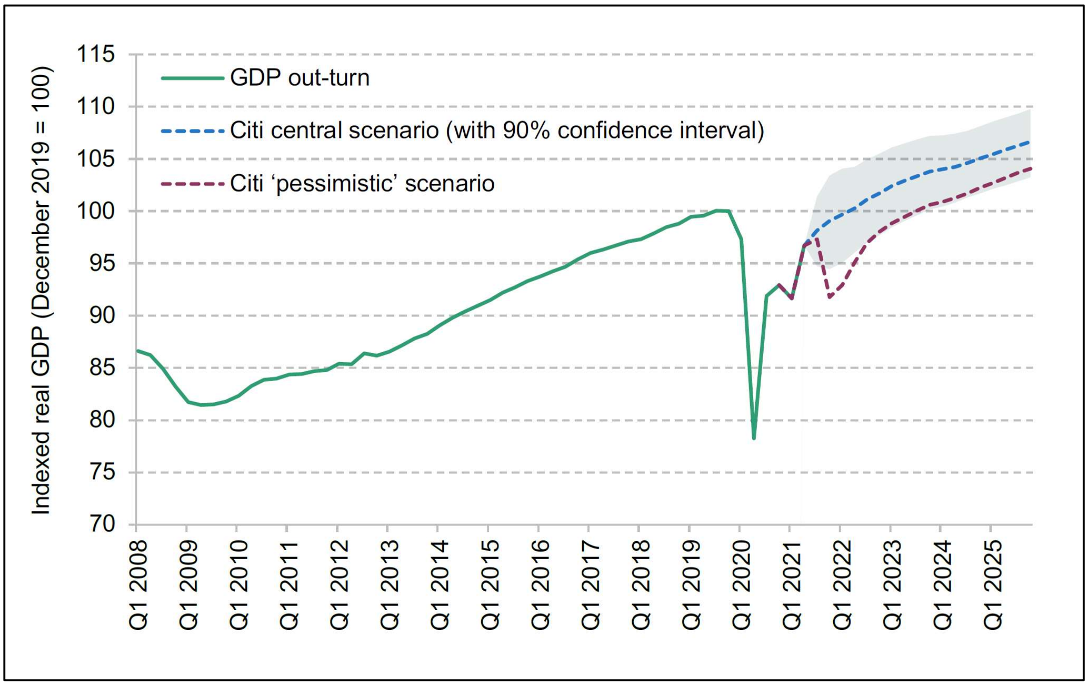
2.7 The overall funding envelope within which these priorities must be delivered remains broadly unchanged for 2022/23, meaning that savings will be required in some areas in order to fund growth in others, as well as to meet the savings already identified and agreed in earlier MTFS and budget setting decisions. Looking further ahead, considerable uncertainty remains about the financial position for future years, meaning that the financial strategy must remain flexible. The financial implications are set out in section 7 below.

3. ECONOMIC ENVIRONMENT

Macro outlook

3.1 The UK economy initially recovered strongly from the Covid recession. However, a combination of supply shortages, withdrawal of furlough and government support for businesses, and a growing reluctance to spend on the part of consumers, are all weighing down the recovery. It remains to be seen how much long-term damage Covid will do to the economy, but at present the economy remains significantly smaller than it would have been in the absence of the pandemic. This slower growth has been exacerbated by Brexit, which the ONS estimates to have led to a permanent 1% reduction in the size of the economy.

Figure 1: Real GDP in central and pessimistic scenarios, 2008-2025



Source: IFS Green Budget 2021

3.2 The recovery has been uneven, with some sectors (eg transport and storage) recovering much more quickly than others (eg retail and hospitality), which points towards a permanent adjustment in the structure of the economy.

3.3 Inflation is now running at 3.1% (September 2021). This is driven by a number of factors, some of which may only be transitory. For example, the cost of energy can be expected to stabilise, as can price increases caused by supply bottlenecks. However, inflation arising from wage increase expectations and the depreciation of the pound may be more difficult to eradicate.

Public Finances

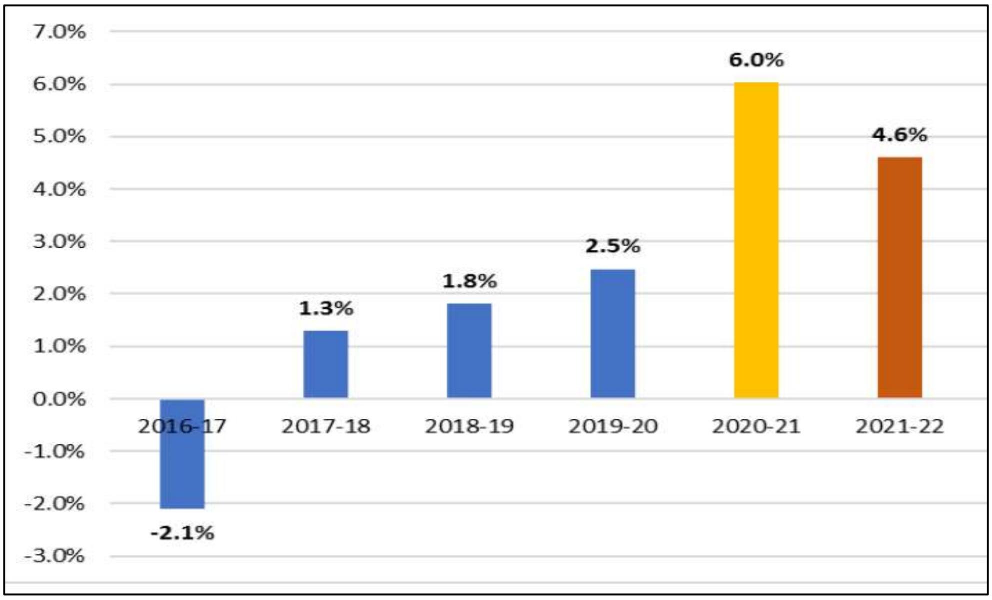
3.4 Covid has led to a massive increase in public expenditure. The government has increased taxes to help pay for this, and seems to accept that the public sector will account for a permanently higher share of national economy for the foreseeable future. Currently it accounts for 42% of GDP, the highest level for over 50 years.

3.5 The increase in public expenditure has been concentrated in specific areas. Above all, health expenditure, which was already rising in proportion to total public expenditure in response to demographic trends, is expected to continue to grow more quickly than other areas of public expenditure.

Local Government Funding

3.6 For many years, local government expenditure has seen steeper reductions and lower rates of growth than overall public expenditure. However, in recent years, the reduction in central government funding for local government has been mitigated by increases in locally generated sources of income, with Council Tax rising by more than the overall rate of inflation. Upper tier authorities in particular have been able to raise additional tax through a social care precept. This has allowed the government to claim that so-called 'Council spending power' has increased.

Figure 2: Changes in Council Spending Power



Source: Pixel Spending Review Briefing 2021

3.7 Authorities like Maidstone no longer receive unringfenced central government grant (Revenue Support Grant - RSG) and are instead largely reliant on Council Tax for their funding. The only impact of increases in central government allocations to local government is a higher share of business rates income collected locally.

