06 February 2018 at 7.00 pm

Conference Room, Argyle Road, Sevenoaks
Despatched: 29.01.18

Sevenoaks
DISTRICT COUNCIL

Cabinet

Membership:
Chairman, Cllr. Fleming; Vice-Chairman, Cllr. Lowe
Cllrs. Dickins, Firth, Hogarth, Piper and Scholey

Agenda

There are no fire drills planned. If the fire alarm is activated, which is a continuous siren with a flashing red light, please leave the building immediately, following the fire exit signs.

		Pages	Contact
	Apologies for Absence		
1.	**Minutes** To agree the Minutes of the meeting of the Committee held on 11 January 2018, as a correct record.	(Pages 1 - 6)	
2.	**Declarations of interest** Any interests not already registered.		
3.	**Questions from Members (maximum 15 minutes)**		
4.	**Matters referred from Council, Audit Committee, Scrutiny Committee or Cabinet Advisory Committees**		
5.	**Bank Account Signatories**	(Pages 7 - 10)	Roy Parsons Tel: 01732 227204
6.	**Budget and Council Tax Setting 2018/19** ➲	(Pages 11 - 62)	Adrian Rowbotham Tel: 01732 227153

REPORTS ALSO CONSIDERED BY THE CABINET ADVISORY COMMITTEES

7.	**Annual Discretionary Rate Relief**	(Pages 63 - 86)	Sue Cressall, Paula Porter Tel: 01732 227041/7277

8.	**Local Discretionary Business Rates Relief Scheme**	(Pages 87 - 102)	Sue Cressall, Paula Porter Tel: 01732 227041/7277
9.	**Property Investment Strategy Update**	(Pages 103 - 122)	Adrian Rowbotham Tel: 01732 227153
10.	**Financial Results 2017/18 - to end of November 2017**	(Pages 123 - 148)	Adrian Rowbotham Tel: 01732 227153
11.	**Treasury Management Strategy 2018/19** ➲	(Pages 149 - 190)	Roy Parsons Tel: 01732 227204
12.	**Capital Programme and Asset Maintenance 2018/21**	(Pages 191 - 204)	Adrian Rowbotham Tel: 01732 227153

Indicates a Key Decision

➲ indicates a matter to be referred to Council

EXEMPT INFORMATION

At the time of preparing this agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public.

If you wish to obtain further factual information on any of the agenda items listed above, please contact the named officer prior to the day of the meeting.

Should you need this agenda or any of the reports in a different format, or have any other queries concerning this agenda or the meeting please contact Democratic Services on 01732 227000 or democratic.services@sevenoaks.gov.uk.

CABINET

Minutes of the meeting held on 11 January 2018 commencing at 7.00 pm

Present: Cllr. Fleming (Chairman)

Cllr. Lowe (Vice Chairman)

Cllrs. Dickins, Firth, Hogarth, Piper and Scholey

Cllrs. Edwards-Winser, Eyre, Mrs. Hunter and Pett were also present.

58. Minutes

Resolved: That the minutes of the meeting of Cabinet held on 7 December 2017 be approved and signed as a correct record.

59. Declarations of interest

There were no additional declarations of interest.

60. Questions from Members

There were no questions from Members.

61. Matters referred from Council, Audit Committee, Scrutiny Committee or Cabinet Advisory Committees

There were none.

62. Budget Update 2018/19

The Portfolio Holder for Finance presented the report which updated the information Members had considered at Cabinet on 7 December 2017. It contained several changes including those resulting from the Provisional Local Government Finance Settlement which was announced on 19 December 2017.

He highlighted two items. First of all the Council Tax increase. He advised that at the last Cabinet meeting Members had supported increases of 2.44% in 2018/19 and 2.38% in 2019/20 as it was expected that these would be the maximum increases possible without holding a referendum. In the draft settlement, the Minister had announced that Council Tax for Districts could be increased by the higher of 3% or £5 for a Band D property in 2018/19 which was linked to inflation. The report proposed the higher 3% increase in 2018/19 but reducing the 2019/20 increase to 2%, which would result in a £6.03 increase for a Band D property in 18/19.

Secondly he highlighted the Council Tax Base increase which was the lowest in Kent in 2018/19 and also over the last 5 years. The continuing low increase hindered the Council's ability to raise extra income and therefore improve services for residents.

He advised that if the budget agreed in February was the same as the one proposed in the report before Members, then the Council would remain financially self-sufficient from direct Government funding and once again have a balanced 10-year budget, and remain in a much stronger financial position than the vast majority of other councils.

The Chief Finance Officer reported that the Provisional Local Government Finance Settlement was published on 19 December 2017 and further detail had been announced since. Due to reporting deadlines and the further details, a supplementary agenda which includes updated Appendices B and D and additional SCIAs for Appendix E had been circulated earlier in the week.

In the provisional settlement, the most relevant elements for the Council were the increase to the Council Tax referendum limit, which Cllr Scholey had explained, and that the Kent and Medway Business Rates Retention Bid for 2018/19 was successful. Many County areas had put in bids and the original intention was for 5 to be approved but eventually the Government had approved 10, and it should result in significant additional income in 2018/19 only. There remained uncertainties over the future impact of Business Rates Retention (BRR), with the negative Revenue Support Grant (RSG) for 2019/20 still included in the provisional settlement and the new scheme not now due to commence until 2020/21. Therefore the report showed BRR having no overall impact on the 10-year budget period with the balance being transferred to the Budget Stabilisation Reserve.

Other amendments to the 10-year budget included:

- Updating the Pay Award Assumption for 2018/19 and 2019/20 from 1% to 2%;
- Council Tax – the opportunity to reduce empty property discounts from 19/20 (a separate report explaining the details of this would be presented to Members in due course);
- Collection fund surplus – due to collection rates being higher than anticipated there was a one off surplus to be distributed;
- Superannuation Fund Deficit – a growth amount of £200,000 which was included from 2020/21, had been reduced to £100,000 based on more positive recent information; and
- 11 new growth and savings SCIAs (9-19).

All of the changes resulted in the 10-year budget being in the same position as when the budget process started and a Budget Stabilisation Reserve that could support the budget past the 10 year horizon.

Members ran through each SCIA 9-19, asking questions of clarification. Members expressed concern over potential negative RSG, however it was speculated other adjustments may be found such as 75% business rates retention rather than 100% as previously discussed by government.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That

a) The growth and savings SCIAs 9-19 as contained in Appendix E to the report be noted and agreed; and

b) the Council Tax increase assumption for 2018/19 be increased from 2.44% to 2.97% (£4.95 to £6.03 pa for a Band D equivalent property) and for 2019/20 be reduced from 2.38% to 2% (£4.95 to £4.18 pa for a Band D equivalent property).

63. Calculation of Council Tax Base and other tax setting issues

The Portfolio Holder for Finance presented the report advising that as part of the budget cycle the Council was required to calculate the council tax base of the district for tax setting purposes for the coming financial year and the calculation had to be approved by Cabinet and Full Council. The tax base was determined by converting all property and occupancy data to the equivalent number of band D properties and the figure was used to calculate the band D charge.

The report showed that the current tax base for 2017/18 is 49,382.42 and the tax base for 2018/19 would be 49,902.89 which was an increase of just over 1%. Apart from the increase in the number of dwellings, there was a fluctuation in the number of discounts granted each year. A collection rate of 99.4% had been included which was the same as the rate used in 2017/18, and the timetable leading up to setting the council tax for 2018/19 was also included in the report.

The Principal Accountant further advised that as mentioned in the Budget Update report, the increase in the tax base was the lowest in Kent and the cumulative increase since 2014/15 was also the lowest in Kent.

Members noted that Kent County Council (KCC) was due to set its council tax on the same day as the meeting of Full Council which would set the tax for the whole District. However, their figures should be known by the time of that meeting.

Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That it be recommended to Council that

a) the report of the Chief Finance Officer for the calculation of the Council's tax base for the year 2018/19 be approved;

b) pursuant to the report of the Chief Finance Officer and in accordance with the Local Authorities (Calculation of Council Tax Base) Regulations 1992 (as amended) the amount calculated by the Sevenoaks District Council as its council tax base for the whole area for the year 2018/19 shall be 49,902.89;

c) pursuant to the report of the Chief Finance Officer and in accordance with the Local Authorities (Calculation of Council Tax Base) Regulations 1992 (as amended) the amount calculated by the Sevenoaks District Council as the council tax base for 2018/19 for the calculation of local precepts shall be:

Parish	Tax Base
Ash-cum-Ridley	2,431.82
Badgers Mount	329.31
Brasted	779.00
Chevening	1,443.19
Chiddingstone	600.18
Cowden	402.07
Crockenhill	656.44
Dunton Green	1,180.38
Edenbridge	3,548.58
Eynsford	930.38
Farningham	657.83
Fawkham	280.51
Halstead	777.21
Hartley	2,538.28
Hever	598.98
Hextable	1,643.18
Horton Kirby & South Darenth	1,298.26
Kemsing	1,813.75
Knockholt	628.51
Leigh	877.50
Otford	1,687.32
Penshurst	831.38
Riverhead	1,242.10

Seal	1,223.02
Sevenoaks Town	9,470.04
Sevenoaks Weald	621.15
Shoreham	686.26
Sundridge	925.22
Swanley	5,485.19
Westerham	1,985.12
West Kingsdown	2,330.73

d) any expenses incurred by the Council in performing in part of its area a function performed elsewhere in its area by a parish or community council or the chairman of a parish meeting shall not be treated as special expenses for the purposes of section 35 of the Local Government Finance Act 1992.

THE MEETING WAS CONCLUDED AT 7.43 PM

CHAIRMAN

IMPLEMENTATION OF DECISIONS

This notice was published on 15 January 2018. The decision contained in Minute 62 takes immediately. The decision contained in Minute 63 is a recommendation to Council.

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BANK ACCOUNT SIGNATORIES

Cabinet – 6 February 2018

Report of the:	Chief Finance Officer
Status:	For Decision
Key Decision:	No

Executive Summary: This report seeks approval for a change to the list of officers authorised to sign cheques and sanction banking instruments on behalf of the Council.

This report supports the Key Aim of efficient management of the Council's resources.

Portfolio Holder	Cllr. John Scholey
Contact Officer	Roy Parsons, Principal Accountant - Ext 7204

Recommendations to Cabinet: That

a) Mrs Jackie Weyman, Finance System Team Leader and Miss Joanne Cheeseman, System Finance Officer no longer be authorised to sign cheques and sanction banking instruments on behalf of the Council; and

b) pursuant to Financial Procedure Rules 4.73 and 4.74, Mr Alan Mitchell, Head of Finance and Miss Tsitsi Danga, Assistant Accountant (Technical) be authorised to sign cheques and sanction banking instruments on behalf of the Council.

Reason for recommendations: To bring up to date the list of authorised signatories for the Council's bank accounts.

Background and Introduction

1 The Council operates an imprest account for use by the Legal Section to defray small but urgent items of expenditure. This account operates indepenently of the Council's main bank accounts. It is funded up to a maximum of £700 at any one time. The signatories to it are members of the Legal Section.

2 With regard to the remainder of the Council's bank accounts, currently, four officers plus the Chief Executive and Chief Finance Officer are authorised

signatories. It is in respect of these accounts that the changes detailed below are required.

Changes Required

3 The Council's Financial Procedure Rules require Cabinet approval for officers other than the Chief Executive or Section 151/Chief Finance Officer to be able to sign cheques or sanction banking instruments on behalf of the Council.

4 Some changes in personnel mean that such approval is now being sought.

5 The reason for removal of two officers relates to a separation of duties issue, but the complement will remain at six.

Key Implications

Financial

There are no financial implications.

Legal Implications and Risk Assessment Statement

Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including the operation of banking facilities.

For day to day practical reasons, officers need to be authorised to sign cheques and sanction banking instruments on behalf of the Council. Failure to have authorised signatories in place would severely restrict the Council in the way in which it could operate bank accounts and deal with its financial needs.

Protection is in place by:

limiting the balance held in the Chief Executive's Imprest Account to a maximum of £700 at any one time and requiring dual signatories on amounts over this sum; and

requiring dual signatories on the other bank accounts for items over £10,000 (£5,000 for housing benefit and local tax payments).

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

Members are being asked to update the list of authorised signatories to the Council's bank accounts.

Appendices:	None
Background Papers:	Constitution of Sevenoaks District Council, Appendix D – Financial Procedure Rules:- Document 21 - Appendix D - Financial Procedure Rules

Adrian Rowbotham
Chief Finance Officer

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BUDGET AND COUNCIL TAX SETTING 2018/19

Cabinet – 6 February 2018

Report of	Chief Finance Officer
Status	For Decision
Also considered by	Council – 20 February 2018
Key Decision	No

Executive Summary: The Council has an excellent track record in identifying, planning for and addressing financial challenges. In light of the challenging financial position facing all authorities seven years ago, for 2011/12 the Council produced a 10-year budget together with a savings plan for the first time. This will be the eighth year this method has been used and provides the Council with a stable basis for future years.

This report sets out the proposed budget and required level of Council Tax for 2018/19.

The report proposes a net expenditure budget of £14.687m in 2018/19 (£14.470m in 2017/18). Subject to any further changes this would result in a Council Tax increase of 2.97% in 2018/19, with the District's Council Tax being £208.80 for a Band D property for the year (£202.77 in 2017/18), an increase of £6.03.

The report also contains details of the precepts received from other authorities (Council report only); the Collection Fund position and an opinion on the robustness of the budget and the adequacy of the reserves.

Portfolio Holder Cllr. John Scholey

Contact Officers Adrian Rowbotham, Ext. 7153

Alan Mitchell, Ext. 7483

Recommendation to Cabinet:

That recommendations (a) to (d) below be recommended to Council.

Recommendation to Council:

(a) The Summary of Council Expenditure and Council Tax for 2018/19 set out in Appendix E be approved.

(b) Approve the 10-year budget 2018/19 to 2027/28 which is the guiding framework for the detailed approval of future years' budgets set out in Appendix B to the report, including the growth and savings proposals set out in Appendix C-D to the report, and that where possible any variations during and between years be met from the Budget Stabilisation Reserve.

(c) Approve the Capital Programme 2018/21 and funding method set out in Appendix H.

(d) Approve the changes to reserves and provisions set out in Appendix I.

Due to their length and complexity, the further recommendations have been produced as a separate document (Appendix M).

Introduction and Background

1 The Council's financial strategy over the past thirteen years has worked towards increasing financial sustainability and it has been successful through the use of a number of strategies including:

- implementing efficiency initiatives;
- significantly reducing the back office function;
- improving value for money;
- maximising external income;
- the movement of resources away from low priority services; and
- an emphasis on statutory rather than non-statutory services.

2 Over this period the Council has focused on delivering high quality services based on Members' priorities and consultation with residents and stakeholders. In financial terms, the adoption of this strategy has to date allowed the Council to move away from its reliance on general fund reserves.

3 In setting its budget for 2011/12 onwards, the Council recognised the need to address both the short-term reduction in Government funding as well as the longer-term need to reduce its reliance on reserves. The outcome was a 10-year budget, together with a four-year savings plan, that ensured the Council's finances were placed on a stable footing but that also allowed for flexibility between budget years.

4 With the amount of Revenue Support Grant provided by Government ceasing from 2017/18 it is important that the council remains financially self-sufficient by having a balanced economy and a financial strategy that is focused on local solutions. These solutions include:

- continuing to deliver financial savings and service efficiencies;

- growing the council tax base; and
- generating more income.

5 At the Cabinet meeting on 5 September 2017, Members considered a report setting out the Council's financial prospects for 2018/19 and beyond. That report set out the major financial pressures the Council is likely to face, together with a proposed strategy for setting a balanced and sustainable budget for 2018/19 and beyond.

6 As part of the budget process officers put forward their Service Dashboards to the Advisory Committees between September and November, which set out a summary of current and future challenges and risks. The Advisory Committees recommended new growth and savings items which were considered at the Cabinet meeting on 7 December 2017.

7 The report to Cabinet on 7 December 2017 also contained updates to the Financial Prospects report. Another update report was presented to Cabinet on 11 January 2018 following the announcement of the Provisional Local Government Finance Settlement. Further growth and savings items were considered at that meeting.

8 The adoption of the 10-year budget over the last seven years has resulted in a much more stable budget position than had previously been achieved.

9 The Council's successful approach to its finances was recognised nationally during 2017 by being crowned 'Innovator of the Year' and also the overall winner at the CIPFA Public Finance Innovation Awards.

10 This report includes a number of attachments:

- Appendix A – Budget timetable
- Appendix B – 10-year budget;
- Appendix C – Summary of the Council's agreed savings and growth items;
- Appendix D – Summary of Changes to the 10-year Budget
- Appendix E – Summary of Council Expenditure and Council Tax;
- Appendix F – Summary of service analysis in budget book format;
- Appendix G – Analysis of pay costs;
- Appendix H – Capital Programme 2018-21
- Appendix I - Reserves
- Appendix J – Risk analysis;

- Appendix K - Latest information on precepting authorities (only in Council report)
- Appendix L – Town and Parish Council precepts and council tax rates (only in Council report)
- Appendix M – Council tax setting recommendations (only in Council report)
- Appendix N - Council tax rates across the district (only in Council report)

Financial Self-Sufficiency

11 The Council's Corporate Plan, introduced in 2013, set out an ambition for the Council to become financially self-sufficient which was achieved in 2016/17. This means that the Council no longer requires direct funding from Government, through Revenue Support Grant or New Homes Bonus, to deliver its services.

12 This approach was adopted in response to the financial challenges the Country is faced with in bringing its public spending down to ensure it is able to live within its means. In practice this has seen Government funding to local authorities dramatically reduced since 2010/11 with Sevenoaks District Council receiving no Revenue Support Grant from 2017/18.

13 The decision to become financially self-sufficient is intended to give the Council greater control over its services, reducing the potential for decision making to be influenced by the level of funding provided by government to local authorities.

14 With the Council receiving no Revenue Support Grant from 2017/18 and New Homes Bonus reducing from 2018/19, this approach remains appropriate. The attached 10-year budget assumes no Revenue Support Grant or New Homes Bonus. Any funding received from these sources will be put into the Financial Plan Reserve which can be used to support the 10-year budget by funding invest to save initiatives and supporting the Property Investment Strategy. One of the aims of the Property Investment Strategy is to achieve returns of 5% when not borrowing or in excess of 3% for schemes that include some external borrowing; therefore using funding for this purpose will result in additional year on year income that is not impacted by Government decisions.

15 Cabinet are keen to remain financially self-sufficient and be ahead of the game. This will allow this Council to move ahead in the knowledge that this Council has the financial resources to provide the services that the district's residents want into the future.

Provisional Local Government Finance Settlement

16 ***The Provisional Local Government Finance Settlement*** for 2018/19 was announced on 19 December 2017. The two most relevant elements for this Council were that the Council Tax increase referendum limit for district councils for 2018/19 has been increased from 2% (or £5 if higher) to 3% (or £5 if higher) and that the Kent and Medway Business Rates Retention Bid for 2018/19 was successful.

17 ***Government Support: Revenue Support Grant*** **(RSG)** (£nil received in 2017/18) – As previously assumed, this council no longer receives Revenue Support Grant from 2017/18.

18 ***New Homes Bonus (NHB)*** (£1.8m received in 2017/18 but not used to fund the revenue budget) – the Government started this new funding stream in 2011/12 with the intention that local authorities would be rewarded for new homes being built over a six-year period. Last year the Government announced that the basis of NHB has been changed. Previously it was based on cumulative figures for 6 years but this has been reduced to 5 years from 2017/18 and 4 years from 2018/19. In addition, NHB will only be received on tax base growth above 0.4% instead of on all growth.

New Homes Bonus (estimated amounts)	
2018/19	£1.320m
2019/20	£1.152m

19 In the same way as RSG, the attached 10-year budget assumes no NHB resulting in there being no reliance on this funding source to support the revenue budget. Any amounts received will be put into the Financial Plan Reserve for the same purpose as noted above.

20 ***Council Tax*** (£10.0m) – In the Local Government Finance Settlement it was announced that the referendum limit for 2018/19 was being increased to 3% (or £5 if higher) in line with current inflation. At the Cabinet meeting on 11 January 2018 Members recommended to increase the Council Tax increase assumption for 2018/19 to 2.97% but for it to remain at 2% for later years.

Council Tax Increase Assumptions	Original Assumptions	Proposed Assumptions
2018/19 % increase	2.00%	2.97%
2018/19 £ (Band D pa)	£206.83	£208.80
2018/19 £ (Band D increase pa)	£4.06	£6.03

21 This proposal would result in Band D Council Tax increasing from £202.77 in 2017/18 to £208.80 in 2018/19.

22 Due to the uncertainty of future Council Tax increase referendum limits, if maximum increases are not taken there will be an ongoing detrimental impact on the ability to increase Council Tax in future years.

23 The 2017/18 Council Tax Base has increased from 49,680.5 to 49,902.9 Band D equivalent properties. That is an increase of 523.6 (1.05%) which is below the assumed increase of 580 (1.17%).

24 This is the lowest increase in Kent for 2018/19 and this council also has the lowest cumulative increase over the last five years. If increases continue to be low, there will be an on-going pressure on services to make compensating savings.

Council Tax Base Increases	2018/19	2014/15 – 2018/19
Sevenoaks DC	1.05%	4.77%
Kent average	2.16%	8.62%
Kent highest	3.82%	13.40%

25 ***Business Rates Retention*** (£2.0m) - The basis for allocating Government Support from 2013/14 changed to the Business Rates Retention Scheme. This scheme initially allows billing authorities, such as this council, to keep 40% of Business Rates received. However tariffs and top-ups are applied to ensure that the funding received by each local authority is not significantly different to pre 2013/14 amounts.

26 There has been a commitment from Government to introduce 100% Business Rates Retention since before the 2015 General Election. The Department for Communities and Local Government (DCLG) invited local authorities to participate in a pilot of Business Rates Retention in 2018/19. A Kent and Medway pilot bid was submitted including Sevenoaks, which was agreed by Cabinet on 12 October 2017.

27 It was announced in the Provisional Local Government Finance Settlement that the Kent and Medway pilot bid was one of ten successful bids. Latest calculations included in the bid suggest that this council could retain £2.7m. This is an amended figure from that included in the Budget Update report to Cabinet on 11 January 2018. However, adjustments are still being made to the Government calculations and further work will be completed to provide a more accurate estimate. The actual amount retained will depend on Business Rates collections levels across the county during the year.

28 The pilot is for one year only and it is uncertain what will happen in 2019/20 as the Government has announced that 75% Business Rates Retention (rather than 100%) will not fully commence until 2020/21 when amounts will also be re-based.

29 Revised 'safety-net' amounts were included in the settlement which have been included in the attached 10-year budget. The 2018/19 figure is £95,000 higher than the amount announced last year but the 2019/20 figure is £32,000 lower.

Business Rates Safety-Net	
2018/19	£2.150m
2019/20	£2.096m

30 The settlement continued to include an indicative 'tariff adjustment' amount of £1.083m in 2019/20. This is in effect a negative Revenue Support Grant. This is not included in the 10-year budget as it is expected to be part of the adjustments made when Business Rates retention is fully implemented.

31 Due to the uncertainty around Business Rates Retention, the following changes to the 10-year budget have been made that have no overall impact with the balance being transferred to the Budget Stabilisation Reserve.