3.8 The apparent benefit of higher Council Tax income is not felt as strongly as it could be, because the local government tax base has gradually moved out of synch with the reality of local service pressures. Council Tax continues to be based on 1991 valuations, which means that authorities in the south-east of England have seen much lower increases in income than the increase in house prices would imply. Meanwhile, Council Tax increases in more deprived areas do not provide adequate compensation for the loss of central government grant.

3.9 The other main element of local government funding, beside central government grant and Council Tax, is Business Rates. The 2010-15 Coalition Government transferred a notional 50% of locally-collected Business Rates income back to local government, but the requirement to adjust the amount of business rates retained between authorities, based on respective service needs, means that authorities with an active commercial sector and low perceived levels of need, like Maidstone, retain a low proportion of business rates (just 7% in Maidstone's case). It was originally intended to increase the 50% share of business rates retained locally to 75%, but the Secretary of State for the Department of Levelling Up, Homes and Communities (DLUHC) has now signalled that this is not a government priority.

3.10 Although local government funding is now both complex and inconsistent with good fiscal practice, central government has not addressed the issues. The lack of clarity arising was mitigated to an extent in 2015, when David Cameron's Conservative government provided some certainty for local government by announcing a four-year settlement, albeit that this incorporated a reduction in funding. However, since 2019/20, local government funding settlements have been announced on an annual basis, usually just three months before the start of the new financial year.

3.11 The Chancellor of the Exchequer announced a three-year Spending Review on 27 October 2021. This included assumptions about real terms growth in Council Spending Power (the government's preferred measure) over the next three years. It should be noted that the calculation of Council Spending Power assumes that local authorities will increase Council Tax by the maximum permissible without a referendum, which in Maidstone's case is a 2% increase. The term spending power should not be conflated with actual resources available.

3.12 Details of what the overall increase in spending power meant for individual authorities were announced in the Local Government Finance Settlement in December 2021. A potential issue for Maidstone was that an 'across the board' increase in funding for Councils could have used the current basis of assessing funding requirements, which in 2019/20 indicated that the Council would have to pay negative Revenue Support Grant (RSG) to government, rather than receiving RSG from the government. The first element of any increase in funding would therefore have been used to reverse negative RSG, giving no benefit to the Council. In the event, the original 2013/14 needs assessment was used to allocate additional resources to Councils, in the form of a Services Grant.

3.13 Although the Spending Review covered three years (2022/23 to 2024/25), this has only translated into a one-year local government funding settlement.

3.14 The Chancellor's announcements included various capital funds (£300m grant funding to unlock brownfield sites, £1.5bn to regenerate unused land, UK Shared Prosperity Fund £2.6bn, Levelling-Up Fund £4.8bn). Access to this funding will be through a bidding process; it is not clear what the criteria will be. Reflecting its low standing in the levelling up agenda, Maidstone is a Priority 2 area.

Conclusion

3.15 The economic recovery from Covid-19 appears to be slowing down, and is accompanied by higher levels of inflation, which it may prove difficult to eradicate. Whilst public expenditure has increased to levels not seen for many years, the main beneficiary has been the NHS rather than local government. The three-year Spending Review announced by the Chancellor in October 2021 set out a more favourable outcome for local government than expected but this has only translated into a one-year settlement.

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 arising in particular with respect to adults' and children's social care. 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[1]:

– 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

	31.3.20 £ million	31.3.21 £ million
Long term assets	158.6	163.5
Current assets	28.0	36.5
Current liabilities	-44.0	-57.3
Long term liabilities	-80.8	-96.9
Net assets	61.8	45.9
Unusable reserves	-44.6	-12.2
	17.2	33.7
Represented by:		
Unallocated General Fund balance	8.8	10.3
Earmarked balances	7.8	22.9
Capital receipts reserve	0.6	0.5
Total usable reserves	17.2	33.7

4.3 The main changes between the two balance sheet dates and the principal reasons are as follows:

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

Increase in current liabilities

Government grants, eg for distribution to local businesses, which have been received by the Council but not yet deployed, are accounted for as liabilities at the balance sheet date.

Increase in long term liabilities

The liability to pay employee pensions in the future is re-assessed by actuaries each year. When interest rates are low, as at present, this leads to an increased liability as the discount rate applied to the obligation is correspondingly low.

Increase in earmarked balances

The main element in the increase is a £14.7 million timing difference, arising because the Collection Fund deficit incurred in 2021/22 as a result of Covid-19 has to be accounted for in 2022/23.

Decrease in unusable reserves

This is the impact on reserves of the increased pension liability and the Collection Fund timing difference (as described above), ie an equal and opposite amount to these increases in liabilities / earmarked balances.

4.4 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.

4.5 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 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.

4.6 Maidstone Council historically set £2 million as a minimum level for unallocated reserves. In the light of the heightened risk environment facing the Council, it was agreed when setting the 2021/22 budget that this minimum should be increased to £4 million.

Current Position

4.7 Current indications are that the Council will deliver a balanced budget for 2021/22, allowing the level of reserves to be maintained.

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.

4.13 The authority consistently receives clean external and internal audit opinions.

Capital investment

4.14 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.

4.15 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.

4.16 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.

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

Ability to deliver budget savings

4.18 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.

4.19 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.

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

Risk management

4.21 The Council's MTFS is subject to a high degree of risk and ?uncertainty. 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.

4.22 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.

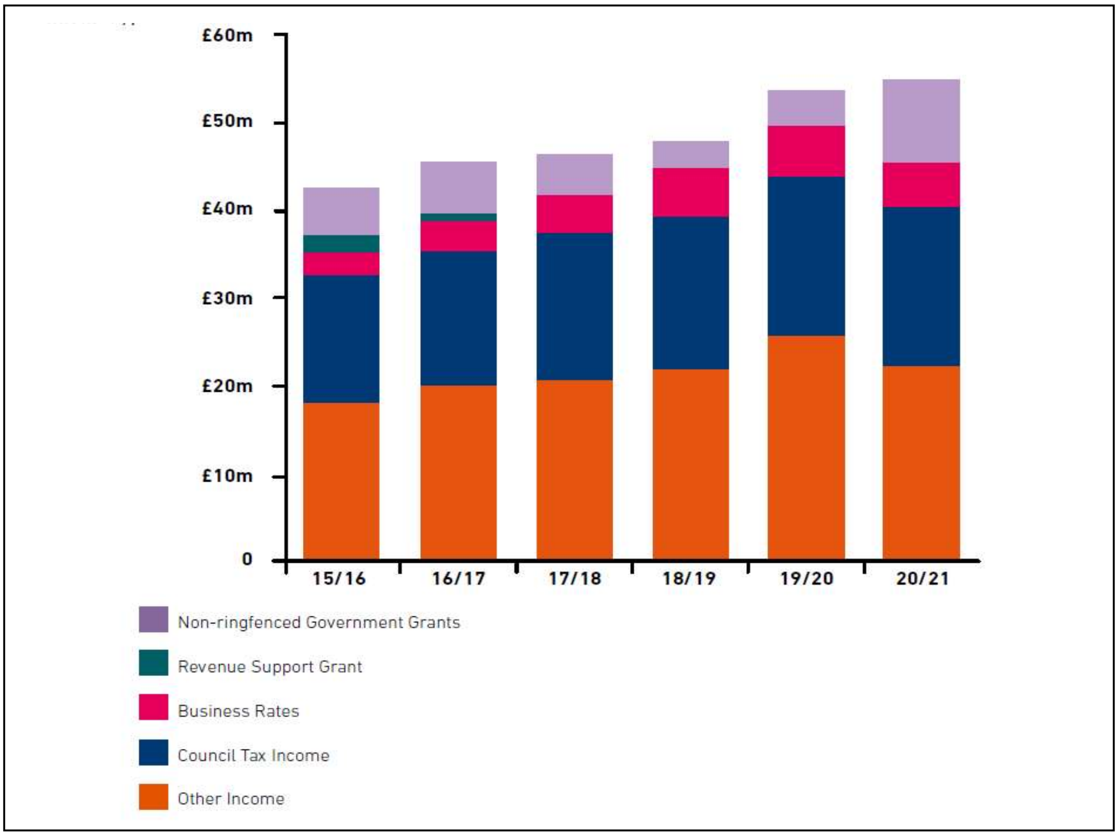
Conclusion

4.23 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 3: 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