Business Rates Retention changes to the 10-year Budget	2018/19 Impact £000	10-year Budget Impact £000
Revised Safety-Net	(95)	211
Business Rates Retention pilot 2018/19	(550)	(550)
Transfer to Budget Stabilisation Reserve	339	339
Total	**(306)**	**0**

Collection Fund Surplus/Deficit Calculation

32 Rules governing the operation of the collection fund require the Council to make an estimate on 15 January (or the next working day) each year of the fund's likely surplus or deficit at the end of the current financial year, in respect of council tax transactions. The amount so estimated is to be shared between the District Council, County Council, Fire and Police in proportion to their precepts on the collection fund. Each authority's share is to be taken into account by the authority in calculating its council tax for the year following the year in which the surplus or deficit has been estimated.

33 The estimated balance on the collection fund at 16 January 2017 was zero whilst the actual surplus balance at 31 March 2017 was £507,500. The balance is relatively small in the context of the gross council tax collectible during 2016/17 of just over £80m. It came about following a review of the bad debt provision.

34 The calculation at 15 January 2018 estimates a likely surplus or deficit balance on the collection fund at 31 March 2018. This is based on the tax

bills issued for the year, current collection performance and the level of bad debt provision held.

35 The overall estimated surplus at 31 March 2018 is £1,519,500, of which the Council's share is £254,772. This has come about as a result of greater than expected council tax income plus a further review of the bad debt provision during 2017/18.

Other Changes to the 10-Year Budget agreed by Council in February 2017

36 ***Pay costs*** (£15m) - The 'National Employers for Local Government Services' have announced their final pay offer to the unions of a 2% increase in both 2018/19 and 2019/20. The unions have not accepted this offer so the actual increase is not yet known. The previous assumption in the 10-year budget was for a 1% increase in both years based on the previous Government announcement, and a 2% increase in later years. The attached 10-year budget has been amended to reflect a 2% increase in both 2018/19 and 2019/20.

37 ***Council Tax* -** There was an announcement in the Government's Autumn Budget regarding giving councils the ability to reduce empty property discounts from 2019/20. A separate report will be presented to Members prior to any changes to discounts being made but the attached 10-year budget assumes that an additional £65,000 of Council Tax will be received from 2019/20.

38 ***Superannuation Fund* -** Following the last triennial valuation of the superannuation fund for 2017/18, a £200,000 increase was included in the 10-year budget from 2020/21, the year of the next valuation. Recent information suggests that funds are performing better than previously expected, therefore the increase has been reduced to £100,000 in the attached 10-year budget.

Current Budget Position

39 There are two changes to the budget since the report to Cabinet on 11 January 2018.

40 The first is regarding the Business Rates Retention pilot which is explained above and has no net impact on the 10-year budget position.

41 The second is the Collection Fund surplus where the additional one-off income in 2018/19 for this council has increased by £11,000 to £254,772.

42 When the 10-year budget was agreed by Council in February 2016, an annual savings/additional income assumption of £100,000 was included. This assumption now remains for nine years up to and including 2026/27.

43 It is recognised that the recruitment and retention of staff continues to be a challenge. Officers are working to address these issues and it is anticipated that the cost of any changes will be met within approved budgets.

44 The 10-year budget (Appendix B) shows a fully funded 10-year position. By continuing to use the 10-year budget strategy, this council remains in a strong position going forward.

45 Appendix D shows that the overall change in the 10-year Budget since it was last approved by Council in February 2017 is a very small improved position of £47,000 (i.e. £4,700 per annum).

2018/19 Budget and Council Tax

46 After allowing for the growth and savings agreed and the key changes made during this budget process, the resulting net expenditure for 2018/19 is £14.687m. As shown in Appendix E this results in Council Tax income of £10.42m, meaning that the District element of the Band D charge will be £208.80.

47 When the other preceptors announce their increases, details will be included in Appendix K.

Capital Programme

48 A report setting out the proposed 2018/21 Capital Programme, with supporting documentation in a standard format for individual scheme bids was presented to the Finance Advisory Committee on 30 January 2018 and Cabinet on 6 February 2018.

49 Scheme bid documents were received for all new schemes which included the proposed funding methods.

50 Unspent budgets in the current year's programme (2017/18) can be carried forward to 2018/19, subject to Cabinet approval, when the outturn is known.

51 Appendix H summarises the position if all schemes are approved, and indicates the funding method proposed.

52 Council will be informed at the meeting of any changes recommended by Cabinet.

Integration with other budget reports on the Cabinet Agenda

53 A separate report on the Treasury Management Strategy is being presented to Cabinet and Council. The attached revenue budgets take into account the recommendations and revenue implications set out in this report as well as the Capital Programme.

Opinion under the Local Government Act 2003 (LGA 2003)

54 Under the LGA 2003 the Statutory Finance Officer (Chief Finance Officer) is required to give Members an opinion on the robustness of the budget estimates and the adequacy of reserves.

55 In terms of the robustness of the budget, the following sources of assurance were taken into account:

- The Strategic Business and Financial Planning process used for the 2018/19 budget.
- The Financial Strategy, including a 10-year Budget, clear financial objectives and sensitivity analysis.
- Growth and savings suggestions proposed.
- The strong financial control structure and effective performance management within the Council, confirmed by feedback from external auditors.
- Clear budget responsibilities at individual officer level.
- Effective monitoring regime giving early notification of potential financial issues through the use of the Finance Advisory Committee.
- Effective Internal/External audit system, with risk-based audits, reporting through the Audit Committee.
- Set aside of earmarked funds for potential liabilities in the medium term.
- Effective strategic and operational risk management.

56 As is the case every year, inevitably there are a number of risk factors within the 2018/19 budget proposals; these are set out in some detail in Appendix J. This Appendix was also considered by the Finance Advisory Committee on 30 January 2018. Some of the more significant items are set out below.

a) Pay costs

Pay costs are budgeted on 100% basis, with a 2% inflationary pay award assumption in 2018/19 included and with a separate vacancy saving target. With controls over the appointment of any staff and monitoring of staff numbers as well as costs, pay costs are subject to a high level of control.

b) Income

In-depth monitoring of income budgets will continue throughout the year and will be given regular consideration by the Finance Advisory Committee.

c) Pensions funding

The next actuarial valuation will take effect from 2020/21 and an increase assumption has been included in the 10-year budget from then.

d) Investment receipts

Interest receipts have remained low in 2017/18 and are not expected to increase significantly in the near future. The Treasury Management Strategy will be kept under review and brought back to Members for consideration as necessary during the year. The proposed Strategy for 2018/19 is reported separately on this Agenda.

e) Capital investment

Property Investment Strategy income is included in the 10-year budget. Members are assured that any property acquisitions will be supported by a thorough business case and approved by the relevant Portfolio Holders.

f) Growth

The 10-year budget has no allowance for growth as it is anticipated that where possible this will be met through additional savings or the Budget Stabilisation Reserve.

57 Members will recognise that budget risk cannot be avoided completely. However, the structures already in place and the actions being put in place should ensure that next year's overall revenue spend figure is achieved, particularly through the Council's flexible approach to budgeting allowing the risk areas to be compensated by those that are underspent or over achieve on income.

Adequacy of Reserves

58 Ensuring the adequacy and sustainability of the Council's reserves continues to be a key part of the budget process. Individual balances have been reviewed as part of writing this report and the detailed work is set out in Appendix I. This review should ensure that all provisions and earmarked reserves are adequate for their purposes.

59 This Council aims to continue to look for better ways to operate and therefore improve the service to our customers. This has been shown by the success in 2017 of winning the CIPFA Public Finance Innovation Award.

60 A Corporate Project Support Reserve is a crucial funding source to allow innovations to develop and for new capital and revenue projects to be investigated, assessed and implemented. It is recommended that further funds are moved to this reserve. One major project that has recently commenced is Customer Redesign which aims to improve the customer experience and make Sevenoaks a “Seriously Different Council”. This will allow the customer to be dealt with more quickly and where possible at the first point of contact.

61 It is recommended that the Council hold a minimum General Fund reserve balance of 10% of its net Revenue Budget, for emergencies.

62 The strong formal advice of the Section 151 officer to the Council is that every effort must be made to achieve the agreed savings in order to ensure financial sustainability and preserve the level of reserves for future commitments. The Council should avoid, at all costs, the General Fund Reserve balance reducing below 10% of its Net Service Expenditure (for 2018/19 this equates to £1.47m).

Referendums relating to council tax increases

63 Section 72 of the Localism Act 2011 inserted Section 52ZB into the Local Government Finance Act 1992. This sets out the duty on local authorities, fire authorities and Police and Crime Commissioners (PCCs) to each determine whether the amount of council tax they plan to raise for a financial year is excessive. If an authority’s relevant basic amount of council tax is excessive, the provisions in relation to the duty to hold a referendum apply.

64 The Secretary of State has published draft thresholds in relation to 2018/19 council tax levels. District councils will be allowed a Band D council tax increase of the higher of 3% or £5. This council is therefore able to increase Band D council tax by up to 3% without requiring a referendum. As in previous years, no equivalent principles are being proposed for Town and Parish Councils although the Government has said that they will keep this under review and take action if necessary.

Key Implications

<u>Financial</u>

All financial implications are covered elsewhere in this report.

<u>Legal Implications and Risk Assessment Statement.</u>

There are no legal implications.

For the effective management of our resources and in order to achieve a sustainable budget it is essential that all service cost changes and risks are identified and considered. The budget risk analysis is included as Appendix J.

Current and future pressures were included in the Service Dashboards presented to the Advisory Committees and each Service Change Impact Assessment (SCIA) included the likely impacts including a risk analysis.

An effective integrated policy and priority driven long-term financial and business process is required for the Council to deliver on its priorities and maintain a sustainable budget. It is also essential that continuous improvements are identified and implemented in order to take account of the changing climate within which the Council operates and to meet the expectations of both Government and the public on the quality of service demanded from this Council.

The risks associated with the 10-year budget approach include uncertainty around the future Business Rates Retention scheme. The risk will be mitigated by continuing to review assumptions and estimates and by updating Members throughout the process.

The Council has in place a number of specific reserves and provisions to address identified risks.

Equality Assessment

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to (i) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010, (ii) advance equality of opportunity between people from different groups, and (iii) foster good relations between people from different groups.

Individual equalities assessments have been completed for all Service Change Impact Assessments (SCIAs) to ensure the decision making process is fair and transparent. These were included in the Budget Update 2018/19 reports to Cabinet on 7 December 2017 and 11 January 2018.

Community Impact and Outcomes

In making any budget proposals, Members need to consider the impact on customers, service quality and staff well-being, to ensure that the budget supports the Council's aspirations for customer-focused services.

Conclusions

The budget process has once again been a major financial challenge for a council that already provides value for money services to a high standard. The 10-year budget shows a fully funded position over the whole period which keeps this council in a strong position going forward.

The future financial prospects for the public sector remain difficult however, this budget ensures the Council remains in a financially sustainable position.

If the council tax resolution attached in Appendix M is approved, the Sevenoaks District Council element of the band D council tax will be £208.80.

Appendices	Appendix A – Budget timetable
	Appendix B - 10-year budget
	Appendix C - Summary of the Council's agreed savings and growth items
	Appendix D - Summary of changes to the 10-year Budget
	Appendix E - Summary of Council Expenditure and Council Tax
	Appendix F - Summary of service analysis in budget book format
	Appendix G – Analysis of pay costs
	Appendix H – Capital Programme 2018-21 (also being considered by Finance Advisory Committee on 30 January 2018)
	Appendix I - Reserves
	Appendix J - Risk analysis (also being considered by Finance Advisory Committee on 30 January 2018)
	Appendix K – Latest information on precepting authorities (only in Council report)
	Appendix L - Town and Parish Council precepts and council tax rates (only in Council report)
	Appendix M - Council tax setting recommendations (only in Council report)
	Appendix N - Council tax rates across the district (only in Council report)
Background Papers	Report to Council 21 February 2017 – Budget and Council Tax Setting 2017/18
	Report to Cabinet 14 September 2017 – Financial Prospects and Budget Strategy 2018/19 and

Beyond

Report to Economic and Community Development Advisory Committee 3 October 2017, Policy and Performance Advisory Committee 5 October 2017, Housing and Health Advisory Committee 10 October 2017, Legal and Democratic Services Advisory Committee 17 October 2017, Direct and Trading Advisory Committee 2 November 2017, Finance Advisory Committee 14 November 2017, Planning Advisory Committee 23 November 2017- Budget 2018/19: Service Dashboards and Service Change Impact Assessments (SCIAs)

Report to Cabinet 7 December 2017 - Budget Update 2018/19

Report to Cabinet 11 January 2018 - Budget Update 2018/19

Adrian Rowbotham
Chief Finance Officer

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2018/19 Budget Setting Timetable

	Date	Committee
Stage 1		
Financial Prospects and Budget Strategy 2018/19 and Beyond	5 September	Finance AC
	14 September	Cabinet
Stage 2		
Review of Service Dashboards and Service Change Impact Assessments (SCIAs)	3 October	Economic & Comm. Dev. AC
	5 October	Policy & Performance AC
	10 October	Housing & Health AC
	17 October	Legal & Dem. Svs AC
	2 November	Direct & Trading AC
	14 November	Finance AC
	23 November	Planning AC
Stage 3		
Budget Update (incl. Service Change Impact Assessments (SCIAs), feedback from Advisory Committees)	7 December	Cabinet
Stage 4		
Budget Update (incl. Government Settlement information)	11 January	Cabinet
Stage 5		
Budget Update and further review of Service Change Impact Assessments (if required)	*January - February*	*Advisory Committees*
Stage 6		
Budget Setting Meeting (Recommendations to Council)	6 February	Cabinet
Stage 7		
Budget Setting Meeting (incl. Council Tax setting)	20 February	Council

Note: The Scrutiny Committee may ‘call in’ items concerning the budget setting process.

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Ten Year Budget **Appendix B**

	Budget 2017/18 £000	Plan 2018/19 £000	Plan 2019/20 £000	Plan 2020/21 £000	Plan 2021/22 £000	Plan 2022/23 £000	Plan 2023/24 £000	Plan 2024/25 £000	Plan 2025/26 £000	Plan 2026/27 £000	Plan 2027/28 £000
Expenditure											
Net Service Expenditure c/f	13,689	14,470	14,687	14,965	15,317	15,698	16,073	16,455	16,842	17,234	17,631
Inflation	494	732	559	650	467	475	482	487	493	497	506
Superannuation Fund deficit and staff recruitment & retention	300	0	0	100	0	0	0	0	0	0	0
Net savings (approved in previous years)	(13)	(427)	(186)	(232)	14	0	0	0	(1)	0	1
New growth	*0*	*292*	*15*	*(51)*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
New savings/Income	*0*	*(380)*	*(110)*	*(115)*	*(100)*	*(100)*	*(100)*	*(100)*	*(100)*	*(100)*	*0*
Net Service Expenditure b/f	**14,470**	**14,687**	**14,965**	**15,317**	**15,698**	**16,073**	**16,455**	**16,842**	**17,234**	**17,631**	**18,138**
Financing Sources											
Govt Support: Revenue Support Grant	0	0	0	0	0	0	0	0	0	0	0
New Homes Bonus	0	0	0	0	0	0	0	0	0	0	0
Council Tax	(10,013)	(10,420)	(10,816)	(11,157)	(11,508)	(11,869)	(12,239)	(12,619)	(13,010)	(13,411)	(13,798)
Business Rates Retention	(1,990)	(2,700)	(2,096)	(2,138)	(2,181)	(2,225)	(2,270)	(2,315)	(2,361)	(2,408)	(2,456)
Collection Fund Surplus	0	(255)	0	0	0	0	0	0	0	0	0
Interest Receipts	(130)	(130)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Property Investment Strategy Income	(500)	(735)	(1,185)	(1,185)	(1,185)	(1,185)	(1,285)	(1,329)	(1,329)	(1,529)	(1,529)
Contributions to/(from) Reserves	647	(14)	(353)	(353)	(353)	(179)	(179)	(635)	148	148	148
Total Financing	**(11,986)**	**(14,254)**	**(14,700)**	**(15,083)**	**(15,477)**	**(15,708)**	**(16,223)**	**(17,148)**	**(16,802)**	**(17,450)**	**(17,885)**
Budget Gap (surplus)/deficit	**2,484**	**433**	**265**	**234**	**221**	**365**	**232**	**(306)**	**432**	**181**	**253**
Contribution to/(from) Stabilisation Reserve	**(2,484)**	**(433)**	**(265)**	**(234)**	**(221)**	**(365)**	**(232)**	**306**	**(432)**	**(181)**	**(253)**
Unfunded Budget Gap (surplus)/deficit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Assumptions	
Revenue Support Grant:	nil all years
Business Rates Retention:	Business Rates Retention pilot estimate in 18/19, safety-net in 19/20 plus 2% in later years
Council Tax:	2.97 in 18/19, 2% in later years
Council Tax Base:	Increase of 580 Band D equivalent properties per annum in 19/20 - 26/27, 480 from 27/28
Interest Receipts:	£130,000 in 18/19, £250,000 in later years
Property Inv. Strategy:	£735,000 from 18/19, £1.185m from 19/20, £1.285m from 23/24, £1.329m from 24/25, £1.529m from 26/27 onwards. Sennocke Hotel income included from 2019/20.
Pay award:	2% in all years
Other costs:	2.25% in all years
Income:	2.5% in all years

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Summary of the Council's Agreed Savings and Growth Items **Appendix C**

SCIA		Description	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Later Years	Total
Year	No.		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
		Direct and Trading Advisory Committee										
2016/17	8	Playgrounds: Reduction in asset maintenance (reversal of temporary saving item)									7	
2016/17	9	Public Conveniences: Reduction in asset maintenance (reversal of temporary saving item)									8	
		Economic and Community Development Advisory Committee										
		No savings or growth agreed from 2018/19 onwards										
		Finance Advisory Committee										
2011/12	62,63	Staff terms and conditions - savings agreed by Council 18/10/11								(301)	(373)	
2015/16	10	External Audit fee reduction (reversal of temporary saving item)								30		
2017/18	25	Internal Enforcement Agents for Local Tax recovery								(104)		
		Housing and Health Advisory Committee										
		No savings or growth agreed from 2018/19 onwards										
		Legal and Democratic Services Advisory Committee										
		No savings or growth agreed from 2018/19 onwards										
		Planning Advisory Committee										
		No savings or growth agreed from 2018/19 onwards										
		Policy and Performance Advisory Committee										
2017/18	10	Apprenticeship Levy (reversal of temporary growth item)									(45)	
2017/18	11	Swanley contract								(25)		
2017/18	12	Customer Service resource								(25)		
		Minor movements between years								(2)	(1)	
		Total Savings	**(2,984)**	**(841)**	**(314)**	**(479)**	**(533)**	**(721)**	**(372)**	**(427)**	**(359)**	**(7,030)**
		Total Growth	**371**	**45**	**50**	**327**	**177**	**309**	**359**	**0**	**(45)**	**1,593**
		Net Savings	**(2,613)**	**(796)**	**(264)**	**(152)**	**(356)**	**(412)**	**(13)**	**(427)**	**(404)**	**(5,437)**

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Summary of Changes to the 10-year Budget

Appendix D

SCIA Year	No.	Advisory Committee	Description	Year	Ongoing	2018/19 Impact £000	10-year Budget Impact £000
Savings							
2018/19	1	PPAC	Remote access software	2018/19	Yes	(2)	(20)
2018/19	2	PPAC	Reduction in telephony costs from SIP migration	2018/19	Yes	(12)	(120)
2018/19	3	PPAC	Further reduction in Swanley Local Office costs	2019/20	Yes	0	(210)
2018/19	4	LDSAC	Electoral Registration - reduced postage costs	2018/19	Yes	(2)	(20)
2018/19	5	FAC	Emergency Planning & Property Services - savings from previous restructure	2018/19	Yes	(12)	(120)
2018/19	6	FAC	Argyle Road Offices - savings on energy costs	2018/19	Yes	(10)	(100)
2018/19	7	FAC	Leisure - asset maintenance fee no longer paid	2018/19	Yes	(17)	(170)
2018/19	8	FAC	Scanning - reduction of vacant post	2018/19	Yes	(25)	(250)
2018/19	14	FAC	Audit fees: reduction in fees	2018/19	Yes	(30)	(300)
2018/19	15	FAC	Shared Services: efficiency savings	2018/19	Yes	(50)	(500)
2018/19	16	HHAC	Leisure contract: reduced management fee	2018/19	Yes	(10)	(100)
2018/19	17	PPAC	Public Notice Advertising: reduced expenditure	2018/19	Yes	(10)	(100)
2018/19	18	DTAC	Trading Services: increased net surplus	2018/19	Yes	(30)	(300)
2018/19	19	PAC	Planning: increased income	2018/19	Yes	(170)	(1,700)
			Sub Total			**(380)**	**(4,010)**
			Remove 2018/19 new savings target			**100**	**1,000**
Growth:							
2018/19	9	DTAC	Vehicle Replacement Fund: top up	2018/19	Yes	47	470
2018/19	10	FAC	Asset Maintenance: increase	2018/19	Yes	50	500
2018/19	11	FAC	Members Allowances: increase following JIRP review	2019/20	Yes	0	135
2018/19	12	PPAC	Land Charges: income below budget	2018/19	Yes	50	500
2018/19	13	PPAC	IT Developers: funding for two years	2018/19	No	51	102
2018/19	19	PAC	Planning: additional staffing	2018/19	Yes	94	940

Summary of Changes to the 10-year Budget

Appendix D

SCIA Year	No.	Advisory Committee	Description	Year	Ongoing	2018/19 Impact £000	10-year Budget Impact £000
			Sub Total			**292**	**2,647**
Assumption Changes:							
			Pay inflation: 2018/19 increase from 1% to 2.03%			147	1,600
			Pay inflation: 2019/20 increase from 1% to 2%			0	1,411
			Council Tax: 2018/19 increase from 2% to 2.97%			(99)	(1,140)
			Council Tax base: actual figure for 2018/19			12	131
			Council Tax: reduce empty property discounts from 2019/20			0	(631)
			Collection Fund surplus: 2018/19 one-off			(255)	(255)
			Superannuation Fund deficit: 2020/21 reduce growth from £200,000 to £100,000			0	(800)
			Business Rates: revised safety-net			(95)	211
			Business Rates: 2018/19 Retention pilot			(910)	(910)
			Business Rates: contribution to Budget Stabilisation Reserve			699	699
			Sub Total			**(501)**	**316**
			Total Change to 10-year Budget			**(489)**	**(47)**

Summary of Council Expenditure & Council Tax

	2017/18 Budget Net Expenditure £000	**2018/19** Budget Net Expenditure £000
Service expenditure before Support Services and Capital Charges including trading accounts (see Appendix F)	*14,701*	*14,930*
Capital Charges and Support Services charged outside the General Fund	(231)	(243)
Sub Total	14,470	14,687
Non allocated expenditure:		
Collection Fund adjustment	0	0
Net Service Expenditure excluding capital charges	14,470	14,687
Revenue Support Grant inc CTS	0	0
Retained Business Rates	(1,990)	(2,700)
New Homes Bonus	0	0
Council Tax Requirement - Sevenoaks DC	(10,013)	(10,420)
Collection Fund Surplus	0	(255)
Grant & Council Tax income	(12,003)	(13,375)
Net Expenditure after Grant & Council Tax, before interest	2,467	1,312
Less: Interest and Investment income	(130)	(130)
Less: Property Investment Strategy Income	(500)	(735)
Amount to be met from Reserves	1,837	447
Contributions (to) / from reserves		
Earmarked Reserves		
Capital	(148)	(148)
Budget Stabilisation	1,484	94
New Homes Bonus Reserve	0	0
Financial Plan	501	501
Corporate Project Support	0	0
Planned contribution from General Fund Reserve	0	0
	1,837	447