	2017	2018	2019	2020	2021
Number of dwellings	69,633	70,843	71,917	73,125	75,034
% increase compared with previous year	1.63%	1.74%	1.52%	1.68%	2.61%

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 to both an increase in the number of Council Tax support claimants and a fall in the collection rate, which is likely to offset to an extent the benefit of an increased number of dwellings. The increase in the number of households and people living in the borough also impacts on the cost of service delivery, for example refuse collection and street cleansing.

5.5 The level of council tax increase for 2022/23 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 2021/22 was the greater of 2% or £5.00 for Band D taxpayers. Council Tax was increased by the maximum possible, ie £5.31 (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 (as agreed in collaboration agreements and where MBC is the employer)
- 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, was seriously affected by Covid-19. Whilst the government has committed to compensating local authorities for 75% of lost income above a 5% threshold for the first quarter of 2021/22, there has been no guarantee of ongoing support in the event that income fails to return to pre-Covid-19 levels. Commercial property income was adversely affected by the pandemic, and whilst it has now recovered, it remains potentially at risk from a resurgence.

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. This was subsequently reduced to 75%, but the Secretary of State has now announced that this is no longer a government priority.

5.10 The amount of business rates retained by individual authorities is currently based on a needs assessment that dates back to 2013/14. A reset is expected at some point, 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.

5.11 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.

5.12 It should be noted that, when re-allocating business rates according to need, following a Fair Funding Review, the business rates baseline is likely to be reset, so all growth accumulated to that point will be reallocated between local authorities as described in paragraph 5.10 above.

5.13 Total projected business rates income for 2021/22, and the ways in which it is planned to deploy it, are summarised in the table below.

Table 4: Projected Business Rates Income 2021/22

	£000	
Business Rates baseline income	3,430	Included in base budget
Growth in excess of the baseline	620	Included in base budget
Pooling gain (MBC share)	349	Funds Economic Development projects
Pooling gain (Growth Fund)	349	Spent in consultation with KCC, eg on Maidstone East
Total	4,748	

5.14 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

5.15 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 subsequent Local Government Finance Settlements.

5.16 Any increase in overall funding for local authorities could simply be used to reverse negative RSG for those authorities where it was payable. More generally, a needs-based distribution of funding will continue to create anomalies like negative RSG, so it cannot be assumed that the threat of an adverse impact, such as Maidstone was due to experience in 2019/20, has gone away.

Conclusion

5.17 It can be seen that ongoing revenue resources are subject to uncertainty, owing to the economic environment and lack of clarity about the government's plans for funding local government. 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.

Favourable

There is strong economic growth, with inflation pressures contained within the government's long term target rate of 2%. This allows the Council's external income to recover to pre-Covid levels in 2022/23 and grow strongly thereafter. New house building continues at pre-Covid levels (ie around 2% growth per annum). Cost pressures are contained, allowing scope for budget growth.

Neutral

Growth is slower, with external income returning to pre-Covid levels over a period of 3-4 years. There continues to be growth in the Council Tax base, but constraints in the construction sector mean there is a slow-down for the first 2-3 years of the planning period. The Council maintains existing service levels and is able to fund inflationary increases in expenditure.

Adverse

Government measures to stimulate the economy are constrained by the economy's capacity to grow and the need to keep public expenditure under control. Capacity constraints and low economic growth compared with other national economies lead to prolonged inflation in excess of the government's 2% target. As a result, there is minimal growth in Council external income and increased cost pressures lead to spending cuts in order to ensure that statutory services are maintained.

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

Council Tax

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 2% in 2022/23. This is consistent with the Government's spending power assumptions.

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:

	22/23	23/24 onwards
Favourable	2.5%	2.0%
Neutral	2.0%	1.5%
Adverse	1.5%	1.0%

Business Rates

6.4 For 2022/23 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 2023, the proportion of business rates retained by the authority is likely to be adjusted to reflect the findings of the Fair Funding 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 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 2023/24, then is gradually reinstated from 2024/25.

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

	2022/23		2023/24 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

6.8 CPI inflation is currently (December 2021) running at 4.8%. The Bank of England expects it to peak in Spring 2022 before falling back materially in the second half of the year. For the purpose of forecasting, it is assumed that the government's target rate of inflation is 2% is achieved over the medium term in the favourable and neutral scenarios. A higher rate of 3% is assumed in the adverse scenario.

Given the impact of higher rates in the short term, an additional provision of £500,000 has been built into the Strategic Revenue Projections for 2022/23 plus a further £800,000, representing approximately 2% of the Council's total annual expenditure. In this way the Council will have built in a substantial contingency without necessarily committing itself to paying higher prices at an individual service budget level.

Pay inflation

6.9 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 2%. An additional amount of 1% has been allowed for in pay inflation assumptions, arising from the annual cost of performance related incremental increases for staff, giving a total assumed increase of 3%.

6.10 Whilst the planning assumption remains a 2% pay increase, it is important that the Council continues to pay a competitive rate in order to retain and attract staff. This position is therefore under review. The Council maintains a corporate contingency budget which allows a measure of flexibility if a higher increase than 2%, or market factor supplements for in-demand roles, are required in order to keep pace with the job market.

Fees and charges

6.11 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.

6.12 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. A relet of the waste contract in October 2023 is likely to lead to permanently higher contract costs.

6.13 Inflation assumptions in the base case projections, before allowing for additional contingencies, 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 higher in the short term.
Employee Costs	1.00%	2.00%	3.00%	Neutral assumption is in line with the most recent pay settlement and government inflation targets
	0.50%	1.00%	1.50%	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

The government has said that it will compensate public sector employers for the increase in employer national insurance announced earlier in 2021. However, this does not address pressures faced by employees from increased national insurance and higher prices. Pay structures will be reviewed to consider how best to mitigate these pressures within the overall spending envelope.

Service Spend

6.14 Strategic Revenue Projections under all scenarios will take account of savings previously agreed by Council, assuming that they are still deliverable. In addition, the following potential budget pressures have been identified and will be addressed by incorporating budget growth, subject to member agreement, as part of the budget setting process.

Communities and Housing

This service area supports the corporate priority 'Housing and Communities' and specifically the objective of delivering 1,000 new affordable homes. This may require a level of revenue subsidy, which would represent budget growth.