Appendix E

	2016/17	**2017/18**		**2018/19**	
Taxbase	48,209	49,681		49,902	
	£	£		£	
Council Tax @ Band D	192.87	202.77		208.80	
Council Tax Summary					
Band D charge					
			%		%
Kent County	1,089.99	1178.82	*69.6*		
Kent Fire	70.65	73.35	*4.3*		
Kent Police	147.15	157.15	*9.3*		
	1,307.79	1,409.32	*83.2*	0.00	
Sevenoaks District	192.87	202.77	*12.0*		
Average Town/Parish	73.95	81.13	*4.8*		
	1,574.61	**1,693.22**	*100.0*	**0.00**	
Interest Receipts Summary					
Investment interest		157		157	
Mortgage and other interest		0		0	
Allocations to Provisions		(27)		(27)	
Net Revenue contribution		130		130	

Net Service Expenditure analysed by Chief Officer

Summary	**Actuals 16/17** £'000	**Budget 17/18** £'000	**Budget 18/19** £'000
Communities & Business	1,377	1,500	1,532
Corporate Services	2,660	2,845	2,967
Environmental & Operational Services	4,724	4,620	4,811
Financial Services	4,231	4,520	4,481
Planning Services	1,374	1,330	1,284
	14,364	14,815	15,074
Direct Services		(114)	(144)
Items outside General Fund		(231)	(243)
		14,470	**14,687**

Summary	**Actuals 16/17** £'000	**Budget 17/18** £'000	**Budget 18/19** £'000
Pay Costs	10,710	11,848	12,339
Premises and Grounds	2,147	1,612	1,685
Transport	72	57	62
Supplies & Services	2,503	2,258	2,264
Supplies & Services IT	796	914	977
Agency & Contracted	4,674	3,540	3,659
Agency & Contracted - Partnerships	2,950	3,074	3,128
Agency & Contracted - Direct Services	3,940	4,031	4,150
Transfer Payments - Benefits	27,357	28,090	28,090
Transfer Payments - Other	115	39	39
Support Services	51	51	52
Funds drawn to/from Reserves	(262)	(310)	(393)
Income - Other	(30,375)	(30,498)	(30,656)
Income - Fees and Charges	(7,638)	(6,338)	(6,678)
Recharges	(255)	(282)	(282)
Recharges - Partnerships	(2,422)	(3,270)	(3,359)
Services and Capital charges	**14,364**	**14,815**	**15,074**
Direct Services (net)		(114)	(144)
Items outside General Fund		(231)	(243)
		14,470	14,687

Analysis of budget changes between 17/18 and 18/19

Base Budget 2017/18	14,470
Inflation	732
Net Savings agreed previous years	(427)
New Growth	292
New savings/income	(380)
Propsed Budget 2018/19	14,687

Appendix F

Net Service Expenditure analysed by Chief Officer

	Actuals 16/17 £'000	Budget 17/18 £'000	Budget 18/19 £'000
Communities & Business			
All Weather Pitch	(5)	(5)	(5)
Community Safety	182	183	187
Community Development Service Provisions	(5)	(5)	(6)
The Community Plan	51	53	55
Dunton Green Projects - S106	0	0	0
Economic Development	52	55	57
Economic Development Property	223	269	277
Grants to Organisations	186	183	183
Health Improvements	42	42	44
Homeless	86	152	143
Housing	228	191	214
Housing Initiatives	6	52	53
Homelessness Prevention	0	0	0
Housing Energy Retraining Options (HERO)	0	35	36
Leisure Contract	220	183	175
Leisure Development	20	20	20
Partnership - Home Office	0	0	0
Administrative Expenses - Communities & Business	19	25	26
Administrative Expenses - Housing	10	0	0
Tourism	36	31	31
Choosing Health WK PCT	0	0	0
Community Sports Activation Fund	0	0	0
Homelessness Funding	(10)	0	0
Leader Programme	7	5	5
PCT Initiatives	0	0	0
West Kent Enterprise Advisor Network	0	0	0
West Kent Partnership	0	0	0
Youth	29	31	36
Total Service Expenditure	1,377	1,500	1,532

Net Service Expenditure analysed by Chief Officer

	Actuals 16/17 £'000	Budget 17/18 £'000	Budget 18/19 £'000
Communities & Business			
Pay Costs	999	1,265	1,399
Premises and Grounds	15	0	0
Transport	16	8	13
Supplies & Services	139	146	163
Supplies & Services IT	5	0	0
Agency & Contracted	729	454	449
Transfer Payments - Other	45	39	39
Funds drawn to/from Reserves	(123)	(76)	(136)
Income - Other	(261)	(159)	(255)
Income - Fees and Charges	(185)	(177)	(141)
Recharges	(2)	0	0
Total Service Expenditure	1,377	1,500	1,532

Analysis of budget changes between 17/18 and 18/19

Base Budget 2017/18	1,500
Inflation (inc pay increments and terms and conditions SCIA 62; 63 14/15)	41
SCIAs 2018/19	
SCIA 16 Leisure contract: reduced management fee	(10)
Other Adjustments	1
Proposed Budget 2018/19	**1,532**

Appendix F

Net Service Expenditure analysed by Chief Officer

	Actuals 16/17 £'000	Budget 17/18 £'000	Budget 18/19 £'000
Corporate Services			
Asset Maintenance IT	270	275	277
Civic Expenses	15	16	16
Corporate Projects	48	93	95
Democratic Services	111	138	143
Elections	82	121	129
Land Charges	(82)	(147)	(99)
Register of Electors	159	253	234
Administrative Expenses - Corporate Services	19	25	25
Administrative Expenses - Legal and Democratic	65	50	51
Administrative Expenses - Human Resources	41	10	5
Street Naming	6	5	5
Support - Contact Centre	413	436	445
Support - General Admin	27	37	33
Support - IT	966	1,002	1,069
Support - Legal Function	201	210	226
Support - Local Offices	55	57	31
Support - Nursery	3	0	0
Support - Human Resources	261	264	282
Website	2	0	0
Total Service Expenditure	2,660	2,845	2,967

Net Service Expenditure analysed by Chief Officer

	Actuals 16/17 £'000	Budget 17/18 £'000	Budget 18/19 £'000
Corporate Services			
Pay Costs	1,691	2,047	2,115
Premises and Grounds	52	3	3
Transport	7	1	1
Supplies & Services	494	271	249
Supplies & Services IT	630	754	767
Agency & Contracted	509	182	202
Agency & Contracted - Direct Services	11	11	12
Transfer Payments - Other	2	0	0
Funds drawn to/from Reserves	5	(37)	(37)
Income - Other	(228)	0	0
Income - Fees and Charges	(421)	(301)	(259)
Recharges	(34)	(31)	(31)
Recharges - Partnerships	(58)	(54)	(54)
Total Service Expenditure	2,660	2,845	2,967

Analysis of budget changes between 17/18 and 18/19

Base Budget 2017/18	2,845
Inflation (inc pay increments and terms and conditions SCIA 62; 63 14/15)	88
Planned Savings agreed previous years	
2017/18 SCIA 11 Swanley contract	(25)
2017/18 SCIA 12 Customer Service resource reduction	(25)
SCIAs 2018/19	
SCIA 01 Remote access software	(2)
SCIA 02 Reduction in telephony costs from SIP migration	(12)
SCIA 04 Electoral Registration - reduced postage costs	(2)
SCIA 12 Land Charges: income below budget	50
SCIA 13 IT Developers: funding for two years	51
Other Adjustments	(1)
Proposed Budget 2018/19	**2,967**

Net Service Expenditure analysed by Chief Officer

Environmental & Operational Services	Actuals 16/17 £'000	Budget 17/18 £'000	Budget 18/19 £'000
Environmental & Operational Services			
Asset Maintenance Argyle Road	67	72	108
Asset Maintenance Car Parks	19	0	0
Asset Maintenance CCTV	16	17	17
Asset Maintenance Countryside	5	8	8
Asset Maintenance Other Corporate Properties	42	32	48
Asset Maintenance Direct Services	38	38	39
Asset Maintenance Hever Road	36	37	38
Asset Maintenance Leisure	226	174	178
Asset Maintenance Playgrounds	8	8	8
Asset Maintenance Support & Salaries	85	99	83
Asset Maintenance Sewage Treatment Plants	3	8	9
Asset Maintenance Public Toilets	6	7	7
Bus Station	8	17	17
Car Parks	(1,684)	(1,870)	(1,911)
CCTV	271	250	258
Civil Protection	28	50	47
Dartford Environmental Hub (SDC Costs)	0	0	0
Car Parking - On Street	(446)	(470)	(492)
EH Commercial	301	283	279
EH Animal Control	22	1	1
EH Environmental Protection	401	371	391
Emergency	62	65	66
Parking Enforcement - Tandridge DC	0	0	0
Energy Efficiency	28	29	29
Estates Management - Buildings	19	(21)	(18)
Estates Management - Grounds	123	110	116
Gypsy Sites	(38)	(20)	(26)
Disabled Facilities Grant Administration	(24)	(20)	(20)
Housing Premises	(4)	0	1
Kent Resource Partnership	0	0	0
Licensing Partnership Hub (Trading)	0	0	0
Licensing Regime	(3)	(4)	3
Markets	(192)	(185)	(182)
Parks - Greensand Commons Project	(22)	0	0
Parks and Recreation Grounds	80	114	120
Parks - Rural	165	114	121
Private Sector Housing	165	196	198
Refuse Collection	2,551	2,562	2,684
Administrative Expenses - Health	7	21	12
Administrative Expenses - Licensing	0	0	10
Administrative Expenses - Property	4	4	5
Administrative Expenses - Transport	7	8	8
Street Cleansing	1,331	1,374	1,415

Support - Central Offices	373	433	450
Support - Central Offices - Facilities	255	266	290
Support - General Admin	233	278	234
Support - Health and Safety	11	21	17
Support - Direct Services	61	57	58
Support - Procurement	0	6	6
Support - Property Function	41	42	48
Taxis	(14)	(7)	(11)
Public Conveniences	55	45	46
Total Service Expenditure	4,724	4,620	4,811

Net Service Expenditure analysed by Chief Officer

	Actuals 16/17	**Budget 17/18**	**Budget 18/19**
	£'000	£'000	£'000
Environmental & Operational Services			
Pay Costs	2,704	2,946	3,030
Premises and Grounds	2,063	1,592	1,665
Transport	42	40	41
Supplies & Services	810	706	722
Supplies & Services IT	36	6	6
Agency & Contracted	553	599	670
Agency & Contracted - Partnerships	801	749	763
Agency & Contracted - Direct Services	3,930	4,019	4,138
Support Services	51	51	52
Funds drawn to/from Reserves	(167)	0	0
Income - Other	(845)	(1,237)	(1,290)
Income - Fees and Charges	(4,872)	(4,006)	(4,127)
Recharges	(30)	(38)	(38)
Recharges - Partnerships	(353)	(808)	(822)
Total Service Expenditure	4,724	4,620	4,811

Analysis of budget changes between 17/18 and 18/19

Base Budget 2017/18	4,620
Inflation (inc pay increments and terms and conditions SCIA 62; 63 14/15)	151
SCIAs 2018/19	
SCIA 05 Emergency Planning & Property Services - savings from previous restructure	(12)
SCIA 06 Argyle Road Offices - savings on energy costs	(10)
SCIA 07 Leisure - asset maintenance fee no longer paid	(17)
SCIA 08 Scanning - reduction of vacant post	(25)
SCIA 09 Vehicle Replacement Fund: top up	47
SCIA 10 Asset Maintenance: increase	50
Other Adjustments	7
Proposed Budget 2018/19	**4,811**

Appendix F

Net Service Expenditure analysed by Chief Officer

	Actuals 16/17 £'000	Budget 17/18 £'000	Approved Budget 18/19 £'000
Financial Services			
Action and Development	0	7	7
Benefits Admin	708	181	174
Benefits Grants	(659)	(25)	(25)
Consultation and Surveys	0	4	4
Corporate Management	915	970	995
Corporate - Other	0	136	134
Dartford Partnership Hub (SDC costs)	0	0	0
Equalities Legislation	14	19	19
External Communications	140	196	192
Housing Advances	1	1	1
Local Tax	147	93	(21)
Members	404	428	428
Misc. Finance	1,809	1,689	1,734
Performance Improvement	(1)	(1)	(1)
Administrative Expenses - Chief Executive	13	30	30
Administrative Expenses - Finance	44	35	33
Administrative Expenses - Transformation and Strategy	7	5	5
Support - Counter Fraud	30	54	52
Support - Audit Function	172	177	177
Support - Exchequer and Procurement	126	105	103
Support - Finance Function	144	193	218
Support - General Admin	87	110	111
Treasury Management	132	113	114
Total Service Expenditure	4,231	4,520	4,481

Net Service Expenditure analysed by Chief Officer

	Actuals 16/17 £'000	Budget 17/18 £'000	Approved Budget 18/19 £'000
Financial Services			
Pay Costs	3,098	3,174	3,263
Premises and Grounds	18	16	17
Transport	6	7	5
Supplies & Services	931	1,045	1,040
Supplies & Services IT	108	152	201
Agency & Contracted	2,291	2,199	2,230
Agency & Contracted - Partnerships	1,829	1,993	2,026
Transfer Payments - Benefits	27,357	28,090	28,090
Funds drawn to/from Reserves	116	(217)	(258)
Income - Other	(28,878)	(29,102)	(29,111)
Income - Fees and Charges	(550)	(575)	(692)
Recharges	(189)	(192)	(192)
Recharges - Partnerships	(1,905)	(2,069)	(2,138)
Total Service Expenditure	4,231	4,520	4,481

Analysis of budget changes between 17/18 and 18/19

Base Budget 2017/18	4,520
Inflation (inc pay increments and terms and conditions SCIA 62; 63 14/15)	125
Planned Savings agreed previous years	
2015/16 SCIA 10 External audit fee	30
2017/18 SCIA 25 Internal enforcement agents	(104)
SCIAs 2018/19	
SCIA 14 Audit fees: reduction in fees	(30)
SCIA 15 Shared Services: efficiency savings	(50)
SCIA 17 Public Notice Advertising: reduced expenditure	(10)
Approved Budget 2018/19	**4,481**

Appendix F

Net Service Expenditure analysed by Chief Officer

	Actuals 16/17	Budget 17/18	Budget 18/19
	£'000	£'000	£'000
Planning Services			
Building Control Discretionary Work	0	(9)	0
Building Control Partnership Members	0	0	0
Building Control Partnership Hub (SDC Costs)	0	0	0
Building Control	(79)	(98)	(112)
Community Housing Fund	0	0	0
Conservation	80	49	91
Dangerous Structures	7	3	3
Housing	140	0	0
Needs and Stock Surveys	0	0	0
Planning Policy	469	571	598
LDF Expenditure	0	0	0
Building Control Partnership Implementation & Project Costs	0	0	0
Planning - Appeals	264	197	202
Planning - CIL Administration	(50)	(50)	(49)
Planning - Counter	(0)	0	0
Planning - Development Management	214	329	214
Planning - Enforcement	265	286	283
Fort Halstead	0	0	0
Administrative Expenses - Building Control	12	10	11
Administrative Expenses - Planning Services	52	43	44
Total Service Expenditure	1,374	1,330	1,284

Net Service Expenditure analysed by Chief Officer

	Actuals 16/17	Budget 17/18	Budget 18/19
	£'000	£'000	£'000
Planning Services			
Pay Costs	2,218	2,416	2,531
Premises and Grounds	1	1	1
Transport	1	1	1
Supplies & Services	129	91	91
Supplies & Services IT	18	2	2
Agency & Contracted	592	106	108
Agency & Contracted - Partnerships	320	331	338
Transfer Payments - Other	68	0	0
Funds drawn to/from Reserves	(93)	20	38
Income - Other	(162)	0	0
Income - Fees and Charges	(1,611)	(1,279)	(1,460)
Recharges	0	(21)	(21)
Recharges - Partnerships	(106)	(339)	(346)
Total Service Expenditure	1,374	1,330	1,284

Analysis of budget changes between 17/18 and 18/19

Base Budget 2017/18	1,330
Inflation (inc pay increments and terms and conditions SCIA 62; 63 14/15)	41
SCIAs 2018/19	
SCIA 19 Planning: increased income	(170)
SCIA 19 Planning: additional staffing	94
Other Adjustments	(11)
Proposed Budget 2018/19	**1,284**

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PAY COST ESTIMATES SUMMARY 2018/2019

Line No.		2017/18 BUDGET	2018/19 BUDGET	2017/18 FTE	2018/19 FTE
1	Communities and Business	971,033	1,001,641	20.35	20.35
2	Corporate Services	2,293,927	2,364,524	61.92	60.88
3a	Environmental Health	640,567	649,555	12.18	12.57
3b	Licensing	357,021	373,898	10.81	10.81
3c	Operational Services	676,254	695,186	14.99	14.99
3d	Operational Services (TASK)	2,965,610	3,108,338	94.17	97.17
3e	Parking & Amenity Services	385,564	428,899	11.00	12.00
3f	Property Services	737,921	775,276	19.48	20.48
4	Finance	2,834,956	2,923,603	68.61	69.81
5a	Planning	2,114,602	2,234,793	48.59	51.98
5b	Building Control	315,796	321,890	7.00	7.00
		14,293,250	**14,877,604**	**369.10**	**378.04**
	Other Salary Costs				
6	Vacancy Savings	(141,588)	(144,420)	0.00	0.00
	SUB-TOTAL	**14,151,662**	**14,733,184**	**369.10**	**378.04**
7	Communities & Business (Ext Funded)	381,991	514,477	10.50	14.50
8	Environmental & Operational Services (Ext Funded)	107,096	111,684	2.00	2.00
9	Property Services (Ext Funded)	56,535	57,014	1.50	1.50
	GRAND TOTAL	**14,697,284**	**15,416,358**	**383.10**	**396.04**

NOTES

1) Externally funded posts (lines 7 to 9) have been excluded from earlier lines. The income will show elsewhere in the 2018/19 budget

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Appendix H

Capital Programme 2018-21

Chief Officer/Scheme	Funding Source	Total approved scheme £000	Previous year spend £000	2017/18 Forecast £000	2018/19 Budget £000	2019/20 Budget £000	2020/21 Budget £000	Total over programme period £000
Communities and Business								
Parish projects	Capital Receipts	-	-	10	51	-	-	61
Environmental and Operational Services								
Dunbrik Vehicle Workshop	Capital Receipts	254	252	4	-	-		256
Dunbrik Vehicle Wash	Capital Receipts	30	-	30	-	-	-	30
Commercial vehicle replacements	Vehicle Renewal Res.	1,645	-	548	548	549	563	2,208
Disabled Facilities Grants (gross)	Better Care Fund	2,667	-	675	889	889	889	3,342
Sennocke Hotel	Fin Plan Reserve & Capital Receipts	7,530	378	4,142	2,928	82	-	7,530
Bradbourne Car Park	Internal Borrowing	5,300	5,309	36	-	-	-	5,345
Buckhurst 2 Car Park	External Borrowing	9,850	3	3,890	5,931	26	-	9,850
CCTV					50	20	-	70
Finance								
Property Investment Strategy	Prop. Inv. Reserve	43,000	9,430	97	25,198			34,725
TOTAL				9,432	35,595	1,566	1,452	63,417

Funding Sources

	2017/18	2018/19	2019/20	2020/21
Capital Receipts	2,686	4,111	46	-
Financial Plan Reserve & Cap Receipts	1,500	2,928	82	-
Vehicle Renewal Reserve	548	548	549	563
Property Investment Strategy Reserve ***	97	25,198	0	0
Better Care Fund (KCC)	675	889	889	889
Internal Borrowing	36	-	-	-
Capital Reserve (from Revenue)	-	561	-	-
External Borrowing	3,890	1,360	-	-
	9,432	35,595	1,566	1,452

*** Part will be funded from Capital Receipts, Reserves, Internal Borrowing and External Borrowing.

Statement of Reserves and Provisions

1. This appendix sets out details of the reserves and provisions held by the council. These balances have been subject to a detailed review as part of the budget process. **The items in bold show the changes that are being recommended.**

2. One of the requirements of the Financial Planning Strategy is to have flexible use of the Budget Stabilisation Reserve. The fund incorporates any annual under-spends and absorbs any annual over-spends. **It is recommended that any variance in the 2018/19 budget is put into this reserve or absorbed by this reserve.**

3. A Corporate Project Support Reserve is already in place to finance projects including 'invest to save' initiatives. **It is recommended that £141,000 be transferred into the Corporate Project Support Reserve** to help fund future project work. This will include the Customer Redesign project.

4. To fund this increase it is recommended that the following reserves are reduced:

5. **Reduce the First Time Sewerage Reserve by £60,000** as some liabilities have expired.

6. **Reduce other smaller reserves by £81,000** following a review of the ongoing requirements.

7. It is recommended that the following new reserves are set up:

8. Community Infrastructure Levy (CIL) Administration Reserve - 5% of the CIL charge can be retained by Planning Services to be spent on the administration of the levy. It is recommended that a reserve is established to hold the funds that accumulate to be spent in line with the CIL regulations.

9. Property Investment Strategy Maintenance Reserve – the cost of maintenance and void periods has been included when forecasting future income of the assets. It is recommended that a reserve is established to fund future maintenance requirements and any Property Investment Strategy net income above the current forecast of £545,000 in 2017/18 be put into this reserve.

The table below sets out the reserves and provisions held at 1 April 2017

	01/04/17	Purpose (some further details are included in the Statement of Accounts 2015/16)
Provisions	**£000**	
Business Rates Appeals	2,469	The change to the Business Rates Retention scheme means that the Council has to provide for its share of the costs arising from successful appeals by business ratepayers.
Accumulated Absences	152	Absorbs the difference that would otherwise arise on the General Fund Balance from accruing for compensated absences (e.g. annual leave) earned but not taken in the year. Opposite entry in Unusable Reserves.
Municipal Mutual Insurance (MMI)	256	A solvent run-off of MMI is now unlikely which may result in Councils being liable to clawback of monies paid out.
Sub Total	**2,877**	
Capital Receipts		
Capital Receipts	**143**	Balance from previous asset sales and mortgage repayments. Can be used to fund future capital expenditure.
Earmarked Reserves		
Action and Development	396	To fund ad hoc and unplanned expenditure (including emergencies and flooding).
Asset Maintenance	1,000	To fund emergency works to assets.
Budget Stabilisation	6,238	To support decisions required to continue to produce a balanced budget in future years.
Business Rates Retention	1,129	To manage the volatility in yearly cash flows in the Collection Fund caused by the complexities in the Business Rates Retention Scheme.
Capital Financing	413	Annual contributions from revenue to fund some capital projects.
Carry Forward Items	309	For specific items agreed by Cabinet, e.g. if a project has slipped between years.
Community and Business	350	External funding received for ongoing and future projects.
Corporate Project Support	650	To fund invest to save projects and external expertise required to investigate proposed projects.
Financial Plan	5,182	To support the 10-year budget and Property Investment Strategy.
First Time Sewerage	266	Potential liabilities relating to earlier sewerage installations.
Flood Support	144	To give grants to businesses that have suffered flooding and make claims under the

		Business Flood Support Scheme.
Housing Benefit Subsidy	723	Provides a cushion against large movements in reclaimable sums in any year.
IT Asset Maintenance	488	To fund future IT asset maintenance costs.
Local Plan/LDF	607	To help support the Local Plan and Local Development Framework.
New Homes Bonus (NHB)	499	NHB is being kept separate and used to fund the Property Investment strategy.
Pension Fund Valuation	500	To contribute towards downturns in future pension fund actuarial valuations.
Property Investment Reserve	1,682	To support the aims of the Property Investment Strategy.
Re-organisation	423	To fund actions taken to achieve annual budget savings.
Vehicle Insurance	310	Own vehicle damage for the commercial vehicle fleet. Contributions are made from the trading accounts.
Vehicle Renewal	432	Vehicle replacement for the commercial vehicle fleet. Contributions are made from the revenue trading accounts each year
Others	673	Includes Rent Deposit Guarantee, Local Strategic Partnership, Big Community Fund etc.
Sub Total	**22,414**	
General Fund	**1,500**	Acts as a working balance to meet unexpected issues during the year, for which a minimum of 10% of net service expenditure recommended. It also meets any planned deficits on the revenue account.
TOTAL	**26,934**	

Definitions:

Provisions - funds set aside for liabilities or losses which are known obligations, but are uncertain as to amounts or dates. Expenditure can be charged direct against the Provision without being reflected in the Revenue Account.