Environment & Public Realm

A provision of £1 million has been built into the Strategic Revenue Projections to recognise the likely increase in waste collection costs arising from the forthcoming contract relet in October 2023.

Heritage, Culture & Leisure

The Serco leisure contract comes to an end in 2024. Depending on the scope of any new contract, budget growth may be required. The objective of making Maidstone Town Centre a thriving place may also require budget growth, eg to provide leisure and cultural activities in the town centre.

Planning Services

In addition to core development management and spatial planning services, there is a requirement for more extensive planning policies and a Town Centre Strategy.

Corporate & Shared Services

Additional expenditure is likely to be required to support the new governance structure and to meet the Council's aspirations for better quality data analysis.

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

Summary of Projections

6.16 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 6 below for the 'neutral' scenario. Additional growth to accommodate new pressures described in the previous section, together with any offsetting savings, are still to be included in the projections.

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 2022/23-2026/27

	22/23	23/24	24/25	25/26	26/27
	£m	£m	£m	£m	£m
Council Tax	18.2	18.8	19.5	20.2	20.9
Retained Business Rates	3.5	3.6	3.6	3.7	3.8
Business Rates Growth	1.2	-	0.2	0.4	0.5
Collection Fund adjustment	-0.2	-0.7	-	-	-
Budget requirement	22.7	21.7	23.3	24.3	25.2
Fees and Charges	21.9	23.3	24.5	24.9	25.4
Total Funding Available	44.6	45.0	47.8	49.2	50.6
Predicted Expenditure	43.8	47.0	48.6	49.7	50.7
Budget Surplus / (Gap)	0.8	-2.0	-0.8	-0.5	-0.1

7.3 The above table shows a modest surplus in 2022/23. However, the likely impact of a business rates reset and the cost of accommodating the costs of a new waste collection contract means that a deficit is projected in 2023/24. On current projections, this deficit will reduce over the remaining term of the MTFS to achieve a broadly balanced position in 2026/27. It should be noted, however, that these figures do not incorporate growth to reflect the new pressures described in the previous section. Proposals for the relevant budget changes were considered by members at Service Committees in January 2022 and are summarised in the subsequent reports to Policy and Resources Committee and Council.

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 2021/22 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. 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 has revised 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.

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 paid New Homes Bonus on a one-year only basis in 2021/22 and is likely to do so again in 2022/23. Under any new Local Government funding regime 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 7: Capital Programme Funding

	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	Total £000
New Homes Bonus	3,995	1,373	1,373	1,373	1,373	9,487
Capital Grants	4,064	850	850	850	850	7,464
Internal Borrowing	3,114	336	803	1,080	1,050	6,383
External Borrowing	37,838	25,311	14,655	16,305	11,280	105,389
TOTAL	**49,011**	**27,870**	**17,681**	**19,608**	**14,553**	**128,723**

8.8 The use of New Homes Bonus to fund the capital programme arises from previous Council decisions. It could alternatively be used to fund revenue expenditure and therefore address relevant growth pressures, in particular the requirement for more extensive planning policies and a Town Centre Strategy (see paragraph 6.14 above). This would have the effect of increasing the revenue cost of funding the capital programme by £40,000 per annum for every £1 million of New Homes Bonus that was deployed in this way.

8.9 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 24th February 2020 and will be refreshed in February 2022.

8.10 The existing capital programme was approved by Council at its budget meeting on 24th February 2021. Major schemes include the following:

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

8.11 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.

8.12 In particular, the updated capital programme will reflect the Council's ambition to deliver 1,000 new affordable homes. As this implies a significant expansion of the existing capital programme, its overall affordability and the extent to which it exposes the Council to risk will be addressed in the Capital Strategy.

8.13 An updated capital programme was considered by Policy and Resources Committee in January 2022 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 will be considered by Service Committees.

9.2 Consultation with members took place in January 2022 on the detailed budget proposals. Individual Service Committees considered the budget proposals relating to the services within their areas of responsibility.

Document History

Date	Description	Details of changes
11.11.21	Draft to Corporate Leadership Team	
16.11.21	Draft to Policy & Resources Committee	Changes requested by CLT
09.02.22	Final draft to Policy & Resources Committee	Updates to reflect Local Government Finance Settlement and other developments.

Appendix A

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2022/23

INDEX

1.INTRODUCTION

2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;

- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;

- address ESG issues within the Capital Strategy;

- require implementation of a policy to review commercial property, with a view to divest where appropriate;

- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);

- ensure that any long term treasury investment is supported by a business model;

- a requirement to effectively manage liquidity and longer term cash flow requirements;

- amendment to TMP1 to address ESG policy within the treasury management risk framework;

- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;

- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

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.

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."*

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.

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.

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).

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 as part of the budget monitoring reports presented to Policy & Resources Committee.

1.3 Treasury Management Strategy for 2022/23

The strategy for 2022/23 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, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

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 17th January 2022. 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 Group, 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 2022/23 – 2026/27

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 and financing

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:

2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
33.179	27.530	31.099	51.404	53.572	69.738

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.

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments. This include the financial obligation to Serco Pasia for the leisure Centre.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Capital grants	3.364	1.500	0.800	0.800	0.800	0.800
Capital reserves	0.000	0.000	0.000	0.000	0.000	0.000
Revenue	3.884	3.216	0.373	0.373	0.373	0.373
Net financing need for the year	**25.931**	**22.814**	**29.926**	**50.231**	**52.399**	**68.565**

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 asset's 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 schemes 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 £2.01m relating to Serco Pasia within the CFR.

The Council is asked to approve the CFR projections below:

£m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Financing Requirement						
Total CFR	75.093	95.983	123.121	169.786	217.459	280.414
Movement in CFR	**25.582**	**20.890**	**27.138**	**46.666**	**47.673**	**62.956**

Movement in CFR represented by						
Net financing need for the year	25.931	22.814	29.926	50.231	52.399	68.565
Less MRP/VRP and other financing movements	-0.349	-1.924	-2.788	-3.565	-4.726	-5.609
Movement in CFR	**25.582**	**20.890**	**27.138**	**46.666**	**47.673**	**62.956**

2.3 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).

DLUHC regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. The Council is recommended to approve the following MRP Statement

For capital expenditure incurred before 1.4.08 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former DLUHC regulations.

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

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. Building asset life is estimated to be 50 years, refurbishment works are over 10 years and the Mote Park Dam works over 25 years. Most other projects are over 5 years.

Repayments included in annual PFI, or finance leases are applied as MRP. MRP on the Serco Pasia Financial Commitment is based on the life of the contract.

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 borrowing portfolio as at 31st December 2021 is shown below.