Capital Receipts - money received from the sale of assets (normally land and buildings) and the repayment of grants and advances (e.g. mortgage repayments). Such receipts can only be used to repay debt, or to finance capital investment.

Earmarked Reserve - amounts set aside for purposes falling outside the definition of Provisions. Expenditure should not be charged direct to reserves, but shown in the Revenue Account with the transfer to or from the reserve distinguished from service expenditure.

Unallocated Reserve - the General Fund balance. This amount is not set-aside for a specific purpose.

Risk Factors 2018/19

Issue	£ Scale	Likelihood 1 (low) - 5 (high)	Impact 1 (low) - 5 (high)	Total Score	Potential Annual Impact and Sensitivity Analysis	Risk Areas	Controls and Actions in place	Cash impact of 1% change in budgeted expenditure or income
Pay Costs	£14m total costs	3	4	12	1% pay increase = £143k. Budget assumptions: 2% pay award in all years.	Largest single item of cost. Complex drivers across the organisation. Staff recruitment and retention.	Employers' side final offer for 2018/19 and 2019/20 included in budget but it has not yet been accepted by the unions. Strict monitoring of both financials and staff numbers. New salary bands introduced from 1 April 2012 which reduced the costs of annual increments. Formal sickness & overtime monitoring. Separate control on agency staff. Part of National Agreement.	£143k
Pensions Funding	£22m deficit	1	3	3	1% change in employers contribs = £100k.	Deficit on County Fund. Future actuarial results. Government review.	£100k included in 10-year budget in 2020/21 to contribute towards any additional pensions costs when the next valuation takes place	£100k

Issue	£ Scale	Likelihood 1 (low) - 5 (high)	Impact 1 (low) - 5 (high)	Total Score	Potential Annual Impact and Sensitivity Analysis	Risk Areas	Controls and Actions in place	Cash impact of 1% change in budgeted expenditure or income
Major Service Income areas					See below by income type	Income subject to local economic conditions. Some very large single-source income targets (see below).	Strict monitoring, with trend analysis.	
- Land Charges	£0.2m	4	1	4	10% reduction would be £20k.	Volatile activity levels in the housing market. Potential for changes in Land Charges following the Infrastructure Act. Budgeted income not being achieved.	A growth SCIA is included in the budget process to reduce budgeted income levels by £50k.	£2k
- Development Management	£0.8m	3	3	9	10% reduction would be £80k.	Volatile activity levels in the housing market and general economic conditions. Fluctuations in income with major	Current year income is above target. Continue to monitor.	£8k

Issue	£ Scale	Likelihood 1 (low) - 5 (high)	Impact 1 (low) - 5 (high)	Total Score	Potential Annual Impact and Sensitivity Analysis	Risk Areas	Controls and Actions in place	Cash impact of 1% change in budgeted expenditure or income
						applications		
- Building Control	£0.4m	3	3	9	10% reduction would be £40k	Volatile activity levels in the housing market and general economic conditions. Competition from commercial organisations	Current year income is above target. Continue to monitor.	£4k
- Car Parks	£2.3m	1	4	4	10% reduction would be £230k	General economic conditions; central government directives	Current year income is above target mainly due to the re-opening of Bradbourne Car Park and additional spaces behind M&Co in Sevenoaks. Continue to monitor.	£23k
- On-Street Parking	£0.9m	1	3	3	10% reduction would be £90k	General economic conditions. Legislative constraints on spending surpluses. Reverts to KCC control	Current year is above target. Continue to monitor and review.	£9k
Partnership working and	£0.6m	3	2	6	Impact on individual	Partner actions delayed.	Separate accounting arrangements.	£6k

Issue	£ Scale	Likelihood 1 (low) - 5 (high)	Impact 1 (low) - 5 (high)	Total Score	Potential Annual Impact and Sensitivity Analysis	Risk Areas	Controls and Actions in place	Cash impact of 1% change in budgeted expenditure or income
partner contributions					projects is high. (As reported to Legal and Democratic AC on 19/06/17, we save £642k pa by working in Partnerships)	Agreed funding not received by SDC. Partnerships ending.	Active liaison with partners on service arrangements Written partnership agreements.	
External Funding Awards including Leader project	£0.4m	3	2	6	Up to £450k Impact on individual projects is high	Time limited. Potential risk from uncertainty over replacement of project funds from UK government and other funding providers	Exit strategies in place.	£4.5k
Changes in service demand		3	3	9	Impacts will vary depending on service.		Service planning in place Continue to lobby Government where changes are due to new Gov't requirements.	
Interest Rates	£0.130m 18/19 budget	3	3	9	£130k per 0.5%.	Large cash variance from small rate changes.	Use of professional advisers. If internal borrowing is used for capital	£1.3k

Issue	£ Scale	Likelihood 1 (low) - 5 (high)	Impact 1 (low) - 5 (high)	Total Score	Potential Annual Impact and Sensitivity Analysis	Risk Areas	Controls and Actions in place	Cash impact of 1% change in budgeted expenditure or income
						Reducing availability of suitable counter parties	investment projects in 2018/19 there will be less cash earning bank interest. Realistic budget proposed for 2018/19	
Investments	£47m balance at Dec 2017	1	5	5		Financial institutions going into administration.	Investment strategy regularly reviewed by FAC. Use of professional advisers.	n/a
Asset base maintenance	£0.6m	2	2	4	Annual budget is based on historic expenditure.	Unexpected problems occurring with financial implications. Reducing budget levels. Ageing assets particularly for leisure	A growth SCIA is included in the budget process to increase budgeted expenditure by £50k. Reserve funds set aside. Policy of reducing asset liabilities wherever possible.	n/a

Issue	£ Scale	Likelihood 1 (low) - 5 (high)	Impact 1 (low) - 5 (high)	Total Score	Potential Annual Impact and Sensitivity Analysis	Risk Areas	Controls and Actions in place	Cash impact of 1% change in budgeted expenditure or income
Capital Investment resources (Capital receipts, Capital Financing Reserve, Financial Plan Reserve, Internal Borrowing, External Borrowing)	Capital Receipts £0.1m, Capital Financing reserve £0.4m. (balances at March 2017).	2	2	4	Risks taken into account in the Capital Programme report.	Capital receipt levels modest.	External funding sought wherever possible. Capital Investment priorities in place. Property Review being pursued to secure asset sales. External Borrowing approved as an option for future investments	n/a
Property Investment Strategy	£17.8m invested at January 2018 £0.5m rental income in 17/18	3	3	9		Market value of property may reduce below price at acquisition	External property investment advisors retained for each acquisition; due diligence undertaken pre-purchase. Purchases only made within strategy, which is kept under review.	£5k

Issue	£ Scale	Likelihood 1 (low) - 5 (high)	Impact 1 (low) - 5 (high)	Total Score	Potential Annual Impact and Sensitivity Analysis	Risk Areas	Controls and Actions in place	Cash impact of 1% change in budgeted expenditure or income
Rental Income from Investment Property (non-Property Investment Strategy)	£0.1m in 2018/19 budget	1	2	4	Dependant on financial strength of tenants + good management to reduce impact of void periods.	Property tenants unable to pay rents/length of void premises/ability to source new tenants	Due diligence prior to letting to new tenants; tight control on rent payments	£1k
Disposal of surplus assets	£5.6m forecast in 18/19/17)	2	4	8	Risks taken into account in the Capital Programme and Asset Maintenance report.	Planning conflict. Resources required to bring sites forward.	Land Owner/Planning protocols in place. In-house property team. Planned Property Review disposal programme.	n/a
Government Support: Revenue Support Grant	£0 in 2017/18 revenue budget				n/a	n/a	Excluded grant from budget from 16/17 onwards so SDC became self-sufficient from govt. funding; Adequate level of General Reserve held.	n/a

Issue	£ Scale	Likelihood 1 (low) - 5 (high)	Impact 1 (low) - 5 (high)	Total Score	Potential Annual Impact and Sensitivity Analysis	Risk Areas	Controls and Actions in place	Cash impact of 1% change in budgeted expenditure or income
Government Support: Retained Business Rates	£2m in 2017/18	5	4	20	£20k per 1% change	Government changing baseline and therefore safety net levels. Time delays in decisions on appeals. High volume of successful valuation appeals. Central government intends to introduce business rate retention by 20/21.	10-year budget strategy gives ability to gradually adjust for changes. Adequate level of General Reserve held. Successful Business Rates Retention pilot bid for 18/19.	£20k
Council tax Referendum limits	£10m Council Tax income in 17/18	4	3	12	£100k per 1% Government controls on changes in council tax rates	Council tax increases limited to 3% in 18/19.	Draft 10-year budget includes council tax increase assumptions for future years.	£100k

Issue	**£ Scale**	**Likelihood 1 (low) - 5 (high)**	**Impact 1 (low) - 5 (high)**	**Total Score**	**Potential Annual Impact and Sensitivity Analysis**	**Risk Areas**	**Controls and Actions in place**	**Cash impact of 1% change in budgeted expenditure or income**
Future Service Changes by Government		4	4	16		Additional services without consequent resources, e.g. previous examples of Maint. of trees on common land. Government directives on income charging e.g. Personal searches. Potential changes on health responsibilities.	Monitor proposals. Respond to consultations with local view.	
Fuel cost increases for Direct Services	£0.5m	5	2	10	10% increase would be £50k	Changes in global oil prices.	Continue to monitor fuel usage and efficiency. Vehicle replacement programme.	£5k
Changes to Audit Arrangements		1	2	2		Abolition of Audit Commission in March 2015. New contract with effect from 2018/19.	Grant Thornton have been re-appointed by Public Sector Audit Appointments Ltd as the external auditors of SDC.	

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Item 7 – Annual Discretionary Rate Relief

The attached report was considered by the Finance Advisory Committee on 30 January 2018. The relevant Minute extract was not available prior to the printing of this agenda and will follow when available.

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ANNUAL DISCRETIONARY RATE RELIEF

Cabinet - 6 February 2018

Report of	Chief Finance Officer
Status:	For Decision
Also considered by:	Finance Advisory Committee – 30 January 2018
Key Decision:	No

Executive Summary: The Council requires potential recipients of discretionary rate relief to submit a formal application every two years. However, in view of the changes brought about by business rate retention, the proposals for awarding relief are to be reported annually. This report sets out the proposals for awarding discretionary rate relief for 2018/2019.

This report supports the Key Aims of: Supporting and developing the local economy and providing value for money

Portfolio Holder	Cllr. John Scholey
Contact Officers	Sue Cressall Ext. 7041
	Paula Porter Ext. 7277

Recommendation to Finance Advisory Committee: Members are asked to recommend that Cabinet approve the proposals for granting relief from business rates for 2018/2019 set out in Appendix B.

Recommendation to Cabinet: Members are asked to approve the proposals for granting relief from business rates for 2018/2019 set out in Appendix B.

Reason for recommendation: Relief from business rates provides organisations with valuable support and contributes to the Council's commitment to supporting and developing the local economy.

Introduction and Background

1 Charities and sports organisations that have charitable status currently receive 80% mandatory relief. In order to qualify for the mandatory relief the organisation must be established for charitable purposes only and the premises must be wholly or mainly used for charitable purposes. Sports

clubs registered with HMRC as community amateur sports clubs are also entitled to 80% mandatory relief.

Certain types of business in rural villages may qualify for 50% mandatory rate relief subject to the rateable value of the property being under specified limits.

2 Section 47 of the Local Government Finance Act 1988 (as amended by s69 of the Localism Act 2011) provides local authorities with powers to grant discretionary rate relief of up to 100% to any ratepayer.

3 Discretionary rate relief can be awarded in isolation or given to 'top-up' a mandatory award.

4 However, unless one of the following apply, authorities may only grant discretionary rate relief if satisfied that it would be reasonable to do so, having regard to the interests of the council tax payers:

- The ratepayer is a charity or trustees for a charity, and the property is wholly or mainly used for charitable purposes; or
- The ratepayer is a community amateur sports club and the property is wholly or mainly used for the purpose of the club and other such clubs; or
- The ratepayer is entitled to mandatory rural rate relief; or
- All or part of the property is occupied by non-profit making organisations whose main objects are charitable or are otherwise philanthropic or religious or concerned with education, social welfare, science, literature or the fine arts; or
- The property is occupied by a club, society or other non-profit making organisation and it is wholly or mainly used for purposes of recreation.

5 Authorities should have easily understood guidelines for deciding whether or not to grant relief and for determining the amount of relief which should be based on the consideration of the merits of each individual case. However, as the range of bodies that may be eligible for discretionary rate relief is wide, not all the suggested criteria will be applicable in each case.

Introduction

6 The Council currently grants discretionary rate relief over the following categories:

- Discretionary rate relief up to 100% of rates bill (but usual award is 80%);
- Village Shop rate relief at 50% of rates bill;
- Hardship relief up to 80% of rates bill; and

- Discretionary ‘top-up’ relief to take total relief up to 100% of the rates bill.

7 Members reviewed the criteria for granting discretionary rate relief to charities, not for profit organisations, discretionary rural rate relief and hardship relief in February 2013 and this is attached at Appendix A.

8 The Government has announced the intention to double mandatory rural rate relief to 100% from 1 April 2018. However, this requires an amendment to primary legislation which cannot be implemented by 1 April 2018. Local Authorities are advised to use discretionary powers to award the additional 50% relief which will be reimbursed by way of a section 31 grant.

9 Officers also recommend the award of 100% discretionary rural rate relief (previously awarded 50% relief) to those businesses offering some or all of the service of a Post Office or General Store which is essential to the community but which do not qualify for mandatory rural rate relief because of the rateable value.

10 Applications from ratepayers falling outside of these criteria will be considered on their merits and individual recommendations will be made having regard to the interests of the District’s council tax payers.

Approach taken to reviewing applications

11 The full list of applications, together with officer recommendations, is attached at Appendix B. Each application has been considered on its own merits, however in reviewing applications against the criteria, similar organisations were considered together, to ensure consistency of approach.

12 The criteria was applied as follows for discretionary rate relief and discretionary top-up relief:

- Links to Council priorities – the extent to which the activities supported the Council’s priorities was assessed, including support/activities for vulnerable or socially excluded groups.

- Evidence of financial need including reserve levels and assets – all organisations were requested to provide financial information and reserve levels were compared to annual expenditure, to assess financial need. The ability to generate income was also considered. In addition, for sports clubs, consideration was given to whether they had applied to become community amateur sports clubs (CASCs).

- Membership within the District – where it appeared that a substantial proportion of the membership was from outside the District, this was taken into account in putting forward a recommendation.

- Membership open to all – where membership is restricted to a particular group or locations, or is dependent on recommendations from existing members this has been taken into account, as not all residents would be able to benefit from the relief granted.

- Membership fee levels – fee levels were assessed to consider whether they were so high that they could exclude some in the local community.

- Bar activity and profits – if the bar is the main activity an organisation was unlikely to be recommended for relief. Any profits are expected to be used to fund club expenses.

13 For discretionary village shop relief, officers considered the benefits of the shop/business to the local community when compared with the cost of the relief. It is recommended that the village shops receive relief due to the benefit they provide to local communities.

14 Where a ratepayer receives 100% small business rate relief the recommendation is for no discretionary rate relief or village shop relief to be granted, since the businesses already receive maximum support.

15 There is no formal appeals process against the Council's decisions on the discretionary reliefs referred to in this report. The current approach is however to re-consider decisions in the light of any representations made by the ratepayers.

Applications for 2018/2019

16 Appendix B contains the details of each applicant to be considered for relief for 2018/2019 and detailed recommendations of the level of relief to be applied.

17 All applicants fall to be considered under the criteria set out in Appendix A.

18 The level of relief is based upon the provisional multipliers announced on 24 November 2017 which are subject to confirmation. In the unlikely event that the multipliers change, a further report setting out the revised relief awards will be submitted.

19 If applications are approved, the estimated total gross relief granted would be £203,943.20.

20 Members should be aware that the requirement for relief can change during the financial year as a result of rateable value changes, vacations etc. Therefore, some of these awards may not ultimately require full funding.

Other Options Considered and/or Rejected

21 Members have discretion not to grant rate relief or to vary the amount of relief awarded. No recommendation is being made to reduce or remove relief because relief from business rates provides organisations with valuable support and contributes to the Council's commitment to supporting and developing the local economy.

Key Implications

Financial

Since 1 April 2013 all discretionary relief granted has come under the provisions of the business rate retention scheme.

Under the 2018/19 Kent 100% Business Rate3 Retention pilot, the cost of relief will effectively be shared between Kent County Council (59%), Kent Fire (1%) and Sevenoaks District Council (40%). This cost will be reflected in the calculation of retained business rates income, which will include the impact of the Kent pilot.

Appendix B only refers to the gross discretionary rate relief proposed.

Legal Implications and Risk Assessment Statement

There are no legal issues.

Risk Assessment Statement

New organisations may request relief after the deadline for receipt of applications and so would not be able to receive discretionary relief until the next annual review. In order to address urgent cases the Chief Finance Officer determines any relief to be awarded under delegated authority. These organisations would then apply in the usual way for the next round.

A biennial application process may seem to be an additional burden for businesses, many of whom are small. Officers have taken account of this in designing the application process so as to minimise the administrative burden on applicants.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

There are clear benefits to the business community of awarding discretionary rate relief and therefore the proposals are submitted for endorsement as per Appendix B.

Appendices	Appendix A – Policy for considering applications for Discretionary Rate Relief Appendix B – List of organisations proposed to receive relief
Background Papers	None

Adrian Rowbotham
Chief Officer for Finance

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Policy for considering applications for Discretionary Rate Relief

Charitable and not for profit organisations

Under National Non-Domestic Rate (NNDR) legislation the Council has the power to award discretionary rate relief to certain charitable or not for profit organisations where the following conditions are satisfied.

All or part of the property is occupied by one or more institutions or organisations which are:

- Not established for profit, **and**
- Whose main objects are charitable or are otherwise philanthropic or religious or concerned with education, social welfare, science, literature or the fine arts; or
- Used wholly or mainly for recreation by a not-for-profit club or society.

Discretionary rate relief cannot be awarded if the ratepayer is a billing or precepting authority.

The process for considering applications is as follows:

- Not-for-profit organisations are asked to apply for discretionary rate relief (in isolation or as 'top-up' every two years, all applications to be considered at the same time.
- Cabinet to decide annually which organisations are to receive relief based on criteria including how the organisation assists the Council to achieve its priorities (see below). This includes deciding the level of relief to be granted in each case.

Criteria	Explanation
Links to Council priorities	The extent to which the activities of the organisation support the Council's priorities as set out in the Corporate Plan, and specifically supporting and developing the local economy and providing good value for money through a balanced budget.
Evidence of financial need including reserve levels and assets	Organisations with high levels of reserves (covering more than 12 months' expenditure) or who cannot demonstrate a financial need would not be a priority for rate relief.

Membership within District	As 40% of the relief is funded by SDC taxpayers priority will be given to those organisations with a high proportion of members from within the District.
Membership open to all	To give all residents an opportunity to benefit from the rate relief, priority should be given to organisations where membership is open to all.
Membership fee levels	Where membership fees are charged they should not be so high as to exclude any of the community.
Extent to which activity is based around Bar and use of profits from it	Priority would not be given to those organisations where the bar is the main activity. It would be expected that any profits from the bar would be put back to fund club expenses.

Discretionary rural rate relief

Certain types of business in rural villages, with a population below 3,000, may qualify for rate relief of 50%. Businesses that qualify for this relief are the sole general store and the sole post office in the village, provided it has a rateable value of up to £8,500, any food shop with a rateable value of up to £8,500 and the sole pub and the sole petrol station in the village provided it has a rateable value of up to £12,500. The Council has discretion to give further relief on the remaining bill on such property.

The Council may decide to give up to 100% relief to any other business in such a rural village, with a rateable value of up to £16,500, if it is satisfied that the business is of benefit to the community and having regard to the interests of its council tax payers.

Hardship Relief

Hardship relief is granted in exceptional circumstances, any business can apply for hardship relief if they can show the following:

- The business would suffer hardship if relief was not granted; and
- It is in the interests of council tax payers for relief to be granted.

An application needs to be supported by current trading figures as well as previous audited accounts or accounts accepted by HMRC. In assessing an application regard will be had to employment issues for the company or any related business and the impact that the loss of business would have on the local area. The current approval process is that the Finance Team carries out a review of the business's accounts and the Chief Finance Officer decides whether hardship relief is appropriate based on each case's merits. In practice hardship relief has been granted in only exceptional cases to date.