Date	Ref	Lender	Amount £m	Rate %	Start	End
20/08/2021	078	Middlesbrough Teeside Pension Fund	4.000	0.08	20/08/2021	19/08/2022
11/11/2021	080	Public Works Loans Board	2.000	1.73	11/11/2021	11/11/2071
30/12/2021	081	Public Works Loans Board	3.000	1.56	30/12/2021	30/12/2071
		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	2021/22 Forecast	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt						
Debt at 1 April	11.000	26.602	47.187	73.550	118.849	165.163
Expected change in Debt	15.582	20.554	26.335	45.586	46.623	61.906
Other long-term liabilities (OLTL)	2.010	1.473	0.905	0.309	0.000	0.000
Expected change in OLTL	-0.517	-0.537	-0.568	-0.596	-0.309	0.000
Actual gross debt at 31 March	**28.075**	**48.092**	**73.859**	**118.849**	**165.163**	**227.069**
The Capital Financing Requirement	**75.093**	**95.983**	**123.121**	**169.786**	**217.459**	**280.414**
Under / (over) borrowing	**47.018**	**47.891**	**49.262**	**50.938**	**52.296**	**53.346**

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 2022/23 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.

Operational Boundary

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Ext Borrowing	30.582	57.136	83.471	129.056	175.679	237.585
Other LT Liab	2.010	1.473	0.905	0.309	0.000	0.000
Total	32.592	58.609	84.376	129.365	175.679	237.585

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:

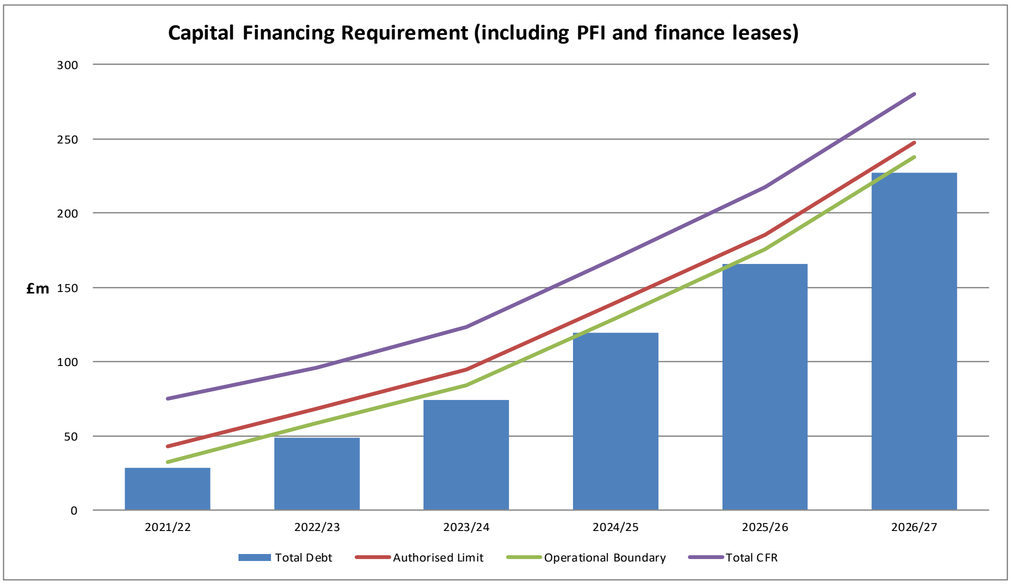
Authorised Limit for External Debt

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Ext Borrowing	40.582	67.136	93.471	139.056	185.679	247.585
Other LT Liab	2.010	1.473	0.905	0.309	0.000	0.000
Total	42.592	68.609	94.376	139.365	185.679	247.585

The graph below forecasts the Council's debt profile, Operational Boundary and Authorised Limit remains below its CFR.

PRUDENTIAL INDICATORS GRAPH

CAPITAL FINANCING REQUIREMENT including PFI and finance leases	Est 2021/22 £m	Est 2022/23 £m	Est 2023/24 £m	Est 2024/25 £m	Est 2025/26 £m	Est 2026/27 £m
GF CFR	75.1	96.0	123.1	169.8	217.5	280.4
Total CFR	**75.1**	**96.0**	**123.1**	**169.8**	**217.5**	**280.4**
External Borrowing	26.6	47.1	73.5	119.1	165.7	227.6
Other long term liabilities	2.0	1.5	0.9	0.3	0.0	0.0
Total Debt	**28.6**	**48.6**	**74.4**	**119.4**	**165.7**	**227.6**
Authorised Limit	42.6	68.6	94.4	139.4	185.7	247.6
Operational Boundary	32.6	58.6	84.4	129.4	175.7	237.6



3.3 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 20th December 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged until the recent meeting in December 2021.

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Our forecast for Bank Rate includes four increases, one in quarter 2 of 2022 to 0.50%, then quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Significant risks to the forecasts

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, resulting in further national lockdowns or severe regional restrictions.

- **The Monetary Policy Committee** acts 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.

- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.

- **The Government** acts too quickly to cut expenditure to balance the national budget.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **German general election** in September 2021. Germany faces months of uncertainty while a new coalition government is cobbled together after the indecisive result of the election. Once that coalition is formed, Angela Merkel's tenure as Chancellor will end and will leave a hole in overall EU leadership.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

We are not expecting Bank Rate to go up fast after the initial rate rise; our view is that the supply potential of the economy has not taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to 5%. We are, therefore, forecasting four increases in Bank Rate over the forecast period to March 2025, ending at 1.25%. However, we are far from confident that these forecasts will not need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.

- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?

- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.

- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?

- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.

- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.

- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit. Link Group Interest Rate Forecast

- In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is. It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

Gilt yields. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period. While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10- year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison. US treasury yields. During the first part of the year, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, which has just been passed by both houses, and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme had enabled a rapid opening up of the economy during 2021.

2. The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.

3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.

4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021. It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023. At its 3rd November Fed meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its 15th December meeting it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period, all other things being equal. It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting

round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e., equities, or the safe haven of government bonds. The overall longer-run trend is for gilt yields and PWLB rates to rise.
There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

Our forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia / China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

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 2022/23 treasury operations. The Director of Finance 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, 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.

The Director of Finance & Business Improvement may look to procure forward borrowing terms ahead of requiring funding for the capital programme. This is to lock into preferential rates in case of future rate rises.

Any decisions will be reported to the Audit, Governance and Standards Committee 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 Debt rescheduling

Due to the recent reduction in longer term borrowing rates, the Council has been looking to transfer its short term borrowing into longer term through the PWLB. These rates will be monitored throughout the year in case of changes to interest rates and/or the Council's financial situation.

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

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the

objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.8 Approved sources of long- and short-term borrowing

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Current Investment Portfolio

The overall investment portfolio as at 31st December 2021 is shown below.

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return
Handelsbanken	Call account	5,000,000			0.20%
Goldman Sachs International Bank	Call account	2,000,000			0.23%
Lloyds Bank Plc	Call account	1,000,000			0.05%
Lloyds Bank Plc	Call account	2,300,000			0.01%
Santander Bank Plc	Call account	5,000,000			0.55%
HSBC Bank Plc	Call account	5,000,000			0.05%
Aberdeen Standard Liquidity Fund Sterling Fund	Money Market Fund	10,000,000			0.05%
CCLA Public Sector Depost Fund	Money Market Fund	10,000,000			0.08%
Federated Hermes Short-Term Sterling Prime Fund	Money Market Fund	7,290,000			0.03%
Landesbank Hessen Thuringen Girozentrale	Fixed Term Deposit	2,000,000	#######	######	0.43%
Landesbank Hessen Thuringen Girozentrale	Fixed Term Deposit	3,000,000	#######	######	0.18%
Goldman Sachs International Bank	Fixed Term Deposit	3,000,000	#######	######	0.37%
Total Investments		55,590,000			

4.2 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (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: -

- DLUHC'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 Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places 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 or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding 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.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.3.

6. **Transaction limits** are set for each type of investment in 4.3.

7. This authority will set a limit for 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 4.4).

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**.

11. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

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 are unchanged from last year.

4.3 Creditworthiness policy

This Council applies the creditworthiness service provided by the Link Group. 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 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 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 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. 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.*

Creditworthiness.
Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

CDS prices
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

4.4 Other 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 treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 10% of the total treasury management investment portfolio.

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 (or equivalent). 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.

The Council's current account with Lloyds Bank is not included within the limits above. The reason for this is that the Council cannot control the income levels that are deposited through its operational bank account, which are likely to be less than investment balances. The Council does ensure that the current account balance is brought to a minimum at the start of each morning.

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.
The current forecast shown in paragraph 3.3, includes a forecast for a first increase in Bank Rate in December 2021 though there is a high risk that it could be delayed until quarter 1 or 2 of 2022.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows.:

Average earnings in each year	Now	Previously
2022/23	0.50%	0.25%
2023/24	0.75%	0.50%
2024/25	1.00%	0.50%
2025/26	1.25%	1.00%
Long term later years	2.00%	2.00%

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.

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:

Principal Invested for more than 364 Days

2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
2.000	2.000	2.000	2.000	2.000

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. This is reported as part of the Council's Performance Indicators to Policy & Resources Committee each quarter.

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
- CCLA – The Public Sector Deposit Fund

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 TM STRATEGY APPENDICES

1. Prudential and treasury indicators
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – 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 2022/23 – 2024/25

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

2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
33.179	27.530	31.099	51.404	53.572	69.738

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:

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.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Interest Paid £000	118	508	1,009	2,057	3,223	4,770
Interest Received £000	-46	-60	-80	-100	-100	-100
Net Revenue Exp £000	19,695	22,625	21,664	23,328	24,270	25,238
%	**0.37**	**1.98**	**4.29**	**8.39**	**12.87**	**18.51**

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Cost of Borrowing	0.072	0.448	0.929	1.957	3.123	4.670

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

5.1.3 Maturity structure of borrowing

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

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

	Upper Limit %	Lower Limit %
Under 12 months	44	0
12 months to under 24 months	100	0
24 months to under 5 years	100	0
5 years to under 10 years	100	0
10 years and within 20 years	100	0
20 years and within 30 years	100	0
30 years and within 40 years	100	0
40 years and within 50 years	56	0

5.1.4. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 INTEREST RATE FORECASTS 2021-2025

Please see 3.3 of this report.

5.3 ECONOMIC BACKGROUND

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.

- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16H DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    - Raising Bank Rate as "the active instrument in most circumstances".
    - Raising Bank Rate to 0.50% before starting on reducing its holdings.
    - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see

Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.
See also comments in paragraph 3.3 under PWLB rates and gilt yields.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.
- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In

addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.
- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election,

brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is 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, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

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 HM Treasury

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

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – housing associations	--	In-house
Term deposits – banks and building societies **	Green	In-house
Term deposits – banks and building societies **	Green	Fund Managers

Term deposits with nationalised banks, banks and building societies

	Minimum Credit Criteria	Use	*** Max % of total investment s	Max. maturity period
UK part nationalised banks	Red	In-house	--	6 months
UK part nationalised banks	UK sovereign rating or * Short-term __, Long-term __, Sovereign rating	Fund Managers	--	
Banks part nationalised by high credit rated (sovereign rating) countries – non-UK	Sovereign rating or * Short-term __, Long-term __, Sovereign rating	In-house and Fund Managers		

Collateralised deposit (see note 2)	UK sovereign rating	In-house and Fund Managers
UK Government Gilts	UK sovereign rating	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	A-	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is explicitly guaranteed by the UK Government e.g., National Rail	UK sovereign rating	In-house buy and hold and Fund Managers
Sovereign bond issues (other than the UK govt)	A-	In-house buy and hold and Fund Managers
Treasury Bills	UK sovereign rating	In house and Fund Managers

Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs): -		
1a. Money Market Funds (CNAV)	AAA	In-house and Fund Managers
1b. Money Market Funds (LVNAV)	AAA	In-house and Fund Managers
1c. Money Market Funds (VNAV)	AAA	In-house and Fund Managers
2a. Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	In-house and Fund Managers

2b. Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	In-house and Fund Managers
3. Bond Funds	AAA	In-house and Fund Managers
4. Gilt Funds	UK sovereign rating	In-house and Fund Managers

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

NON-SPECIFIED INVESTMENTS: A maximum of 20% will be held in aggregate in non-specified investment

1. Maturities of ANY period

	Minimum Credit Criteria	Use
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Purple	In-house
Certificates of deposit issued by banks and building societies	Purple	In-house
Commercial paper other	Purple	In-house and Fund Managers
Corporate bonds	Purple	In-house and Fund Managers
Floating rate notes	Purple	In house and Fund Managers
Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs)		
Corporate bond fund	Purple	In house and Fund Managers
Multi Asset Income Fund, property	Purple	In house and Fund Managers

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. This includes Daily Fund Reports and access to the Money Market Portal.

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 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 board/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.*

Appendix A

Investment Strategy

Maidstone Borough Council
2022/23

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 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 £10m and £55m during the 2022/23 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 2022/23 for treasury management investments and borrowing are covered in a separate document, the Treasury Management Strategy Statement 2022/23.

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 2027/28 at an interest rate of 1% and an interest free loan of £60,000 to One Maidstone CIC Limited which is to be repaid in 2022/23. A loan to Cobtree Manor Estates Trust towards the construction of the new car park which had been agreed in 2019/20 for an amount of £323,000 repayment over 5 years at an annual interest rate of 3%. Balance outstanding as at 31st December 2021 is £151,350. A further loan was given to Capital & Regional for the refurbishment works to the bus station in 2021/22. This was for the amount of £178,000 which will be fully repaid in 2022/23.

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	31.3.2021 actual			2022/23
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0.000	0.000	0.000	1.000
Local businesses	0.202	0.000	0.202	0.062
Local charities	0.205	0.000	0.205	0.140
TOTAL	**0.407**	**0.000**	**0.407**	**1.202**

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 2020/21 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 2022 of £1.473m. The loan will be repaid in 2024/25.

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	**31.03.2021 Actual (£m)**	**31.03.2022 Forecast (£m)**	**31.03.2023 Forecast (£m)**
Treasury management investments	16.160	14.230	10.000
Service investments: Loans	0.407	0.395	1.062
TOTAL INVESTMENTS	16.567	14.625	11.062
Commitments to lend (Serco Loan – Leisure Centre)	2.010	1.473	0.905
TOTAL EXPOSURE	18.577	16.098	11.967

How investments are funded: Government guidance is that these indicators should include how investments are funded. All Service Investment have to date been funded through useable reserves and income received in advance of expenditure.

Investments funded by borrowing which form part of the Council's capital programme are not included within this and details of these are included within the Capital Strategy.