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Ref	Organisation name and property description/address	Parish	% for 2018/19	Estimated Relief for 2018/19	Recommendation/comments
	DISCRETIONARY RELIEF				
30559572	**Army Cadet Force** Hall Argyle Road, Sevenoaks	Sevenoaks	80	£5,184.00	**Recommended**
30561773	**Army Cadet Force** Hall Swanley Lane, Swanley	Swanley	80	£2,380.80	**Recommended**
30562325	**Army Cadet Force** Hall 8 High Street, Westerham	Westerham	80	£2,496.00	**Recommended**
30578788	**New Ash Green Village Association Ltd** Offices Centre Road, New Ash Green	Ash Cum Ridley	80	£4,512.00	**Recommended**
30553475	**New Ash Green Village Association Ltd** Workshop Ash Road, New Ash Green	Ash Cum Ridley	80	£5,280.00	**Recommended**
30570319	**New Ash Green Village Association Ltd** Hall Ash Road, New Ash Green	Ash Cum Ridley	80	£3,110.40	**Recommended**
30557491	**New Ash Green Village Association Ltd** Sports Ground Punch Croft, New Ash Green	Ash Cum Ridley	80	£6,432.00	**Recommended**

Ref	Organisation name and property description/address	Parish	% for 2018/19	Relief for 2018/19	Recommendation/comments
30709346	**RACDV Sales Ltd** 36 Swanley Centre, Swanley	Swanley	80	£5,568.00	**Recommended** Charity shop
30728828	**Target Your Potential Ltd** Unit 1A Norton House, Edenbridge	Edenbridge	80	£4,896.00	
30710445	**Target Your Potential Ltd** Unit 1 Norton House, Edenbridge	Edenbridge	80	£6,432.00	**Recommended**
30556849	**Hospices of Hope Ltd** 11-13 High Street, Otford	Otford	80%	£10,464.00	**Recommended** Charity shop

	TOP-UP RELIEF				
30550568	**10th Sevenoaks (Weald's own) Scout Group** Hall Glebe Road, Sevenoaks	Sevenoaks Weald	20	£320.45	**Recommended**
30562165	**15th Sevenoaks (Otford) Scouts** Hall Station Road, Otford	Otford	20	£300.73	**Recommended**
30565195	**17th Sevenoaks (Westerham) Scout Group** Hall Hortons Way, Westerham	Westerham	20	£226.78	**Recommended**
30557095	**1st Crockenhill Scouts Group** Hall Stones Cross Road, Swanley	Swanley	20	£177.48	**Recommended**
30561414	**Edenbridge Scout Group** Hall Station Road, Edenbridge	Edenbridge	20	£219.39	**Recommended**
30558593	**1st Eynsford & Farningham Scout Group** Hall Priory Lane, Eynsford	Eynsford	20	£241.57	**Recommended**
30565812	**1st Horton Kirby Scout Group** Hall Horton Road, Horton Kirby	Horton Kirby	20	£246.50	**Recommended**

Ref	Organisation name and property description/address	Parish	% for 2018/19	Relief for 2018/19	Recommendation/comments
30558555	**1st Sevenoaks Scout Group** Hall 57 Oakhill Road, Sevenoaks	Sevenoaks	20	£359.89	**Recommended**
30562080	**3rd Sevenoaks (Riverhead & Dunton Green) Scouts** Hall Bradbourne Vale Road	Sevenoaks	20	£315.52	**Recommended**
30573417	**6th Sevenoaks (Kemsing) Scout Group** Hall Heaverham Road, Kemsing	Kemsing	20	£197.20	**Recommended**
30566792	**7th Sevenoaks (Halstead) Scout Group** Hall Shoreham Lane, Halstead	Halstead	20	£108.46	**Recommended**
30556245	**7th Tonbridge (Eden Valley) Scout Group** Hall Kiln Lane, Leigh	Leigh	20	£256.36	**Recommended**
30631306	**Rural Age Concern Darent Valley** Community Centre Scratchers Lane, Fawkham	West Kingsdown	20	£271.15	**Recommended**
30638543	**Age Concern Sevenoaks & District** Offices St John's Road, Sevenoaks	Sevenoaks	20	£1,800.62	**Recommended**

Ref	Organisation name and property description/address	Parish	% for 2018/19	Relief for 2018/19	Recommendation/comments
30642788	**Age Concern Sevenoaks & District** Shop London Road, Sevenoaks	Sevenoaks	20	£1,429.70	**Recommended**
30612176	**Badgers Mount Memorial Hall** Hall Highlands Rd, Badgers Mount	Shoreham	20	£394.40	**Recommended**
30558715	**British Red Cross Society** Hall 47 Bradbourne Vale Road	Sevenoaks	20	£409.19	**Recommended**
30574069	**Sevenoaks Citizens Advice Bureau** Offices Buckhurst Lane, Sevenoaks	Sevenoaks	20	£838.16	**Recommended**
30569890	**Farningham Village Hall** Hall High Street, Farningham	Farningham	20	£394.40	**Recommended**
30604373	**Eden Valley Museum Trust** Museum High Street, Edenbridge	Edenbridge	20	£825.21	**Recommended**

Ref	Organisation name and property description/address	Parish	% for 2018/19	Relief for 2018/19	Recommendation/comments
30693953	**Edenbridge & Westerham Citizens Advice Bureau** Office The Eden Centre, Edenbridge	Edenbridge	20	£1,577.60	**Recommended**
30558982	**Fawkham Village Hall** Hall Valley Road, Fawkham	Fawkham	20	£601.46	**Recommended**
30675078	**Hartley Village Hall** Hall Ash Road, Hartley	Hartley	20	£295.80	**Recommended**
30555785	**Ide Hill Village Hall Management Committee** Store Ide Hill Village Hall	Sundridge	20	£219.39	**Recommended**
30570296	**Ide Hill Village Hall Management Committee** Hall Ide Hill Village Hall	Sundridge	20	£281.01	**Recommended**
30658332	**Longfield & Hartley Scout Grp** Club House Larkwell Lane, Hartley	Hartley	20	£502.86	**Recommended**

Ref	Organisation name and property description/address	Parish	% for 2018/19	Relief for 2018/19	Recommendation/comments
30643088	**Riverside Players** Store Furlong Farm, Eynsford	Eynsford	20	£224.32	**Recommended**
30554812	**Sevenoaks Area Mind** Day Centre St John's Road, Sevenoaks	Sevenoaks	20	£483.14	**Recommended**
30569944	**Ide Hill Scout Group** Hall Ide Hill	Sundridge	20	£120.79	**Recommended**
30575161	**Sevenoaks District Scout Council** Hall School Lane, Seal	Seal	20	£276.08	**Recommended**
30607563	**Sevenoaks Leisure Ltd** Leisure Centre Edenbridge Leisure Centre	Edenbridge	20	£21,692.00	**Recommended**
30605970	**Sevenoaks Leisure Ltd** Leisure Centre White Oak Leisure Centre	Swanley	20	£43,169.33	**Recommended**
30607556	**Sevenoaks Leisure Ltd** Swimming Pool Sevenoaks Leisure Centre	Sevenoaks	20	£25,081.08	**Recommended**

Ref	Organisation name and property description/address	Parish	% for 2018/19	Relief for 2018/19	Recommendation/comments
30607570	**Sevenoaks Leisure Ltd** Shop Lullingstone Golf Club	Crockenhill	20	£881.53	**Recommended**
30671342	**Stag Community Arts Centre** Theatre & Cinema London Road, Sevenoaks	Sevenoaks	20	£5,718.80	**Recommended**
30568910	**Swanley Youth & Community Centre** Hall St Mary's Road, Swanley	Swanley	20	£1,306.45	**Recommended**
30567641	**4th Sevenoaks (St John's) Scout Group** Hall Mill Lane, Sevenoaks	Sevenoaks	20	£749.36	**Recommended**
30554416	**Halstead Village Hall** Knockholt Road, Halstead	Halstead	20	£315.52	**Recommended**
30557156	**Otford Village Memorial Hall** High street, Otford	Otford	20	£700.06	**Recommended**

Ref	Organisation name and property description/address	Parish	% for 2018/19	Relief for 2018/19	Recommendation/comments
30610552	**Remap 2010** Unit D9 Chaucer Business Park Kemsing	Kemsing	20	£980.07	**Recommended**
30556078	**St Johns Ambulance Brigade** Horton Way, Farningham	Farningham	20	£330.31	**Recommended**
30556276	**Sundridge Village Hall** Main Road, Sundridge	Sundridge	20	£295.80	**Recommended**
30569487	**Ash Village Hall** Hall The Street, Ash	Ash Cum Ridley	20	£266.22	**Recommended**
30721865	**Hextable Community Collective** 39 Egerton Avenue Hextable	Hextable	20	£2,760.80	**Recommended**
30722288	**Rainbow Pre-School** Coolings Green & Pleasant Knockholt	Knockholt	20	£721.55	**Recommended**
30720022	**Swanley & District Foodbank**	Swanley	20	£489.91	**Recommended**
30702369	**Kingsdown Village Hall** Hall London Road, West Kingsdown	West Kingsdown	20	£1,774.80	**Recommended**

	RURAL RATE RELIEF OFFICER RECOMMENDED	Parish	% for 2018/19	Relief for 2018/19	Recommendation/comments
30583360	**Mr M Patel** Retail and post office 4-5 The Broadway, Crockenhill	Crockenhill	100	£5,160.00	**Recommended**
30602841	**Seal Supermarket Ltd** General Store 21 High Street, Seal	Seal	100	£5,800.00	**Recommended**
30590368	**Mr Gary Belcher & Ms Julie Fuller** Petrol Filling Station Four Elms Road, Edenbridge	Hever	50	£973.36	**Recommended**
30599426	**Mr C G Martin** Shop 27 High Street, Seal	Seal	50	£2,095.25	**Recommended**
30572421	**Mr N Stokes** Shop Essington House, Eynsford	Eynsford	50	£1,700.85	**Recommended**

	RURAL RATE RELIEF OFFICER RECOMMENDED	Parish	% for 2018/19	Relief for 2018/19	Recommendation/comments
30651812	**Mrs Patricia Bye** Post Office Chiddingstone Causeway	Chiddingstone	50	£914.34	**Recommended**
30697481	**Ide Hill Community Shop CIC** Village Store Ide Hill	Sundridge	50	£1,725.50	**Recommended**
30556207	**Penshurst Place** Petrol Filling Station High Street, Penshurst	Penshurst	50	£1,359.10	**Recommended**
30729951	**Jay Balaji Ltd** 35 High Street, Shoreham	Shoreham	50	£2,366.40	**Recommended**
30551899	**Mr Alan Johnson** Park View, High Street, Leigh	Leigh	50	£1,528.30	**Recommended**
30669516	**Rafferty Investments Ltd** Darenth House, Eynsford	Eynsford	50	£2,415.70	**Recommended**

Discretionary Rate Relief	**Number**		**Relief 2018/19**
Total Officer Recommended	11		£56,755.20
Total Officer Rejected	0		£0.00
Top-Up Relief	**Number**		**Amount**
Total Officer Recommended	47		£121,149.20
Total Officer Rejected	0		£0.00
Rural Rate Relief	**Number**		**Amount**
Total Officer Recommended	11		£26,038.80
Total Officer Rejected	0		£0.00

Item 8 – Local Discretionary Business Rates Relief Scheme

The attached report was considered by the Finance Advisory Committee on 30 January 2018. The relevant Minute extract was not available prior to the printing of this agenda and will follow when available.

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LOCAL DISCRETIONARY BUSINESS RATES RELIEF SCHEME

Cabinet – 6 February 2018

Report of	Chief Finance Officer
Status:	For Decision
Also considered by:	Finance Advisory Committee – 30 January 2018
Key Decision:	No

Executive Summary: The Government has set aside £300m in funding over the period 2017/18 to 2020/21 to support those businesses most affected by the revaluation of Business Rates from 1 April 2017. The Government has confirmed that there is no provision for unallocated funds to be rolled over into the next financial year and that any underspend will be returned to DCLG as part of the usual NNDR process. This report sets out the proposals for amending Sevenoaks' local discretionary business rates scheme for 2017/18 to 2020/21 to ensure that funds are allocated for the benefit of local ratepayers.

This report supports the Key Aims of: Supporting and developing the local economy and providing value for money

Portfolio Holder Cllr. John Scholey

Contact Officers Sue Cressall Ext. 7041

Paula Porter Ext. 7277

Recommendation to Finance Advisory Committee: Members are asked to recommend that Cabinet approve the proposals to:

- increase the maximum percentage relief available for 2017/18 to 2020/21 and allow this to be retrospectively applied to existing recipients;
- make automatic awards for 2017/18 (subject to a State Aid declaration) to potential recipients who have not yet claimed;
- apply relief automatically for 2018/19 to 2020/21 (subject to a State Aid declaration);
- give delegated authority to the S151 officer to amend the scheme in future years to ensure relief if properly targeted and fully utilised for the benefit of ratepayers.

Recommendation to Cabinet: Members are asked to approve the proposals to:

- increase the maximum percentage relief available for 2017/18 to 2020/21 and allow this to be retrospectively applied to existing recipients;
- make automatic awards for 2017/18 (subject to a State Aid declaration) to potential recipients who have not yet claimed;
- apply relief automatically for 2018/19 to 2020/21 (subject to a State Aid declaration);
- give delegated authority to the S151 officer to amend the scheme in future years to ensure relief if properly targeted and fully utilised for the benefit of ratepayers.

Reason for recommendation: Relief from business rates provides organisations with valuable support and contributes to the Council's commitment to supporting and developing the local economy.

Introduction and Background

1 In the Budget on 8 March 2017, the government announced that £300m in funding over the period 2017/18 to 2020/21 would be provided to support those businesses most affected by the revaluation of business rates from 1 April 2017.

2 Sevenoaks' funding allocation is as follows:

Year	Funding available
2017/18	£284,000
2018/19	£138,000
2019/20	£57,000
2020/21	£8,000

3 On 14 September 2017 Cabinet approved Sevenoaks' Local Discretionary Business Rates Relief Scheme (Minute. 29). Appendix A contains a copy of the original scheme.

4 The scheme targets those ratepayers with a rateable value of £275,000 or more whose net business rates payable (after all other reliefs have been applied) have risen by 10% or more.

5 Ratepayers who are part of a national chain are specifically excluded from the scheme as are ratepayers in unoccupied properties and those in receipt of mandatory or discretionary charitable/rural rate relief.

6 Initial estimates presented to Cabinet on 14 September 2017 indicated that up to 233 ratepayers could be eligible to apply for relief. Further inspection reduced this number to 211 and application forms were duly issued.

7 As at 31 December 2017, 103 applications have been received. Relief amounting to £73,331.86 has been awarded in 79 cases and the remaining 24 have been refused. Refusals have been because the ratepayers have declared themselves to be part of a national chain, are a voluntary controlled school/community school and so funded by Kent County Council and/or because the award of public house relief has taken their percentage rates increase below the threshold.

8 Reminders have been sent to all those who have not yet applied and 108 cases remain from the original selection.

9 Of the 108 cases remaining that have yet to apply, it is likely that 24 may not qualify as being part of a national chain rather than individual franchises leaving 84 potential awards undecided.

10 On 22 December 2017 the Government confirmed that there is no provision for unallocated funds to be rolled over into the next financial year and that any underspend will be returned to DCLG as part of the usual NNDR process.

11 Whilst recognising that applications for discretionary rate relief may be made up to six months after the end of the financial year for which relief is sought, the Government expects relief to be provided by the close of the current financial year and encourages authorities with a low take up rate to take additional steps to manage this.

It is suggested that this could include providing automatic awards to eligible businesses rather than inviting applications where viable, subject to confirmation that State Aid requirements are met.

Proposed amendments to the Sevenoaks scheme

<u>Increase the percentage relief available</u>

12 The current scheme provides for a maximum award of relief equal to 30% of the increase in the rates payable for 2017/18 after all other reliefs as compared with the rates payable for 2016/17. Relief reduces to 15% in 2018/19, 5% in 2019/20 and 1% in 2012/21.

13 The lowest award made so far is £74.82 and the highest £6,847.68, giving an average award of £928.25.

14 It is recommended that the maximum awards be increased as follows:

2017/18 – increase from 30% to 50%
2018/19 – increase from 15% to 25%
2019/20 – increase from 5% to 10%
2020/21 – increase from 1% to 1.5%

15 Increasing the award to 50% for existing recipients will increase the total relief awarded to £122,220.

Automatic awards

16 It is recommended that, subject to approval by the Chief Finance Officer, automatic awards at the higher rate be made to the 84 remaining potential recipients. This will require relief of £94,308 and bring the total spend to £216,528.

17 In order to satisfy the requirement to comply with State Aid rules, it is proposed that the ratepayer be provided with a declaration form at the point of the award. The ratepayer will then be required to reject the award if they believe the award will result in them exceeding the State Aid limit.

18 This projection still represents an underspend of £67,472 for 2017/18. This will allow for any late applications or challenges to refusal of relief to be considered.

19 It is further recommended that relief be automatically applied to bills for 2018/19 onwards and dispense with application forms for future years.

Revised estimates for relief

20 Based on the recommended changes, the projected amount of relief awarded will be as follows:

Year	**Relief Awarded**
2017/18	£216,528
2018/19	£108,264
2019/20	£43,306
2020/21	£6,496

Future changes to the scheme

21 In order that the scheme can be more responsive and relief can be applied where it is most needed, it is recommended that delegated authority to vary the scheme for 2018/19 – 2020/21 be given to the S151 officer.

Other Options Considered and/or Rejected

22 Relief could be made available to ratepayers with higher rateable values than that proposed. However, this has not been recommended as the current proposals are sufficient to provide significant assistance to the small to medium sized properties within the District.

Key Implications

Financial

Since 1 April 2013 all discretionary relief granted has come under the provisions of the business rate retention scheme. For 2017/18 the cost of relief is initially shared between Central Government (50%), and local authorities (50%). Of this

Sevenoaks District Council is required to fund 40%. However, due to the complexities of business rates retention, the actual financial impact is likely to be significantly lower.

Under the 2018/19 Kent 100% Business Rate Retention pilot, the cost of relief will effectively be shared between Kent County Council (59%), Kent Fire (1%) and Sevenoaks District Council (40%). This cost will be reflected in the calculation of retained business rates income, which will be included the impact of the Kent pilot.

The government has committed to compensating billing and precepting authorities by way of s.31 grant for their share of the cost of awarding local discretionary business rate relief.

Legal Implications and Risk Assessment Statement

There are no legal issues.

Risk Assessment Statement

There are no perceived risks associated with the proposals

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

There are clear benefits to the business community of awarding discretionary local rate relief and therefore the proposals are submitted for endorsement as per Appendix A.

Appendices	Appendix A – Guidelines for considering applications for Discretionary Local Business Rates Relief
Background Papers	DCLG Consultation March 2017 https://www.gov.uk/government/publications/92017-administration Business Rate Information Letter 22 December 2017 https://www.gov.uk/government/publications/92017-administration

Adrian Rowbotham
Chief Officer for Finance

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SEVENOAKS DISTRICT COUNCIL

DISCRETIONARY LOCAL BUSINESS RATES RELIEF

1. Introduction and purpose of the guidelines

1.1 The Government announced in the Budget on 8 March 2017 that it would provide £300m in funding over the period 2017/18 to 2020/21 to provide support to those businesses most affected by the revaluation of business rates on 1 April 2017.

1.2 As this is a measure for 2017/18 to 2020/21 only, the Government is not changing the legislation around the reliefs available to properties.

1.3 Government guidelines state that it will be for each billing authority to adopt a local scheme to provide targeted local discretionary business rates relief and decide in each individual case when to grant relief under Section 47 of the Local Government Finance Act 1988 as amended by Section 69 of the Localism Act 2011.

The application and award criteria rules are set out below.

1.4 These guidelines:

- set out the criteria that will be used when making a decision to award or refuse relief;
- set out the delegated authority to award relief in appropriate circumstances as provided for in the Council's constitution;
- establish a review process for customers dissatisfied with the Council's decision.

1.5 These guidelines will apply to all decisions made on applications received by the Council in respect of 2017/18 to 2020/21.

2. General principles

2.1 All decisions in respect of applications for local discretionary business rates relief will be taken by the Council in accordance with statutory requirements and with due regard to any guidance issued by the Secretary of State.

Requirement for Applications

2.2 The Council will issue an application form to every business where it appears that the ratepayer may be eligible for local discretionary business rates relief.

2.3 Applications must be made on the form supplied by the Council. The form must be signed by the applicant or where the applicant is an organisation, by a person properly authorised to make an application on behalf of the organisation.

2.4 The Council will request such supporting evidence as it considers necessary to enable the application to be properly assessed.

Financial impact of awards of discretionary local business rates relief

2.5 The business rates retention systems requires that 40% of any discretionary relief granted is funded from the business rates initially allocated to the Council however, due to the complexity of business rates retention, the actual impact on the Council is likely to be significantly smaller; the remainder being shared between the Government and the major preceptors (excluding the Police).

2.6 The Government has committed to reimbursing billing authorities and those major precepting authorities within the rates retention system for the actual cost to them of any local discretionary business rates relief up to their maximum funding allocation.

Relationship to other forms of rate relief

2.7 Local discretionary business rates relief is to be applied after all other reliefs have been applied.

Authority to award relief

2.8 Decisions on the award or otherwise of local discretionary business rates relief will be taken by designated Officers under delegated authority (see paragraph 3.15)

Timescale for decisions

2.9 The Council will aim to make a decision within four weeks of receiving the application and all supporting evidence considered necessary to enable the application to be considered.

Publication of decisions and Data Protection

2.10 To ensure there is a fair and consistent approach to the award of local discretionary business rate relief, all applications will be considered with reference to these guidelines and the outcome of all applications will be published on the Council's website www.sevenoaks.gov.uk Personal data will be processed in accordance with the Data Protection Act 1998 and the publication of information will be compliant with the 1998 Act.

Reviews and Appeals

2.11 These guidelines provide unsuccessful applicants with a review mechanism. Any challenge to the Council's decision would be by way of judicial review in the High Court.

2.12 A decision may only be reviewed on one or more of the following grounds:

- an inconsistent or inappropriately harsh decision;
- extenuating circumstances;
- significant procedural flaw(s) in the decision making process (it is incumbent on an unsuccessful applicant to specify precisely what the significant procedural flaw(s) consists of);
- new evidence subsequently coming to light

2.13 A request for the review of a decision must be made in writing to the Revenues Manager within four weeks of the date of the Council's decision letter. Reasons supporting each ground for review (see paragraph 2.13) must be fully set out. Any request for a review received outside of the four week period, will only be considered if the Council is satisfied that exceptional circumstances led to the delay in submitting the request.

Where the unsuccessful applicant is an organisation, the request for the review must be submitted by a person authorised on behalf of the organisation.

2.14 The reviewing officer (who will not be the same officer who made the original decision) will:

- consider the decision afresh having regard to the original documents submitted by the applicant and/or associated with the application;
- check that the decision has been made in accordance with the relevant sections in these guidelines;

- consider any new evidence submitted;
- consider whether an interview with the applicant is necessary;
- make a determination either:
    - upholding the original decision
    - substituting a revised decision
- prepare a written response for the applicant setting out the review decision and reasons.

2.15 The review decision will be issued within four weeks of the date of receipt by the Council of the review request. The review decision will be final.

Requirement to make payment of amounts falling due

2.16 Business rate payments remain legally due and payable in accordance with the most recent bill, until such time as any relief is awarded. Applicants must therefore continue to pay any business rates that fall due whilst an application is pending. If payments are not kept up to date, the Council may continue with its normal recovery procedures to secure payment.

State Aid

2.17 European Union competition rules restrict Government subsidies to businesses. Relief from taxes, including business rates, could be considered as state aid.

2.18 Local discretionary business rates relief will not be awarded in any circumstances where it appears that an award will result in the applicant receiving state aid above the current de minimis level. Each application must be accompanied by a signed statement setting out the amount of state aid, including but not limited to retail rate relief, which the applicant has received within the previous three years (of the application date). Applications will not be considered until this statement is received.

3. Ratepayers intended to benefit from local discretionary business rates relief

3.1 Applications will be considered if the ratepayer meets the following criteria:

- In occupation of the property as at 31 March 2017 with ongoing liability for 2017/2018

- The net business rates payable (after all other reliefs have been applied) in 2017/18 have risen by **10% or more AND** the rateable value of the property is **less than or equal to £275,000**

3.2 Assistance will be limited to ratepayers facing an increase in bills solely attributable to revaluation. It will not be available where there is an increase in rateable value because of a material change in the hereditament).

3.3 Local discretionary business rates relief will **not** be available under the following circumstances:

- Where the property is unoccupied;
- Where the ratepayer is a billing or precepting authority;
- Where the ratepayer is already receiving mandatory or discretionary rate relief (whether charitable or rural).
- Where the ratepayer is a national chain

The decision making process

3.4 Each application will be considered on an individual basis.

3.5 The Council will notify the applicant of the decision in writing and where local discretionary business rates relief is refused, an explanation of the reasons why will be given.

3.6 The Council will not consider applications where the applicant has failed to provide a completed application form or where the State Aid declaration has not been completed. The applicant will be notified in writing that the application has been refused.

Calculation of Local Discretionary Business Rate Relief

3.7 For **2017/18** the maximum award will be 3**0%** of the increase in the rates payable for 2017/18 after all other reliefs as compared with the rates payable for 2016/17.

3.8 For **2018/19** the maximum award will be 15**%** of the increase in the rates payable for 2017/18 after all other reliefs as compared with the rates payable for 2016/17 reducing to 5**% in 2019/20** and 1**% in 2020/21**.

3.9 Where the rates bill reduces within the period of an award of local discretionary rate relief, the relief will be reduced proportionately.

3.10 If the rates bill increases during the period of an award of local discretionary business rates relief no additional relief will become payable.

Period of relief

3.11 Local discretionary business rates relief will initially be awarded for 2017/18 only.

3.12 Relief for subsequent years will be considered and if appropriate awarded prior to the commencement of the relevant years.

Authority to award relief

3.13 The Revenues Manager shall be authorised to determine an application for local discretionary business rates relief where there is no question of State Aid de minimis rules being breached.

3.14 The Chief Finance Officer will determine any case where State Aid is considered relevant.

4. Promotion of the availability of relief

4.1 The Council will proactively promote the availability of local discretionary business rates relief in the following ways:

- Council staff will be made aware of these guidelines and will actively promote the availability of relief when responding to enquiries;
- Information regarding the availability of reliefs will be published on the Council's website www.sevenoaks.gov.uk;
- A copy of these guidelines will be made available on request by contacting revenues@sevenoaks.gov.uk or by calling the Business Rates team on 01732 227000.

5. Review of these guidelines

5.1 These guidelines will be reviewed periodically in order to ensure they remain valid, effective and relevant.

Item 9 – Property Investment Strategy Update

The attached report was considered by the Finance Advisory Committee on 30 January 2018. The relevant Minute extract was not available prior to the printing of this agenda and will follow when available.

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PROPERTY INVESTMENT STRATEGY UPDATE

Cabinet – 6 February 2018

Report of	Chief Finance Officer
Status	For Consideration
Also considered by	Finance Advisory Committee – 30 January 2018
Key Decision	No

Executive Summary: This report provides an update on the progress of the Property Investment Strategy to date and looks at the future direction of the strategy.

The Property Investment Strategy was approved by Council on 22 July 2014 to support the aim of the council becoming more financially self-sufficient as Government Support continued to reduce.

The acquisitions to date have helped the council achieve this aim and this report provides an update on those acquisitions.

Portfolio Holder	Cllr. Peter Fleming, Cllr. John Scholey
Contact Officers	Adrian Rowbotham, Ext. 7153
	Andrew Stirling, Ext. 7099
	Alan Mitchell, Ext. 7483

Recommendation to Finance Advisory Committee:

That the report be noted, and any comments forwarded to Cabinet.

Recommendation to Cabinet:

Cabinet considers any comments from Finance Advisory Committee and notes the report.

Introduction and Background

1 In recent years Sevenoaks District Council has been faced with ongoing reductions in Government Support culminating in it no longer receiving Revenue Support Grant from 2017/18. This has led to a number of decisions that have been taken through the 10-year budget process to try and ensure that the council remains in a financially sustainable position going forwards.

2 On 7 November 2013, Cabinet approved the Corporate Plan which set out key focus areas for the organisation including the need to become more financially self-sufficient. The agreed plan articulated an approach of investing in assets that will generate revenue income to allow less reliance on diminishing Government Support. It goes on to state that this could be done either through the review of use of reserves or through borrowing at low interest rates.

3 On 22 July 2014, Council agreed the Property Investment Strategy with specific criteria. The criteria were updated at Council on 25 April 2017 and the current criteria are included at Appendix A.

Funding Agreed to Date

4 A total of £43m of funding for the Property Investment Strategy has been agreed to date as follows:

- £5m Council 22 July 2014
- £3m Council 17 February 2015
- £10m Council 21 July 2015
- £25m Council 25 April 2017

Activity to Date

5 A summary of the expenditure to date is included in the following table:

Date	Activity	Total Cost £000	Average Annual Income Yield %
Activities achieving the required return			
Apr 2015	Suffolk House (including refurb.) (office)	4,721	7.7% (7.1% before refurb.)
May 2015	Swanley Petrol Station and Supermarket	2,566	6.7%
Mar 2017	26-28 Pembroke Road, Sevenoaks (office)	4,673	6.1%

Other Activities			
Feb 2015	Swanley Working Men's Club (including demolition)	1,393	-
2016/17	Quercus 7 set up costs	13	-
Feb 2017	96 High Street, Sevenoaks (retail, office)	4,336	Initially 2% Basic option 7% Other options 7%+
May 2017	Croft Road, Westerham (housing option)	100	
	Total	17,802	

6 The above activity has used £17.802m of the £43m approved, therefore £25.198m is unspent.

7 **Swanley Working Men's Club** (February 2015) – The premises were demolished in July 2016. This site will be part of the gateway to Swanley. Feasibility studies are being undertaken to establish viable redevelopment options for this site which take into account its location in the Town Centre and requirement to meet the Property Investment Strategy return on investment criteria. This work is linked to the sites at 27-37 High Street and White Oak in Swanley that are referred to later in the report.

8 **Suffolk House, Sevenoaks** (April 2015) – This office building is in a town centre location with diminishing levels of office stock in the area. It consists of a total of 16,699 sq ft of office space over four floors with 84 parking spaces. It is managed by a property management company with costs recoverable under a service charge. Several floors have now been refurbished to grade A standard office space and the price per square foot is now significantly higher than when the building was purchased. The remaining vacant space in part of the ground floor is being advertised. Negotiations are currently in hand with interested parties who wish to take a lease on the space.

9 **Swanley Petrol Station and Supermarket** (May 2015) – The property comprises a 2,789 sq ft convenience store building with 15 car parking spaces, 8 multi-fuel pump forecourt with jet wash and car wash on a 0.589acre site. The property is let on a lease expiring in August 2030.

10 **Quercus 7 set up costs** – expenditure was approved by Council on 31 March 2015 to be funded from the Property Investment Strategy Reserve.

11 **96 High Street, Sevenoaks (February 2017)** – This premises consists of ground floor retail space, 1st and 2nd floor office space with residential potential and development opportunity to rear. The most basic option of refurbishing the office space and selling the land to the rear will give a 7% annual return. The land at the rear is next to a council car park which in turn is next to the bus station and therefore has the potential to be a catalyst for wider development. Initial feasibility work is underway on the options for the site which will take into account its location in the Town Centre and requirement to meet the Investment Strategy return on investment criteria. Options are also being considered for a 'meanwhile use' of the first and second floors to generate additional income prior to any redevelopment options being implemented.

12 **26-18 Pembroke Road, Sevenoaks (March 2017)** – This is a modern freehold office investment in Sevenoaks town centre. The 10,499 sq ft building over three floors has 56 car parking spaces is currently fully let on a ten year lease.

13 **Croft Road, Westerham** – This land has been sold to a developer to build 18 residential units. The council has taken up an option to acquire two houses at a discount (based on external valuation). It is proposed to sell the properties and the first property will be completed and ready for sale in June 2018.

14 All acquisitions have been supported by a thorough business case and approved by the Policy & Performance Portfolio Holder in consultation with the Finance Portfolio Holder as required by Council.

Property Investment Strategy Income

15 The 10-year budget approved by Council on 21 February 2017 included net Property Investment Strategy income of £500,000 in 2017/18 and £735,000 in 2018/19.

16 Net income of £545,000 is forecast in 2017/18, therefore £45,000 above the budget. The increased budget for 2018/19 is expected to be achieved due to rent free periods in Suffolk House expiring and the occupation of vacant space.

Funding Sources

17 The £17.8m spent to date has been funded by (or is expected to be as part of the 2017/18 annual accounts process):

- Property Reserve and Financial Plan Reserve £4.6m. Funds put aside for the Property Investment Strategy agreed as part of the annual budget setting process including New Homes Bonus.

- Capital receipts £8.9m. Proceeds from the sale of council assets.

- Internal borrowing £4.3m. From council balances. No interest is paid but Minimum Revenue Provision (MRP) is charged. MRP is the minimum amount which must be charged to the revenue account each year and set aside as provision for repaying loans and meeting other credit liabilities. This is a requirement for any form of borrowing so that an amount is set aside to repay the loan. An MRP charge of £145,000 is forecast in 2017/18.

- External borrowing £nil. This funding method incurs interest and MRP costs each year.

18 Funding options will be considered on a case by case basis and may be funded by reserves, capital receipts, internal borrowing or external borrowing. Due to current commitments it is likely that a significant proportion will come from external borrowing (PWLB 30 year annuity loan interest rate at 16/01/18 is 2.74%).

19 Each scheme will also be analysed to decide whether it is preferable to proceed as the council or via Quercus 7. £5m of the approved Property Investment Strategy funding has been earmarked for Quercus 7.

20 As investment in the Property Investment Strategy continues to increase and the requirement to obtain external borrowing becomes more prominent, the Finance Portfolio Holder is keen that the ‘gearing’ of funding of the council’s investment properties remains below 30%.

21 Gearing refers to the level of an organisations debt related to capital and expressed in percentage terms. For this council’s purposes it is taken as the amount of external borrowing used to fund investment properties (including those outside of the Property Investment Strategy) as a percentage of the value of investment properties.

22 As no external borrowing has been used to fund the current investment properties, the gearing ratio is 0%. If the remaining £25m approved for the Property Investment Strategy was spent, up to £15m could be funded from external borrowing to keep the gearing ratio below 30%.

Future Opportunities

23 The following projects are expected to progress as part of the Property Investment Strategy.

24 **Swanley** – a separate report will be presented to Members at an appropriate stage, therefore the funding requested in this report is not required to fund these schemes. The sites are:

- Bevan Place / 27-37 High Street, Swanley – potential for residential units and business start-up space.

- White Oak Leisure Centre

25 **Timberden Farm** – The majority of land has been sold. The agricultural buildings have currently been retained and feasibility design work undertaken on the conversion of two of them. The intention is to obtain planning permission for their conversion in Spring 2018 and then dispose of the buildings.

26 **Small sites development** (including Stangrove Estate and Spitals Cross, Edenbridge). A consultation event is being held at the end of January for the community to comment on improvements to parking, management of open space and trees together with a new local shop and some new homes on the Stangrove Estate. Feasibility schemes have been prepared for Kemsing and two sites in Swanley.

27 Due to the number of developments planned for the next few years it is recommended that the emphasis for any further acquisitions are for sites where no further work is required rather than those with development potential.

Risks

28 The risks of the Property Investment Strategy are included in Appendix B. The risks were previously analysed by the Audit Committee on 9 September 2014.

29 The Council's Strategic Risk Register was also agreed by the Audit Committee on 26 September 2017 and the relevant category for the Property Investment Strategy is also included in Appendix B.

30 Property Investment is inherently more risky than leaving reserves in the bank but this has been taken to account when approving the Property Investment Strategy and setting the investment criteria.

31 The risks of each potential investment are considered by carrying out due diligence to include the following:

- Valuation.
- Market conditions.
- Covenant strength of tenants.
- Terms of leases.
- Structural surveys.
- Funding options.
- Future costs.

32 It should be recognised that there is likely to be a time when there are business reasons to dispose of assets currently owned and invest elsewhere instead.

33 The Scrutiny Committee set up a Property Investment Strategy Member Working Group at their meeting on 5 July 2016 and reported their findings at the Scrutiny Committee on 30 March 2017.

34 The Member Working Group concluded that the benefits of the Property Investment Strategy do outweigh the risks, provided that the council remains constantly aware of changes in the market and financial risks.

35 Internal Audit have recently completed an audit report on the Property Investment Strategy. The audit opinion given in the report was of full assurance.

36 The audit report conclusion was as follows: "Audit fieldwork confirmed effective governance and financial arrangements are in place for the delivery of the Property Investment Strategy**.** The attainment of set objectives is being achieved. Existing arrangements are fit for purpose for the delivery of the Strategy and comply with Council procedures."

37 The Government has recently completed a consultation on the proposed changes to the Prudential Framework of Capital Finance. It is unclear what changes will result from this consultation but there may be new restrictions as to what type of investments external borrowing can be used for.

Key Implications

Financial

As previously stated in this report, the Property Investment Strategy is a major contributor to deliver the aim of the council remaining financially self-sufficient.

It is expected that a significant proportion of future Property Investment Strategy funding will be provided by external borrowing. Each acquisition will be looked at on a case by case basis to ensure that the most appropriate funding method is used.

Legal Implications and Risk Assessment Statement.

Legal resources would be required to undertake legal pre-purchase due diligence for any future acquisitions. This would be undertaken either internally by the Council's Legal Team or externally and a decision would be made on a case by case basis.

A full risk analysis is included at Appendix B to this report.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Value for Money and Asset Maintenance

Value for money derived from available finances when looked at in conjunction with the Treasury Management Strategy has the ability to be increased via the Property Investment Strategy.

Conclusions

In acknowledgement of the position with Government Support and the continued low returns on investment of reserves, further investment in the Property Investment Strategy will continue to support the alternative approach as indicated by the approved Corporate Plan.

Appendices	Appendix A - Property Investment Strategy Appendix B - Property Investment Strategy - Risk Analysis
Background Papers	Report to Council 22 July 2014 - Investment Strategy Report to Audit Committee 9 September 2014 - Investment Strategy Risk Register Report to Council 17 February 2015 - Budget and Council Tax Setting 2015/16 Report to Council - 21 July 2015 - Property Investment Strategy Report to Council - 25 April 2017 - Property Investment Strategy Update

Adrian Rowbotham

Chief Finance Officer

Lesley Bowles

Chief Officer Communities and Business

Property Investment Strategy Criteria

1. The strategy will consist of a diversified and balanced portfolio of investment assets with regard to the following considerations.

2. Established property investment practice has evolved based on long standing markets for assets in main stream sectors such as Offices, Retail, Industrial and Residential. Investing in these traditional asset categories in a balanced fashion, allows for a lower risk investment when compared to emerging markets such as Student Accommodation, Nursing Homes and Medical Centres.

3. When considering the tenure of an asset, freehold would be preferable to leasehold. Freehold provides for greater levels of security against a leasehold asset that would effectively decrease in value over time. However assets on long leasehold basis may still be suitable for consideration.

4. Whilst properties let to only one tenant may offer an acceptable level of risk, multi-tenanted properties would be favourable as they offer the opportunity to minimise the impact of any one part of the asset being vacant due to tenant default or lease expiry. If assets are occupied by a single tenant, then detailed financial due diligence would be undertaken to ascertain their financial stability.

5. Investment opportunities are restricted to those within a 50 mile radius of the Council's Argyle Road offices.

6. Based on the above considerations and taking into account local market conditions, a suggested lot size of between £1m and £5m is recommended. This is to avoid the lower part of the local market where private high net worth individuals would be seeking to invest and also the high end, where Pension Funds and Life Assurance Funds tend to dominate.

7. Given the likely risk profile of an asset meeting the above considerations, it is suggested that an income yield of in excess of 5%* (based on advice from Savills) when not borrowing or in excess of 3% for schemes that include some external borrowing is appropriate. Opportunities should be sought that lend themselves to a potential to increase rental income than is currently being realised. (*The income yield is calculated as an average return over 10 years).

8. A limited number of opportunities that include the potential for development should also be considered. This approach may have the potential to deliver an additional 20-30% return on investment could be realised.

9. Where sites that are already in the ownership of the Council could be redeveloped in partnership with neighbouring sites, added value can be derived from 'marriage' of the sites. Consideration should be given to Joint

Venture (JV) projects that maximise value, with priority given to those which would result in the delivery of assets meeting the investment criteria.

10. It is proposed that external specialist property investment advisors be retained on each transaction, advising on suitability having undertaken detailed pre purchase due diligence, including valuation, risk analysis and lease / title reviews.

11. Taking all of the above considerations into account, the following specific criteria are proposed:

    i. Income Yield of 5%+ when not borrowing or in excess of 3% for schemes that include some external borrowing, based on an average over 10 years. (Flexibility may be applied to those opportunities that show an acceptable social return on investment)

    ii. Individual Properties or Portfolios

    iii. Lot size of £1m - £5m

    iv. Freehold / Long Leasehold

    v. Single or Multi Tenanted

    vi. Asset categories: Industrial, Office, Retail, Trade Counter and Private Residential

    vii. Potential to increase rental income, through pro-active Asset Management

12. It is proposed that initially, the Strategic Asset Management and Operational Property Management of the portfolio be delivered from existing resource within the Council's Economic Development and Property Team. There will however be times when specialist external advice is needed and this work will be commissioned on an 'as required' basis, funded from the income from the assets. This approach is to be reviewed regularly, including ongoing resource requirements, as the portfolio grows.

13. Funding for the acquisition of assets should be reviewed on a case by case basis but could be derived from a number of sources:

    - Receipts from previous property disposals.
    - Receipts from proposed land / property disposals in future years.
    - Reallocation of some of the funds currently held in reserves.
    - Borrowing from the Public Works Loan Board.
    - Borrowing from the Municipal Bonds Agency.

14. Each scheme will also be analysed to decide whether it is preferable to proceed as the council or via Quercus 7.

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Property Investment Strategy – Risk Analysis

Risk	Risk Areas	Likelihood 1(low)-5(High)	Impact 1(low)-5(High)	Total Score	Controls
Downturn in property market	Capital value and income potential reduce for purchased assets	2	3	6	Continued monitoring of markets. Sale of Assets at a benchmarked threshold. Annual Valuation
Upturn in property market	Purchase cost of potential assets increases	4	4	16	Continued monitoring of markets. Adjusting purchase criteria to reflect market movement. Consider sales of assets for capital gain. Annual Valuation
Increase in interest rates (borrowing)	Cost of borrowing increases with detrimental impact on income	4	3	12	Ensure most competitive rate achieved if borrowing, fixed term if possible. Consider increased use of reserves to ensure loan to value ratios are acceptable.
Increase in interest rates (investment)	Lower rate of return when compared to other potential treasury management income	4	1	4	Consider revising income return criteria upwards. Consider disposal of assets for re-investment
Restrictions on borrowing	Potential changes to the Prudential Code regarding what borrowing can be used for	4	3	12	Variety of funding sources. Amend property search criteria.
Available opportunities	Market opportunities meeting investment criteria not available.	4	4	16	Identify opportunities early and move swiftly to acquire

Changes in Tenant Demand	Certain types of property may become less favourable with tenants.	3	3	9	Construct a varied portfolio by use, i.e. mixture of shops, offices, industrial, residential etc.
Obsolescence of Asset	Physical obsolesce in terms of building fabric and fit out	3	4	12	Ensure Full Repairing and Insuring Leases are in place via pre-purchase due diligence. Have building surveys undertaken to establish condition of building.
Tenant default	Loss of rental income, increased costs incurred	2	4	8	Undertake financial due diligence of tenants pre-purchase, obtain the best possible tenant covenants. Look for guarantors or cash deposits where covenants are considered weak. Consider multi-tenanted properties in order to diversify risk. Ensure robust credit control procedures in place. Monitor tenant company performance.
Void periods	Loss of rental income, holding costs incurred – rates, utilities etc. Costs of re-letting	2	4	8	Monitoring tenancies as described above. Move quickly to appoint letting agents should a void period appear likely. Act expediently in concluding legal process of letting.
Government Legislation - Energy Performance (Minimum Energy Efficiency Standards , MEES)	From 1st April 2018 it will be illegal for a landlord to grant a new letting of a commercial property that has an EPC of below E.	4	4	16	Undertake appropriate pre purchase due diligence to establish what the EPC rating of a property is and purchase accordingly. Identify if opportunities exist to increase the EPC rating appropriately.

Illiquidity of Property Assets	Asset identified for disposal to raise capital receipt or for reinvestment	2	4	8	Ensure that assets are kept "sale ready" in terms of documentation and information.
Staff Resources	Lack of suitably professionally qualified staff	2	3	6	Ensure that appropriately professionally qualified staff, with experience in Property Investment, are available to act on the Council's behalf.
Residential Properties – generally all of the above plus greater landlord input, more management intensive	Residential Properties generally require a more active landlord involvement, maintaining the structure and services of a property – maintenance costs and management costs are therefore higher.	3	3	9	Ensure that increased holding costs are factored into purchase valuations Appoint external professionals to manage landlord and tenant processes Ensure that tenant deposits are taken

Strategic Risk Register Item – Agreed by Audit Committee 26 September 2017

ID	Risk	Risk Factors	Potential Effect	Links to Corporate Plan	Gross Likely hood	Gross Impact	Gross Risk Rating	Internal Controls	Net Likely hood	Net Impact	Net Risk Rating
SR 02	**Property Investment Strategy** The appetite and ability to invest in appropriate opportunities in accordance with the Council's Property Investment Strategy Lead Officer: Adrian Rowbotham	- Ability to seek appropriate investment opportunities - Appetite for risk within investment strategy to enable the Council to generate target returns - Ability to deliver sufficient funds to maximise the opportunities presented through the Property Investment Strategy - Appetite to prudentially borrow over the medium to long term - The cost of interest payments - Lack of capacity or skilled professionals to advise on investment and borrowing strategies - Ineffective governance processes that could result in	- Lack of diversity in investments - Cost of interest payments - Negative impact on budgets, reserves and the ability to deliver Council projects - Poor financial health - Unable to maintain low increases in council tax levels - Reputational damage - Poor outcome for the Audit of Accounts or Value for Money assessment and potential for increased intervention	- Ability to deliver Value for Money - Ability to provide high quality services - Ability to support and grow the local economy	4 Likely	4 Serious	16 High	- Council approved Property Investment Strategy, with defined rates of return demonstrating risk appetite - Governance arrangements defined with appropriate delegations agreed - Qualified and experienced officers in post - Professional, external advisers engaged to support the development of strategies and fill skills gaps - Effective budget setting and financial monitoring processes embedded - Effective financial governance including reports to FAC, Cabinet, Audit Committee and Scrutiny Committee	3 Possible	3 Significant	9 Medium

ID	Risk	Risk Factors	Potential Effect	Links to Corporate Plan	Gross Likely hood	Gross Impact	Gross Risk Rating	Internal Controls	Net Likely hood	Net Impact	Net Risk Rating
		opportunities being missed or being ineffectively scrutinised - Ineffective use of Quercus 7 to support the Council's investment strategy						- Regular Quercus 7 Board and Trading Board meetings			

Assessing and quantifying threats and opportunities

How likely is it to happen? What would the impact be? Likelihood x Impact = Risk Rating

Low Risk: Risk rating of 1 to 6 **Medium Risk:** Risk rating of 8 to 12 **High Risk:** Risk rating of 15 to 25

Likelihood						
	Very Likely (5)	Low (5)	Medium (10)	High (15)	High (20)	High (25)
	Likely (4)	Low (4)	Medium (8)	Medium (12)	High (16)	High (20)
	Possible (3)	Low (4)	Low (6)	Medium (9)	Medium (12)	High (15)
	Unlikely (2)	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	Very Unlikely (1)	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
		No Impact (1)	**Minor (2)**	**Significant (3)**	**Serious (4)**	**Breakdown of Services (5)**

Impact

Item 10 – Financial Results 2017/18 – to end of November 2017

The attached report was considered by the Finance Advisory Committee on 30 January 2018. The relevant Minute extract was not available prior to the printing of this agenda and will follow when available.