APPENDIX A

MAIDSTONE BOROUGH COUNCIL CAPITAL STRATEGY 2022/23

CONTENTS

1. INTRODUCTION

1.1. CIPFA's Prudential Code, which governs the Council's capital investment and borrowing, requires councils to have a Capital Strategy. This document should 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.

1.3. The strategy focuses upon the long-term ambition of the Council for its local area, residents and business, and is aligned with the Strategic Plan in this regard. It is not purely a financial document but a whole organisation approach setting out how investment will support the delivery of the Council's strategic goals.

2. CAPITAL EXPENDITURE AND LINKS TO OTHER CORPORATE STRATEGIES

Strategic Plan

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

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

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

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

Embracing Growth and Enabling Infrastructure

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

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

Accordingly, £5 million has been set aside within the current capital programme to contribute towards provision of local infrastructure, and to indicate our intention to invest to unlock development and attract matching funding.

A further £10m has been earmarked for the acquisition of property, allowing for the Council to invest in business premises within the borough where appropriate, enabling the speculative acquisition of employment property in support of the Economic Development Strategy.

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.

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. The Council plans to deliver 1,000 affordable new homes over the next 5 years at an estimated cost of £110m.

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

A Thriving Place

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

There are a number of ways in which the Council will take the lead, including working with partners and through direct investment ourselves. The Council has a successful track record of acquiring property within the borough to support wider regeneration objectives. These acquisitions both generate a return that supports the viability of the investment and contribute to making Maidstone a thriving place. We will continue to seek good quality investment opportunities which deliver value and support our strategic goals.

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

Specific projects that will contribute to a Thriving Place include Maidstone East, where the Council is working to redevelop a key site next to the railway station, ongoing investment in leisure and entertainment at Lockmeadow, (£1.8m), and delivery of the museum development plan at a cost of £0.4m.

In 2021, the Council delivered the Innovation Centre at Kent Medical Campus, after securing grant funding of £10.5 to match the Council's own investment. This facility will support growing businesses in the life science, healthcare and med tech sectors and ongoing investment in car parking facilities is planned for completion in 2022.

Longer term, provision has been made for a £30m investment in leisure in preparation for the expiry of the current contract with Serco for Maidstone Leisure Centre.

The Council has already made a significant investment in improving the public realm in the Town Centre, including working with partners to deliver improvements to the bus station in 2021.

Safe, Clean and Green

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

Recent investment has included a further development of our flagship local park, Mote Park. Construction is under way for a new Visitor Centre which is hoped to be completed within spring 2022 at a cost of £2.8m. Mote Park Lake is effectively a reservoir and works were undertaken in the summer of 2020 due to the risk of the lake overtopping the dam at its western end this was at a cost of £1.7m.

The floods of winter 2013/14 highlighted the risks faced by the borough generally. Maidstone Borough Council is part of the Medway Flood Partnership, which includes the Environment Agency and Kent County Council. The Partnership plans to spend at least £19 million over the next five years in the Medway catchment area, of which Maidstone is contributing £750,000.

Medium-Term Financial Strategy

2.3. 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 adopted a Strategic Plan for the period 2021 - 2045 in December 2018; this has been refreshed annually since. In in February 2021 the specific areas of focus for the five year period from 2021/22 to 2025/26 were updated to reflect the significant change in context arising from the Covid19 public health emergency. The Strategic Plan now operates alongside the Council's Recovery and Renewal strategy, which will focus on addressing the impacts of Covid-19 within the borough, and investing in opportunities which have emerged from the pandemic, such as technology to support new ways of working.

2.4. The overall context for the MTFS is one where the Council is increasingly dependent on locally generated resources, whether from Council Tax or a range of other income streams, including parking income, planning fees and the Council's property portfolio. COVID-19 has led to a massive increase in public expenditure and has had an impact on income streams. Even though there has been some recovery, with some areas recovering more quickly than others. The MTFS supports the Council's need to become financially self-sufficient.

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

Property investment will build on the Council's existing property portfolio and assumes that we will continue to expand the portfolio, where appropriate, subject to identifying viable opportunities which support regeneration and economic development, as outlined within the Economic Development Strategy and the Local Plan.

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

2.6. Below is a table of the latest draft capital programme which is due to be discussed at Policy and Resources Committee on 22nd January 2022.

A copy of the Council's medium Term Financial Strategy can be found in the link below:

Medium Term Financial Strategy 22-23 to 25-26

Treasury Management Strategy

2.7. 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.

2.8. 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 internal resources, borrowing and third party contributions such as Section 106 and Community Infrastructure Levy (CIL) payments on new developments. The Council allocates some internal resources to fund capital expenditure, including revenue funding and internal borrowing, but following the purchase of the Lockmeadow Leisure Complex, it has been necessary to borrow externally. Long term borrowing costs have been budgeted for within the MTFS, although borrowing was initially short term in nature, for liquidity purposes. The Council has recently taken out long-term loans with the PWLB, and whilst rates are currently at historically lows, the Council are looking to offset short-term borrowing with secure long term funding. This strategy provides greater certainty over longer term capital financing costs.

2.9. 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.

2.10. Further details are set out in Section 4.

Asset Management Plan

2.11. 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 property assets and ensuring that they continue to represent an appropriate investment for the Council
- 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 £4.3 million for Corporate Property Improvements and improvements to the offices of Maidstone House, based on the requirements of the Asset Management Plan.

The Asset Management Strategy is currently under review.

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 require the use of prudential borrowing, a business case must first be prepared setting out the viability and justification in terms of necessity or contribution to the delivery of strategic goals

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

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

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

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

(a) The use of external grants and contributions, subject to maintaining a focus on the priority outcomes of its own strategies;
(b) Opportunities to obtain receipts from asset sales as identified in the Asset Management Plan and approved for sale by Policy and Resources Committee;
(c) The approval of prudential borrowing when the following criteria also apply to the schemes funded by this method:

i. financial viability of the schemes can be clearly evidenced;
ii. the outcome returns economic value commensurate to the cost incurred by borrowing to fund the schemes;
iii. after covering the cost of funding, a further benefit accrues to the Council that directly or indirectly supports the objectives of the strategic plan or the medium term financial strategy.

(d) The use of residual New Homes Bonus for capital purposes (after a £1m topslice to support the revenue budget), 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 with reference to corporate priorities set out in the strategic plan. Policy & Resources Committee recommends the capital programme which is then presented to Council in March each year.

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

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

Performance Monitoring

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

3.14. The delivery of the capital programme and emerging schemes are also subject to oversight by the Strategic Capital Investment Board, which meets regularly throughout the year. Membership of the board includes the Chief Executive (Chair), Director of Finance and Business Improvement, Director of Regeneration and Place, Monitoring Officer, Head of Finance, Head of Regeneration and Economic Development and Head of Commissioning and Business Improvement.

3.15. 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

3.16. 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.

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

Asset Disposals

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

3.19. 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.

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

4. FINANCING THE CAPITAL PROGRAMME

4.1. Typically, local authorities fund capital expenditure by borrowing from the Public Works Loan Board, which offers rates that are usually more competitive than those available in the commercial sector. Maidstone Borough Council has so far not borrowed to fund its capital programme, instead relying primarily on New Homes Bonus to fund the capital programme. Borrowing is however likely to be required in future.