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FINANCIAL RESULTS 2017/18 – TO THE END OF NOVEMBER 2017

Cabinet – 6 February 2018

Report of	Chief Finance Officer
Status:	For consideration
Also considered by	Finance Advisory Committee – 30 January 2018
Key Decision:	No

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder	Cllr. John Scholey
Contact Officers	Adrian Rowbotham, Ext. 7153
	Veronica Wilson, Ext. 7436

Recommendation to Finance Advisory Committee: That the report be noted, and any comments forwarded to Cabinet.

Recommendation to Cabinet: Cabinet considers any comments from Finance Advisory Committee and notes the report

Reason for recommendation: Sound financial governance of the Council.

Overall Financial Position

1. The year-end position is currently forecast to be a favourable variance of £56,000 which represents just under 0.4% of our net service expenditure.

Key Issues for the year to date regarding Property Investment Strategy

2. Property Investment Strategy Income –The net income from acquisitions to date are forecast to be £45,000 greater than originally budgeted for 2017/18, due to additional income from two properties acquired earlier this calendar year, offset by refurbishment works including work to make void areas available for letting, maintenance costs incurred during void periods, and a rent free period awarded at the start of a new ten year lease for part of Suffolk House which will result in additional income over the 10-year budget period. 96 High Street was funded from internal borrowing and the annual repayment of £150,000 is also included in the year end forecast.

Other issues for year to date

3. Pay costs – the forecast expenditure to date on staff costs, (including agency cover and costs of advertising for professional posts, but excluding those who are externally funded) is £258,000 below budget. There are variances in individual areas including Facilities, Licensing, Operational Services and Planning; the larger variances are explained in the Chief Officer commentaries.

4. Income – Income from both Off-Street and On-Street parking is ahead of profile at the end of November. Forecast additional income of £118,000 from the additional spaces at the Bradbourne Car Park is a one-off benefit for this year as the annual repayments for the internal borrowing for the car park will not commence until 2018/19. Income from Development Management and also Building Control is also ahead of profile at the end of November. Income from Land Charges is lower than profile and an adverse outturn is forecast.

Year End Forecast

5. The year end forecast position is a favourable variance of £56,000. This has arisen from a number of different areas, following are details of the larger forecast variances contributing to the outturn position.

Favourable variances

6. Car Park income has given rise to a favourable variance however this is offset by additional expenditure in relation to the Bradbourne car park reducing the expected year end positon to £24,000 favourable.

7. Savings are expected in relation to support and operating expenses for Argyle Road as a result of staff vacancies and electricity savings following the installation of LED lighting; a favourable variance totalling £65,000 has been forecast.

8. Savings on salaries arising from staff turnover are now expected to exceed the vacancy savings budget by £66,000.

9. The Council no longer belongs to the West Kent Equalities arrangement, with the service now being undertaken in-house, realising a favourable variance of £19,000.

10. The Trading account is forecast to deliver an overall surplus of £154,000 which is £40,000 better than the original budget. Expenditure is currently £110,000 below profile, offset by some underperforming areas of income including cesspool emptying and pest control.

11. Investment Property – Net additional income of £45,000 is forecast.

Unfavourable variances

12. Land Charges are reporting an unfavourable forecast of £74,000 due to income expectations being below a challenging target.

13. Savings expected from IT Development are not now expected to be achieved in 2017/18 and an adverse positon of £51,000 is forecast.

14. Business Rates have been paid for property in Swanley that we are holding for future development and this has given rise to an unfavourable variance of £30,000.

15. Economic Development Property is forecast to incur expenditure in relation to feasibility studies and other preparation work related to the property investment projects; whilst it is anticipated that some of this expenditure may be off-set against capital receipts generated from disposals, current expenditure over budget levels is forecast to be £55,000.

Future Issues and Risk areas

16. Chief Officers have considered the future issues and risk areas for their services and the impacts these may have on the Council's finances as follows:

- Some property projects will incur revenue expenditure in advance of the commencement of capital projects.
- Contribution towards IT development costs due to be met from savings elsewhere.
- Further costs are likely for obtaining external HR advice.
- Land Charges income continues below expected target; current charging scales to be reviewed.
- We are awaiting further guidance from HMRC in relation to a recent ruling which affects the VAT treatment of car park income overpayments, the new ruling deems them to be consideration for parking and liable for VAT.
- Universal Credit started in the district in October 2015 but has had minimal impact to date. The full service of Universal Credit will commence from November 2018. Migration for existing claims will be phased after this date; with pension cases being retained. Regular liaison meetings are taking place between DBC/SDC managers and DWP partnership managers.
- The expected government decision to raise planning application fees from 1 July 2017 has not materialised; latest information suggests the rise may come at the end of the calendar year.
- Planning Pre-application fees will be revised in line with the Cabinet decision of March 2017, with new charges likely to come into force in January 2018.

- There remains the risk that planning decisions and enforcement action will be challenged, either at appeal or through the Courts.
- Planning application income is always uncertain and will be monitored closely.
- Staff turnover is currently high in Planning and recruiting to vacant posts continues to be difficult.

17. This Council is entitled to retain 50% of extra income arising from increases in the business rate tax base, however this figure is subject to great volatility as it is affected by the results of outstanding appeals and this area will be closely monitored. The budget of £1,990,000 represents the safety net level and the actual receipts can only exceed that figure.

18. Planned savings for 2017/18 total £344,000, including savings from partnership working, and from additional income generation, and these will be risk areas for the current and for future years.

19. The impact on financial markets, externally funded projects and rates of inflation following the results of the EU Referendum in June 2016 is being monitored and addressed as part of the Council's risk management process.

Key Implications

Financial

The financial implications are set out elsewhere in this report.

Legal Implications and Risk Assessment Statement.

Under section 151 of the Local Government Act 1972, the Section 151 officer has statutory duties in relation to the financial administration and stewardship of the authority.

Detailed budget monitoring is completed on a monthly basis where all variances are explained. Future risk items are also identified.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Appendices	Appendix 1 – November Budget Monitoring (Commentaries) Appendix 2 – November Budget Monitoring (Tables)
Background Papers:	None

Adrian Rowbotham

Chief Finance Officer

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Budget Monitoring Sheets for November 2017

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4 Cumulative Salary Monitoring

5 Direct Services Trading accounts

6 Investment Income

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9 Capital

10 Income Graphs

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APPENDIX 1

BUDGET MONITORING - Strategic Commentary - As at 30th November 2017

Overall Financial Position

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- We are awaiting further guidance from HMRC in relation to a recent ruling which affects the VAT treatment of car park income overpayments, the new ruling deems them to be consideration for parking and liable for VAT.
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18. Planned savings for 2017/18 total £344,000, including savings from partnership working, and from additional income generation, and these will be risk areas for the current and for future years.

19. The impact on financial markets, externally funded projects and rates of inflation following the results of the EU Referendum in June 2016 is being monitored and addressed as part of the Council's risk management process.

Contacts:

Adrian Rowbotham	Chief Finance Officer	ext 7153
Veronica Wilson	Principal Accountant	ext 7436

Communities and Business – November 2017 Commentary

Service	Variance to Date £000	Forecast Annual Variance £000	Explanation of Variance and Action Planned (including changes from previous month)
Community Safety	15	10	Spend ahead of profile and adjustment for new starter and vacancy contribution. Salaries overspend will be compensated by salaries underspend elsewhere in the service.
Economic Development Property	(13)	55	This is mainly due a vacant Property graduate post, spending on feasibility studies and other preparation work for property investment projects and has been highlighted as a risk throughout the year. Depending on the financial guidelines some of the expenditure may be capitalised. This is being monitored.
Homeless	(20)	(10)	This underspend mainly relates to a vacant post.
Housing Energy Retraining Options (HERO)	17		Additional HERO expenditure to be funded from Trailblazer - external funding.
Tourism	(11)		Tourism subscription invoice now planned for second half of the financial year.
Ext Funded: Dunton Green Projects – S106	25		Funding for this project is held in an earmarked reserve and transferred in at the year end.
Ext Funded : Partnership Home Office	16		Funding for second half of the financial year awaited from PCC.
Ext Funded: Troubled Families Project	(22)		This is external funding received in advance and will be zero at year end.
Capital: Property Investment Strategy	198		This is 2nd Floor Suffolk House Refurbishment and the option to purchase 2 properties on Croft Road. This will be funded from the Council approved Property Investment Strategy.

Future Issues/Risk Areas

Whilst the capital sums required for investment in property are covered through the Council approved Property Investment Strategy funding, not all of the costs associated with this, eg feasibility fees, can be capitalised. The ability to offset property related costs to capital is dependant on financial guidelines. These costs will be monitored and capitalised where possible. In the interim, the prudent approach is to treat all of the associated costs as revenue.

Lesley Bowles
Chief Officer Communities and Business
December 2017

Communities and Business – November 2017 Commentary

Service	Variance to Date £000	Forecast Annual Variance £000	Explanation of Variance and Action Planned (including changes from previous month)
Investment Strategy Properties	(28)	(45)	This favourably revised forecast takes into account additional income from Pembroke Road, Sevenoaks High Street and updated rent on Suffolk House. It also caters for some voids during the course of the year.

Future Issues/Risk Areas

Lesley Bowles
Chief Officer Communities and Business
December 2017

Corporate Services– November 2017 Commentary

Service	Variance to Date £000	Forecast Annual Variance £000	Explanation of Variance and Action Planned (including changes from previous month)
Asset Maintenance IT	(25)		Spend as per 10 year asset maintenance plan – surplus to IT Asset Maintenance reserve at year end as agreed
Elections	15		The final accounts have been submitted to the Electoral Claims Unit, however the balance for the costs of the Parliamentary General Election in June 2017 has not yet been received.
Register of Electors	(22)		Resource required for electoral registration currently under review. Additional resource likely to be sought in Q4 2017/18.
Land Charges	54	74	Challenging income target unlikely to be met.
Street Naming	(11)	(9)	Overachievement on expected income offset by service cost within the GIS team
Administrative Expenses Human Resources	35	50	Current overspend due to external advice.
Support - Contact Centre	(14)		Underspend due to staff turnover, vacant posts in the process of being filled.
Support- Human Resources	13		Spend on Corporate Training initiatives offset by underspend on local training budgets.
Salaries: Corporate Services	(13)		Underspend due to staff turnover, vacant posts in the process of being filled.

Future Issues/Risk Areas

Contribution towards IT Development costs due to be met from savings elsewhere. Further costs likely for external HR advice Land Charges income continues below expected target. Current charging scales to be reviewed.

Jim Carrington-West
Chief Officer – Corporate Services
December 2017

Environmental and Operational Services – November 2017 Commentary

Service	Variance to Date £000	Forecast Annual Variance £000	Explanation of Variance and Action Planned (including changes from previous month)
Asset Maintenance Argyle Rd	(15)		Planned Maintenance Programme prepared; works now prioritised by SMT.
Asset Maintenance Direct Services	13		Works undertaken to electrics and high hedges; further works necessary later in the year. £12K carried forward from 2016/17.
Asset Maintenance Hever Road	10		Works recently completed to drainage.
Car Parks	30		Income above profile offset by spend on equipment purchased (P&D Machines) for new Bradbourne Car Park. Favourable income forecast reflects additional Income from new Bradbourne spaces. New Blighs Car Park rental paid to Dec 2017. NNDR bill for Sennocke now refunded. NNDR bill for Bradbourne due in December.
Car Parking – On Street	(79)		Income currently above profile. Areas for expenditure identified to support parking plans.
CCTV	23	15	Challenging income targets (£33K) will not be met. Partly offset by expenditure savings.
EH Commercial	14		Use of Contractors for Food Hygiene inspections to cover for vacancies. Barrister fees to be recovered.
EH Environmental Protection	12	10	All LAPPC Inspections completed and fees paid. There will be a £10,000 shortfall in income due to number of premises registered.
Estates Mgt - Grounds	10	15	Essential tree work not included for in maintenance budget.
Kent Resource Partnership	(76)		All partner Authorities now billed for their annual contribution to cover all expenditure in the year.

Service	Variance to Date £000	Forecast Annual Variance £000	Explanation of Variance and Action Planned (including changes from previous month)
Licensing Regime	12		Income below profile for Annual premises license fees. To be fully recovered in the year.
Markets	10		Rent paid in advance for Swanley Market site.
Parks Rural	29	20	Coppicing works continue in Farningham Wood; income to be recovered by sale of timber felled. Works carried out in Shoreham and Andrews Wood.
Private Sector Housing	47		Works in default carried out to private property; to be recovered through a charge on the property.
Private Sector Housing Maintenance Operatives	21		Expenditure on salaries plus set up costs incurred. Income to be recovered for works carried out.
Refuse Collection	19	20	Income below profile for glass recyclate due to current low prices paid for cullet.
Street Cleansing	(17)		New litter bins to be purchased later in the year.
Support – Central Offices	(27)	(15)	Savings on energy. Rents for Argyle Road above profile.
Support – Central Offices – Facilities	(10)	(5)	Savings on salaries. Outstanding invoices for cleaning contract; new contract commenced 16.10.17.
Support - General Admin	(47)	(50)	Savings on salaries due to vacancies
Support - Direct Services	(10)	(10)	Savings on printing; mobile phones and training. Manual Handling Training to be delivered in the New Year.

Service	Variance to Date £000	Forecast Annual Variance £000	Explanation of Variance and Action Planned (including changes from previous month)
Taxis	(17)	(10)	Income ahead of profile. Savings on salaries due to vacancy. Taxi testing payments outstanding for November.
Salaries: Emergency Planning & Property	(31)	(50)	Savings due to vacancies in FM Team. See comment on Support general admin, above.
Salaries: Licensing	(50)		Savings on salaries due to vacancy. Reflected in Licensing regime and taxi budgets.
Salaries: Operational Services	(62)		Savings on salaries due to vacancies. Partly offset by use of agency staff. Reflected in Direct Services Trading Accounts.
Capital: Vehicle Purchases	(175)		Expenditure below profile. Vehicle replacement programme to be delivered in the year.
Capital: Dunbrik Vehicle Workshop	(20)		Retention payment to be made at end of defect liability period. Still defects outstanding. Budget now includes new Capital project for Vehicle Wash upgrade.
Capital : RHPCG – Energy Conservation	12		Energy grants issued to be financed from external funds.
Capital – DFG	(324)		Increased budget for 2017/18. Expenditure below profile. Any underspend at year end carried forward (externally funded).
Capital - Bradbourne Car Park	(497)		Project completed. Final payment made.
Capital – Buckhurst 2 Multi- Storey Car Park	(838)		Fee costs only up to Planning permission stage. Works due to commence January 2018.
Capital -Sennocke Hotel	323		On site, on target.

Service	Variance to Date £000	Forecast Annual Variance £000	Explanation of Variance and Action Planned (including changes from previous month)
Direct Services – Overall Trading Accounts	(120)	(40)	Income £10,000 above profile. Expenditure £110,000 below profile. Surplus £212,000 against a profiled surplus of £92,000. Income below target on: cesspool emptying; pest control and construction team. Expenditure over target on green waste service. Expenditure required for new staffing and to cover Christmas/New Year refuse collection arrangements.

Future Issues/Risk Areas

VAT on Car Park Overpayments (HMRC ruling) – we are awaiting further guidance from HMRC in relation to a recent Upper Tribunal Judgment which affects the VAT treatment of car park overpayments. The recent ruling amends previous guidance which considered overpayments to be outside the scope of VAT; the new ruling has deemed them to be consideration for parking and therefore liable for VAT.

Richard Wilson
Chief Officer Environmental & Operational Services
December 2017

Finance – November 2017 Commentary

Service	Variance to Date £000	Forecast Annual Variance £000	Explanation of Variance and Action Planned (including changes from previous month)
Corporate Other	(27)	(66)	From the savings the Council is able to derive from vacant posts, it is forecast that the corporate savings target will be exceeded by the year end.
Dartford Partnership Hub (SDC Costs)	(76)		Additional DWP grant funding received, some of which will be utilised to fund one-off IT costs.
Equalities Legislation	(19)	(19)	The Council no longer belongs to the West Kent Equalities arrangement, as services are provided in-house.
Local Tax	27	(12)	Court costs income is currently lower than predicted. Forecast reflective of anticipated savings from the Revenues & Benefits partnership.

Future Issues/Risk Areas

Universal Credit started in the district in October 2015 but has had minimal impact to date. The full service of Universal Credit, seeing the transfer of new claims to Universal Credit, will commence from November 2018. Migration for existing claims will be phased after this date; however, pensioner cases will be retained. Regular liaison meetings are taking place between DBC/SDC managers and DWP partnership managers.

Adrian Rowbotham
Chief Finance Officer
December 2017

Planning – November 2017 Commentary

Service	Variance to Date £000	Forecast Annual Variance £000	Explanation of Variance and Action Planned (including changes from previous month)
Administrative Expenses Planning Services	30	7	This is training costs and the payment of professional fees.
LDF Expenditure	35		This will be funded from Local Plan reserve.
Planning Appeals	10	29	This is the result of costs being awarded against the Council for an Appeal at Packhorse Road, Sevenoaks.
Planning – CIL Administration	(49)		Profiled ahead of receipts, will be as budget end of year. The monies can only be spent on the administration of the CIL process and any surplus would be re-invested into a CIL admin reserve.
Planning - Development Management	(65)	(69)	The planning fee income has significantly contributed to this position and several vacant posts. However it should be noted that there are peaks and troughs in the submission of planning fees throughout the year with often a slow down in the submission of applications in the autumn and early winter.
Planning Enforcement	(28)	(25)	This is the result of an underspend on staff. Recruitment to the vacant team leader position has been unsuccessful up to now after three separate attempts.
Planning Policy	(45)		This mainly relates to an underspend on salaries, with smaller elements being for grants and internal printing.
Building Control	(33)	(25)	Income is slightly above profile, in part due to increase in fees from 1st April 2017.
Salaries: Planning	(87)	(112)	This is the result of several vacant posts. Once recruitment has concluded we will be in a better position to revise the current forecast.
Capital: Affordable Housing	79		This will be financed at the end of the financial year from S106 planning obligations receipts.

Service	Variance to Date £000	Forecast Annual Variance £000	Explanation of Variance and Action Planned (including changes from previous month)
Capital: S106	38		Monies collected from development through these legal agreements are paid out to infrastructure providers – primarily KCC
Capital: CIL Parish Councils	542		We continue to collect CIL from relevant development in line with our charging schedule and deliver monies to Parish and Town Councils in accordance with the schedule twice yearly

Future Issues/Risk Areas

The Government's commitment to raise planning application fees from 1 July 2017 has not materialised, nor has their indication it would then happen in the Autumn. Latest information suggests the rise may now come at the end of the calendar year. Pre-application fees will be revised in line with the Cabinet decision of March 2017, with new charges likely to come into force in January 2018. There remains the risk that planning decisions and enforcement action will be challenged, either at appeal or through the Courts. Application fee income is always uncertain and will be monitored closely. Staff turnover has been high in the past year, and recruiting to vacant planning posts continues to be difficult.

Richard Morris
Chief Planning Officer
December 2017

Agenda Item 10

APPENDIX 2

As at end of November 2017

2016/17 Actual £'000		Y-T-D Actual £'000	Annual Budget £'000	Annual Forecast (including Accruals) £'000	Annual Variance £'000	Annual Variance %
1,377	Communities & Business	1,137	1,480	1,535	55	3.7
2,660	Corporate Services	1,974	2,822	2,988	166	5.9
4,722	Environmental & Operational Services	3,107	4,565	4,567	2	0.0
4,231	Financial Services	3,254	4,667	4,539	(128)	(2.7)
1,374	Planning Services	747	1,282	1,260	(22)	(1.7)
14,364		**10,219**	**14,816**	**14,890**	**73**	**0.5**
	<u>*Adjustments to Reconcile to amount to be met from reserves*</u>					
(198)	Direct Services Trading Account	(194)	(114)	(154)	(40)	(35.1)
(59)	Capital Charges outside the General Fund	(40)	(60)	(60)	0	0.0
(171)	Support Services outside the General Fund	(115)	(172)	(172)	0	0.0
13,936	**NET SERVICE EXPENDITURE**	**9,870**	**14,470**	**14,504**	**33**	**0.2**
0	Revenue Support Grant and New Homes Bonus	0	0	0	0	-
(2,343)	Retained Business Rates	(1,327)	(1,990)	(2,040)	(50)	(2.5)
(9,672)	Council Tax	(6,675)	(10,013)	(10,013)	0	(0.0)
(333)	Contribution from Collection Fund	0	0	0	0	-
1,588	<u>Summary excluding Investment Income</u>	**1,868**	**2,467**	**2,450**	**(17)**	(0.7)
(425)	Investment Property Income	(403)	(500)	(545)	(45)	0.0
(241)	Interest Receipts	(98)	(130)	(124)	6	0.0
922	**OVERALL TOTAL**	**1,367**	**1,837**	**1,781**	**(56)**	(3.0)
(983)	Planned Appropriation to/(from) Reserves	(1,225)	(1,837)	(1,837)	0	
(290)	Supplementary Estimates	0	0	0	0	
(350)	(Surplus)/Deficit	**142**	**0**	**(56)**	**(56)**	

Item 11 – Treasury Management 2018/19

The attached report was considered by the Finance Advisory Committee on 30 January 2018. The relevant Minute extract was not available prior to the printing of this agenda and will follow when available.

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TREASURY MANAGEMENT STRATEGY 2018/19

Cabinet – 6 February 2018

Report of the:	Chief Finance Officer
Status:	For Decision
Also considered by	Finance Advisory Committee – 30 January 2018
	Council – 20 February 2018
Key Decision:	No

Executive Summary: The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by investment guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

This report supports the Key Aim of efficient management of the Council's resources.

Portfolio Holder	Cllr. John Scholey
Contact Officers	Roy Parsons, Principal Accountant, Ext 7204
	Adrian Rowbotham, Chief Finance Officer, Ext 7153

Recommendation to Finance Advisory Committee: That the recommendation to Cabinet be approved.

Recommendation to Cabinet: That, subject to the views of the Finance Advisory Committee, Cabinet recommend that Council approve the Treasury Management Strategy for 2018/19.

Recommendation to Council: That the Treasury Management Strategy for 2018/19 be approved.

Reason for recommendations: To ensure that an appropriate and effective annual Treasury Management Strategy is drawn up in advance of the forthcoming financial year, which meets both legislative and best practice requirements.

Background

1 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.

2 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 any debt previously drawn may be restructured to meet Council risk or cost objectives.

3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the local authority's 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."

Introduction

<u>Reporting requirements</u>

4 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Finance Advisory Committee.

5 Prudential and Treasury Indicators and Treasury Strategy (This report) - The first, and most important report 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).

6 A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

7 An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management Strategy for 2018/19

8 The strategy for 2018/19 covers two main areas:

Capital issues

- the capital plans and the prudential indicators; and
- the Minimum Revenue Provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which will 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
- policy on the use of external service providers.

9 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department of Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

10 CIPFA has conducted a review of the Prudential Code and the Treasury Management Code of Practice and issued its guidance on 21 December 2017. The review is particularly focused on the risks associated with 'non-treasury' investments, especially the purchase of investment property and other commercial activities that aim to generate income, but which may require

external borrowing (or the use of existing cash balances) to finance such activities.