Financing Requirement

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

Table 1: Capital Programme 2022/23 to 2026/27

FIVE YEAR CAPITAL PROGRAMME 2022/23 - 2026/27		Five Year Plan					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total 22/23 to 26/27
	£000	£000	£000	£000	£000	£000	£000
Housing - Disabled Facilities Grants Funding	1,017	1,500	800	800	800	800	4,700
Temporary Accommodation	3,008	1,560					1,560
Brunswick Street	233						
Union Street	217						
Springfield Mill - Phase 1 & 2	2,045	200					200
Private Rented Sector Housing Programme	1,125	2,316	4,632	11,579	11,579	16,211	46,317
Affordable Housing Programme	750	6,694	17,040	32,225	21,163	32,521	109,642
Acquisitions Officer - Social Housing Delivery P/ship	160	160	160	160	160	160	800
Granada House Refurbishment Works	20	980	1,000				1,980
Street Scene Investment	50	50	50	50	50	50	250
Flood Action Plan	244	200	200	200	150		750
Electric Operational Vehicles	84						
Vehicle Telematics & Camera Systems	35						
Rent & Housing Management IT System	19						
Installation of Public Water Fountains	15						
Crematorium & Cemetery Development Plan	378						
Continued Improvements to Play Areas	200						
Parks Improvements	149	50	50	50	50	50	250
Gypsy & Traveller Sites Refurbishment	50	1,900					1,900
Waste Crime Team - Additional Resources		25					25
Sub-total Communities, Housing & Environment	**9,798**	**15,635**	**23,932**	**45,064**	**33,952**	**49,792**	**168,374**
Mote Park Visitor Centre	1,233	1,543					1,543
Mote Park Lake - Dam Works	672						
Mall Bus Station Redevelopment	1,006						
Museum Development Plan		389					389
Leisure Provision		100	100	500	14,300	15,000	30,000
Cobtree Golf Course New Clubhouse		4	111	333			449
Tennis Courts Upgrade		20					20
Riverside Walk Works		250	250				500
Section 106 funded works - Open Spaces		400	400	400	400	400	2,000
Sub-total Economic Regeneration & Leisure	**2,910**	**2,706**	**861**	**1,233**	**14,700**	**15,400**	**34,901**

FIVE YEAR CAPITAL PROGRAMME 2022/23 - 2026/27	2021/22 £000	Five Year Plan 2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total 22/23 to 26/27 £000
Corporate Property Acquisitions	11,809	2,500	2,500	2,500	2,500	2,500	12,500
Kent Medical Campus - Innovation Centre	3,000	250					250
Lockmeadow Ongoing Investment	932	500	1,300				1,800
Garden Community	1,613	200	200	200	200	200	1,000
Infrastructure Delivery		1,000	1,000	1,000	1,000	1,000	5,000
Asset Management / Corporate Property	1,653	175	175	175	175	175	875
Other Property Works		980					980
Biodiversity & Climate Change	100	1,400		500	500	500	2,900
Feasibility Studies	162	50	50	50	50	50	250
Digital Projects	25	25	25	25	25	25	125
Software / PC Replacement	342	200	200	200	200		800
Maidstone House Works		1,000					1,000
Automation Projects		200					200
New Ways of Working - Make the Office Fit for Purpose		40					40
Archbishop's Palace		400	400				800
Fleet Vehicle Replacement Programme	748	149	456	457	270	96	1,428
Sub-total Policy & Resources	**20,384**	**9,069**	**6,306**	**5,107**	**4,920**	**4,546**	**29,948**
Bridges Gyratory Scheme	86	120					120
Sub-total Strategic Planning & Infrastructure	**86**	**120**					**120**
TOTAL	**33,179**	**27,530**	**31,099**	**51,404**	**53,572**	**69,738**	**233,343**

Table 2: Capital Financing

	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	26/27 £000	Total £000
External sources	3,713	1,950	1,250	1,250	1,250	1,250	10,663
Own resources - incl Internal borrowing	13,884	5,026	3,514	4,568	5,699	6,582	39,275
External Borrowing	15,582	20,554	26,335	45,586	46,623	61,906	216,585
TOTAL	**33,179**	**27,530**	**31,099**	**51,404**	**53,572**	**69,738**	**266,522**

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

	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	26/27 £000	Total £000
MRP	889	1,474	2,338	3,115	4,276	5,159	17,253
Capital receipts	0	0	0	0	0	0	0
TOTAL	**889**	**1,474**	**2,338**	**3,115**	**4,276**	**5,159**	**17,253**

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 £190.6m over the next 5 years. 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

	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	26/27 £000
Brought forward	49,511	75,093	95,983	123,121	169,786	217,459
Capital Expenditure	33,179	27,530	31,099	51,404	53,572	69,738
External funding	-3,713	-1,950	-1,250	-1,250	-1,250	-1,250
Own resources	-2,995	-3,216	-373	-373	-373	-373
MRP	-889	-1,474	-2,338	-3,115	-4,276	-5,159
TOTAL CFR	**75,093**	**95,983**	**123,121**	**169,786**	**217,459**	**280,414**

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 0.5%) and long-term fixed rate loans where the future cost is known but higher (currently 1.4 to 1.75%).

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

	31.03.22 forecast £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000
Debt (excl.PFI & leases)	26,582	47,136	73,471	119,056	165,679	227,585
Capital Financing Requirement	75,093	95,983	123,121	169,786	217,459	280,414

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. Actual debt in reality is likely to be lower due to slippage within the capital programme.

Table 6: Borrowing and the Liability Benchmark

	31.03.22 forecast £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000
Outstanding borrowing	26,582	47,136	73,471	119,056	165,679	227,585
Liability benchmark	12,345	37,136	67,471	113,056	159,679	221,585

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

Authorised Limit

	31.03.22 forecast £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m	31.03.27 budget £m
Borrowing	40.582	67.136	93.471	139.056	185.679	247.585
Other Long Term Liabilities	2.010	1.473	0.905	0.309	0.000	0.000
Total	**42.592**	**68.609**	**94.376**	**139.37**	**185.68**	**247.58**

Operational Boundary

	31.03.22 forecast £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m	31.03.27 budget £m
Borrowing	30.582	57.136	83.471	129.056	175.679	237.585
Other Long Term Liabilities	2.010	1.473	0.905	0.309	0.000	0.000
Total	**32.592**	**58.609**	**84.376**	**129.37**	**175.68**	**237.58**

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

	31.03.22 forecast £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000
Short-term investments	14,237	8,000	4,000	4,000	4,000	4,000
Longer-term investments	0	2,000	2,000	2,000	2,000	2,000
Total	**14,237**	**10,000**	**6,000**	**6,000**	**6,000**	**6,000**

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

Revenue Budget Implications

4.13. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. Full budget provision is made for capital financing costs within the Council's revenue budgets. This is based on estimates derived from the capital programme, and projected 50 year borrowing costs.

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

	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs (£m)	0.072	0.448	0.929	1.957	3.123	4.670
Proportion of net revenue stream (%)	0.365	1.982	4.287	8.390	12.867	18.506

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 over 15 years' experience in local government, the Corporate Property Manager and the team are experienced in Property Management and the Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury), and ACCA.

6.2. The Council also employs Link Asset Services for Treasury Management advice, who support with the provision of training to members.

6.3. 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.

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 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.