11 Whilst the codes apply to the 2018/19 financial year, given the timing of their release, CIPFA's Treasury and Capital Management Panel recommends that the requirements of both codes be 'implemented as soon as possible' and acknowledges that they may not be fully implemented until the 2019/20 financial year. This Treasury Management Strategy Statement (TMSS) has largely been prepared in accordance with the current Codes of Practice. To ensure that the Council's TMSS remains compliant with the new CIPFA codes, any necessary changes will be reported to Members during 2018/19.

MiFID II

12 The Financial Conduct Authority (FCA) implemented the European Union's second Markets in Financial Instruments Directive (known as MiFID II) on 3 January 2018. The directive impacts on the way investors, including local authorities, access financial services provided by banks, brokers, advisors and fund managers.

13 Under MiFID II, all local authorities are by default classified as retail clients (i.e. the same as a private individual). Those authorities meeting certain quantitative and qualitative criteria are able to opt up to a professional client. Retail and professional clients have differing access to financial products and services and are afforded differing degrees of protection.

14 Professional status has been obtained with our treasury management advisor, brokers, Money Market Funds and some banks and building societies, where necessary.

Training

15 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.

16 The training needs of treasury management officers are reviewed periodically.

Treasury management consultants

17 The Council uses Link Asset Services, Treasury Solutions (formerly known as Capita Asset Services, Treasury Solutions) as its external treasury management advisors.

18 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 our external service providers.

19 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.

The Capital Prudential Indicators 2018/19 – 2020/21

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

Capital Expenditure

21 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 note the capital expenditure forecasts:

	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Capital Expenditure	15,372	9,432	35,595	1,566	1,452

22 Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

23 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 need (borrowing).

	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Capital Expenditure	15,372	9,432	35,595	1,566	1,452
Financed by:					
Capital receipts	630	4,186	7,039	128	0
Capital grants	0	675	889	889	889

Capital reserves	9,430	645	25,746	549	563
Revenue – contribution to capital reserve	0	0	561	0	0
Net financing need for the year	**5,312**	**3,926**	**1,360**	**0**	**0**

<u>The Council's Borrowing Need (the Capital Financing Requirement)</u>

24 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, will increase the CFR.

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

26 The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes.

27 The Council is asked to note the CFR projections below:

	2016/17 Actual £000	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**
Capital Financing Requirement					
Total CFR	5,392	9,085	10,062	9,641	9,239
Movement in CFR	(21)	(233)	(382)	(422)	(402)

Movement in CFR represented by:					
Net financing need for the year (above)	5,312	3,926	1,360	0	0

Less MRP/VRP and other financing movements	(5,291)	(3,693)	(978)	(422)	(402)
Movement in CFR	**(21)**	**(233)**	**(382)**	**(422)**	**(402)**

Note:- The MRP / VRP includes finance lease annual principal payments

Core Funds and Expected Investment Balances

28 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Fund balances / reserves	23,914	17,974	18,922	19,345	20,360
Capital receipts	143	276	5,660	11,110	10
Provisions	409	409	409	409	409
Other	0	0	0	0	0
Total core funds	**24,466**	**18,659**	**24,991**	**30,864**	**20,779**
Working capital*	10,814	10,914	11,014	11,114	11,214
Under/over borrowing	(4,561)	(3,004)	(3,981)	(3,560)	(3,158)
Expected investments	**30,719**	**26,569**	**32,024**	**38,418**	**28,835**

*Working capital balances shown are estimated year end; these may be higher mid year

The Borrowing and Repayment Strategy

29 The capital expenditure plans set out above 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.

Current portfolio position

30 The Council's treasury portfolio position at 31 March 2017, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations) against the underlying capital borrowing need (the CFR), highlighting any over or under borrowing.

	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
External debt					
Debt at 1 April	0	0	5,250	5,250	5,250
Expected change in Debt	0	5,250	0	0	0
Other long-term liabilities (OLTL)	702	831	831	831	831
Expected change in OLTL	129	0	0	0	0
Actual gross debt at 31 March	831	6,081	6,081	6,081	6,081
The Capital Financing Requirement (CFR)	5,392	9,085	10,062	9,641	9,239
Under / (over) borrowing	4,561	3,004	3,981	3,560	3,158

Borrowing Strategy

31 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement or CFR)

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 considered a prudent one as investment returns are low and counterparty risk is relatively high.

32 Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Chief Finance Officer 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 long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast*, perhaps arising from an acceleration in the start date and 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.

33 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

34 Within the 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 2018/19 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.

35 The Chief Finance Officer 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.

<u>Treasury Indicators: Limits to Borrowing Activity</u>

<u>The operational boundary</u>

36 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	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**
Debt	10,000	30,000	30,000	30,000
Other long term liabilities	831	831	831	831
Total	**10,831**	**30,831**	**30,831**	**30,831**

The authorised limit for external debt

37 A further key prudential indicator represents a control on the maximum level of borrowing. This represents a 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.

38 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.

39 The Council is asked to note the following Authorised Limit:

Authorised limit	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**
Debt	10,000	35,000	35,000	35,000
Other long term liabilities	831	831	831	831
Total	**10,831**	**35,831**	**35,831**	**35,831**

Prospects for interest rates

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

41 Appendix A draws together a number of current City forecasts for short term and longer fixed interest rates. Appendix B contains Link Asset Services' latest economic background report.

<u>Policy on borrowing in advance of need</u>

42 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.

43 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.

<u>Debt rescheduling</u>

44 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

45 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

46 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

47 All rescheduling will be reported to Cabinet at the earliest meeting following its action.

Municipal Bonds Agency

48 It is possible that the Municipal Bonds Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

Minimum Revenue Provision (MRP) Policy Statement

49 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).

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

51 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be based on CFR.

52 This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

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

- 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); or

- Depreciation method – MRP will follow standard depreciation accounting procedures.

These options provide for a reduction in the borrowing need over approximately the asset's life. Repayments included in annual PFI or finance leases are applied as MRP.

54 It is proposed to use the 'Asset life method' in the calculation of the Council's MRP. In choosing to do so, there are two options available:

- Equal instalments – where the principal repayment made is the same in each year; or

- Annuity – where the principal repayments increase over the life of the asset.

55 Of the two options, the annuity method seems to be the most suitable for the Council at this time, particularly for assets that generate income. It matches the repayment profile to how the benefits of the asset financed by borrowing are consumed over its useful life (i.e. it reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years). Interest will be greater at the beginning of the loan, at which time all of the principal is outstanding, so the amount of principal repayment is lower in the initial years. The schedule of charges produced by the annuity method results in a consistent charge of principal and interest over an asset's life, taking into account the real value of the annual charges when they fall due.

56 MRP commences in the financial year following that in which the expenditure is incurred, or in the year following that in which the relevant asset becomes operational. This enables an MRP "holiday" to be taken in relation to assets which take more than one year to be completed before they become operational.

Affordability prudential indicators

57 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. Members are asked to note the following indicators:

Ratio of financing costs to net revenue stream

58 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.

	2016/17 Actual	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Ratio (%)	(2%)	0%	1%	0%	0%

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

Treasury indicators for debt

59 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs and/or improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position, net of investments.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates.
- 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.

60 Members are asked to note the following treasury indicators and limits:

	2018/19 %	2019/20 %	2020/21 %
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100	100	100
Limits on variable interest rates based on net debt	50	50	50
Maturity structure of fixed interest rate borrowing 2018/19			
		Lower	**Upper**
Under 12 months		0	100
12 months to 2 years		0	100
2 years to 5 years		0	100
5 years to 10 years		0	100
10 years and above		0	100
Maturity structure of variable interest rate borrowing 2018/19			
		Lower	**Upper**

Under 12 months	0	100
12 months to 2 years	0	100
2 years to 5 years	0	100
5 years to 10 years	0	100
10 years and above	0	100

Annual Investment Strategy

Current investment portfolio position

61 The Council's treasury portfolio position at 31 December 2017 appears in Appendix C.

Loans to other organisations

62 The Council has loaned money to other organisations. Details appear in Appendix C. A further loan has been agreed of £600,000 to Sevenoaks Leisure Limited at 6% p.a. payable in tranches during the latter part of 2017/18.

Investment policy

63 The Council's investment policy has regard to the Department of Communities and Local Government (CLG) Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

64 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

65 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 this end the Council will engage with its advisors to maintain a monitor on market

pricing such as "credit default swaps" (CDS) and overlay that information on top of the credit ratings.

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

67 Investment instruments identified for use in the financial year are listed in Appendix D under the 'specified' and 'non-specified'iInvestments categories. Counterparty limits will be as set below.

Creditworthiness policy

68 Following a review of counterparties and limits, as agreed with the Portfolio Holder, rather than using the Link Asset Services colour coded creditworthiness service, the policy is now based on credit ratings and our own view of suitable creditworthy counterparties.

69 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

70 The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

71 Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum

Council criteria will be suspended from use, with all others being reviewed in light of market conditions

72 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 (Good credit quality). UK banks having, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):
    1. Short Term – F1
    2. Long Term – A-
- Banks 2 (Good credit quality). Non-UK banks domiciled in a country which has a minimum sovereign Long Term rating of AA- and having, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where appropriate):
    1. Short Term – F1
    2. Long Term – A-
- Banks 3 (Part nationalised UK Bank – Royal Bank of Scotland). This bank can be included provided it continues to be part nationalised or it meets the rating requirements in Banks 1 above.
- Banks 4 (The Council's own banker for transactional purposes, if it falls below the above criteria). Balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies. The Council will use all societies which:
    1. Meet the ratings for banks outlined above; or
    2. Have assets in excess of £3bn;

    or meet both criteria.

- Money Market Funds (MMFs). Minimum AAA credit rating from at least two of the three rating agencies and with a fund size in excess of £1bn. New EU regulations to be implemented in 2018/19 will change fund valuation methodology from Constant Net Asset Valuation (CNAV) to either Low Volatility Net Asset Valuation (LVNAV) or CNAV. As a consequence, the Council approves the use of Money Market Funds that operate under CNAV (those that invest exclusively in government securities) or operate under LVNAV (all other liquidity funds)
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, parish councils etc.

73 A limit of 50% will be applied to the use of non-specified investments.

74 Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

75 The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long Term Rating (or equivalent)	**Money and/or % Limit**	**Time Limit**
Banks 1	A-	£7m	2 years
Banks 2	A-	£5m	2 years
Banks 3	N/A	£7m	2 years
Banks 4	N/A	£7m	1 day
Bank subsidiaries	A-	£7m	2 years
Rated building societies (assets over £3bn)	N/A	£5m	2 years
Unrated building societies (assets over £3bn)	N/A	£3m	1 year
UK Government DMADF	UK sovereign rating	£5m	6 months
Local authorities	N/A	£5m (each)	2 years
Money Market Funds (CNAV)	AAA	£5m (per Fund)	Liquid
Money Market Funds (LVNAV)	AAA	£5m (per Fund)	Liquid

76 The proposed criteria for specified and non-specified investments are shown in Appendix D.

77 Due care will be taken to consider the country, group and sector exposure of the Council's investments.

78 The Council has determined that it will only use approved counterparties 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 E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

79 In addition:

- no more than 15% of the total fund will be placed with any non-UK country at any time. The only country, other than the UK, currently approved for investment is Sweden;

- total investment in any single institution, or institutions within a group of companies, is limited to 25% of the total fund at the time an investment is placed;

Investment Strategy

80 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).

81 Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

82 The suggested budgeted investment earnings rates for returns on investments, placed for periods up to about 3 months, during each financial year are as follows:

- 2017/18 0.40%
- 2018/19 0.60%
- 2019/20 0.90%
- 2020/21 1.25%
- 2021/22 1.50%
- 2022/23 1.75%
- 2023/24 2.00%
- Later years 2.75%

83 The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

84 Members are asked to note the following treasury indicator and limit. These limits are set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment. They are based on the availability of funds after each year-end.

Maximum principal sums invested > 364 & 365 days	**2018/19** **£m**	**2019/20** **£m**	**2020/21** **£m**
Principal sums invested > 364 & 365 days	£10m	£10m	£10m

85 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 risk benchmarking

86 The Council will use an investment benchmark to assess the performance of its portfolio. The benchmarks will be 7 day and 3 month LIBID uncompounded.

End of year investment report

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

Scheme of delegation

88 The guidance notes accompanying the revised Code also require that a statement of the Council's scheme of delegation in relation to treasury management is produced as part of the Annual Investment Strategy. This appears at Appendix F.

Role of the Section 151 officer

89 As with the scheme of delegation mentioned in the previous paragraph, a statement of the role of the Section 151 officer is also required. This appears at Appendix G.

Key Implications

Financial

The management of the Council's investment portfolio and cash-flow generated balances plays an important part in the financial planning of the authority. The security of its capital and liquidity of its investments is of paramount importance.

Legal Implications and Risk Assessment Statement

Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.

This treasury management strategy report fulfils the requirements of The Chartered Institute of Public Finance & Accountancy's Code of Practice on Treasury Management 2009 plus the 2011 update. The 2017 revised Code was published in December 2017 and any changes to ensure compliance will be put in place at the earliest available opportunity.

Treasury management has two main risks:

- Fluctuations in interest rates can result in a reduction in income from investments; and

- A counterparty to which the Council has lent money fails to repay the loan at the required time.

Consideration of risk is integral in our approach to treasury management.

The movement in previous years towards having a restricted lending list of better quality institutions but higher individual limits with those institutions has reduced the chances of a default. But if a default did occur, the potential loss would be greater.

These risks are mitigated by the annual investment strategy which has been prepared on the basis of achieving the optimum return on investments commensurate with proper levels of security and liquidity. However, Members should recognise that in the current economic climate, these remain significant risks and that the strategy needs to be constantly monitored.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

The effect of the proposals set out in this report is to allow the Council to effectively and efficiently manage cash balances.

In line with the revised CIPFA Code of Practice on Treasury Management, the Annual Treasury Strategy Statement must be considered by Council and this is planned for its meeting on 20 February 2018. Given the current uncertainties in the banking sector and financial markets, the Council may need to consider amending its strategy during the year.

Appendices:	Appendix A – Prospects for interest rates Appendix B – Economic background report Appendix C – Investment portfolio at 31 December 2017 Appendix D – Specified and non-specified investments Appendix E – Approved countries for investments Appendix F – Treasury management scheme of delegation Appendix G – The treasury management role of the S151 officer
Background Papers:	None

Adrian Rowbotham
Chief Finance Officer

APPENDIX A: Prospects for interest rates

1 As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast in the main body of the report includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

2 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Federal Reserve (Fed) has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

3 Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

4 From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

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

6 The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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

- Bank of England monetary policy takes action too quickly 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.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump.
- A sharp Chinese downturn and its impact on emerging market countries.

8 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

9 Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

10 Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

11 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

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APPENDIX B: Economic Background

1 **GLOBAL OUTLOOK. World growth** looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

2 In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

3 **KEY RISKS - central bank monetary policy measures**
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

4 The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently, in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also

encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

5 There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

6 A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp

downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

7 **UK.** After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

8 While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.0% in both September and October so that might prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

9 At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is,

therefore, not quite the ‘one and done’ scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

10 However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

11 It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

12 One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

13 Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

14 **EZ.** Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.0% y/y), 0.7% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in October inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

15 **USA.** Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.0%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

16 **CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

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

18 **Brexit timetable and process:**

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.

- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

APPENDIX C: CURRENT PORTFOLIO POSITION

List of Investments as at:- 31-Dec-17

Reference	Name	Rating	Country	Group	Amount	Start Date	Comm Rate	End Date	Curr Rate	Terms
	Barclays Bank plc (Business Premium A/C)	A	U.K.		827,000	01-Oct-11			0.05000%	Variable
	National Westminster Bank plc (Liquidity Select)	BBB+	U.K.	RBS	0	07-Oct-11			0.01000%	Variable
	National Westminster Bank plc (95 Day Notice)	BBB+	U.K.	RBS	0	24-May-13			0.10000%	Variable
	Svenska Handelsbanken AB (Deposit A/C)	AA-	Sweden		0	23-Jul-14			0.20000%	Variable
	Svenska Handelsbanken AB (35 Day Notice A/C)	AA-	Sweden		3,000,000	01-Sep-16			0.30000%	Variable
	Standard Life Liquidity Fund (Money Market Fund)	AAA	U.K.		5,000,000	11-May-12				Variable
	Insight Liquidity Fund (Money Market Fund)	AAA	U.K.		1,200,000	11-May-12				Variable
	BlackRock Liquidity Fund (Money Market Fund)	AAA	U.K.		4,200,000	13-Oct-16				Variable
IP1357	Bank of Scotland plc	A+	U.K.	Lloyds/HBOS	1,000,000	09-Aug-17	0.45000%	09-Feb-18	0.70000%	95 Day Notice
IP1358	Bank of Scotland plc	A+	U.K.	Lloyds/HBOS	1,000,000	21-Aug-17	0.36000%	21-Feb-18		6 Months
IP1369	Blackpool Borough Council		U.K.		2,000,000	24-Nov-17	0.50000%	24-May-18		6 Months
IP1364	Conwy County Borough Council		U.K.		2,000,000	31-Oct-17	0.43000%	30-Apr-18		6 Months
IP1359	Coventry Building Society	A	U.K.		3,000,000	11-Sep-17	0.35000%	12-Mar-18		6 Months
IP1362	Coventry Building Society	A	U.K.		2,000,000	18-Oct-17	0.45000%	18-Apr-18		6 Months
IP1354	Lloyds Bank plc	A+	U.K.	Lloyds/HBOS	1,000,000	04-Jul-17	0.45000%	04-Jan-18	0.25000%	95 Day Notice
IP1360	Lloyds Bank plc	A+	U.K.	Lloyds/HBOS	2,000,000	29-Sep-17	0.36000%	29-Mar-18		6 Months
IP1361	Lloyds Bank plc	A+	U.K.	Lloyds/HBOS	1,000,000	05-Oct-17	0.36000%	05-Apr-18		6 Months
IP1365	Lloyds Bank plc	A+	U.K.	Lloyds/HBOS	2,000,000	03-Nov-17	0.65000%	03-May-18		6 Months
IP1366	Lloyds Bank plc	A+	U.K.	Lloyds/HBOS	1,000,000	06-Nov-17	0.65000%	08-May-18		6 Months
IP1373	Lloyds Bank plc	A+	U.K.	Lloyds/HBOS	1,000,000	30-Nov-17	0.65000%	31-May-18		6 Months
IP1372	Nationwide Building Society	A+	U.K.		2,000,000	17-Nov-17	0.48000%	17-May-18		6 Months
IP1355	Santander UK plc	A	U.K.		1,000,000	11-Jul-17	0.37000%	11-Jan-18		6 Months
IP1356	Santander UK plc	A	U.K.		1,000,000	25-Jul-17	0.36000%	25-Jan-18		6 Months
IP1371	Santander UK plc	A	U.K.		2,000,000	15-Nov-17	0.53000%	15-May-18		6 Months
IP1370	Skipton Building Society	A-	U.K.		2,500,000	08-Nov-17	0.45000%	16-Feb-18		100 Days
IP1367	Thurrock Borough Council		U.K.		3,000,000	06-Nov-17	0.50000%	08-May-18		6 Months
IP1368	Thurrock Borough Council		U.K.		2,000,000	16-Nov-17	0.50000%	16-May-18		6 Months
	Total Invested				46,727,000					

Other Loan

Name	Amount	Start Date	Comm Rate	End Date	Terms
Sevenoaks Leisure Limited	250,000	29-Apr-08	7.00000%	31-Mar-18	10 Years

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APPENDIX D – TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

1 The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

2 The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 23 February 2010 and will apply its principles to all investment activity. In accordance with the Code, the Chief Finance Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

3 **Annual investment strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

4 The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury management strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

a) The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
b) Supranational bonds of less than one year's duration.
c) A local authority, parish council or community council.
d) Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
e) A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies..

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are contained in the body of the treasury management strategy statement.

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£)**
a.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£7m
b.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £3bn.	£3m
c.	Any **bank or building society** that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£7m
d.	Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined	£7m

	above.	
e.	**Share capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.	£50k

NOTE 1. This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Within categories a and b, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are contained in the body of the treasury management strategy statement.

5 **The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Finance Officer, and if required new counterparties which meet the criteria will be added to the list.

APPENDIX E - Approved countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher and also have banks operating in the sterling markets which have colour codes of green or above in the Capita Asset Services credit worthiness service.

AAA

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

AA+

- Finland
- Hong Kong
- U.S.A.

AA

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

AA-

- Belgium
- Qatar

APPENDIX F - Treasury management scheme of delegation

Full Council

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

Cabinet

- 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.

Finance Advisory Committee

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

APPENDIX G - The treasury management role of the section 151 officer

The S151 (responsible) officer is responsible for:

- 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.

Item 12 – Capital Programme and Asset Maintenance 2018/21

The attached report was considered by the Finance Advisory Committee on 30 January 2018. The relevant Minute extract was not available prior to the printing of this agenda and will follow when available.

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CAPITAL PROGRAMME & ASSET MAINTENANCE 2018/21

Cabinet – 6 February 2018

Report of	Chief Finance Officer
Status	For Decision
Also considered by	Finance Advisory Committee – 30 January 2018
Key Decision	No

Executive Summary: This report sets out the proposed Capital and Asset maintenance programme for 2018/21 together with proposed funding.

This report supports the Key Aim of effective management of the Council's resources.

Portfolio Holder	Cllr. John Scholey
Contact Officers	Alan Mitchell, Ext.7483
	Adrian Rowbotham Ext. 7153

Recommendation to the Finance Advisory Committee: That Cabinet be recommended to agree the recommendations below

Recommendation to Cabinet: That

(a) The Capital Programme 2018/21 and funding set out in Appendix B be approved; and

(b) The proposed Asset Maintenance budget of £561,000 be agreed for 2018/19.

Reason for recommendation: To comply with the Councils Procedure rules and to ensure sound financial management.

Introduction and Background

1 The Capital programme is put together following the Council's financial and corporate policies to ensure that the proposed programme satisfies one or more of the Council's corporate plan priorities:

(a) improve efficiency and cost effectiveness of the services we provide;

(b) buy and build new assets that help improve the way we provide services and at the same time generating return on our investments;

(c) providing better customer service;

(d) invest in attracting, generating and supporting business.

Capital Bids

2 The new scheme bids are attached as Appendix A, these are in addition to programmes such as information technology and vehicle replacements.

3 Each scheme bid document details the proposed programme and its purpose as well as the capital and revenue costs for the next 3 years. In addition, details of how the programme is to be funded, justification for the bid and any other resource implications are included in each bid document.

4 Appendix B summaries the overall position if all the schemes are approved and indicates the funding sources proposed.

5 Schemes that have not spent in line with previously reported schedules for 2017/18 may be carried forward to 2018/19, subject to Cabinet approval and the final outturn position.

Capital Receipts

6 In the summary below the available capital receipts have been identified which can be used to fund the capital programme.

Table 1: Capital Receipts estimates

Source	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Shared Ownership Staircasing	268	15	10	10
Land & Property disposal	8	5,645	11,100	-
	276	5,660	11,110	10

7 The capital receipt estimates are the most accurate available at the time the disposal programme is produced but may be subject to change due to market conditions or other planning related changes.

8 Capital receipts will be used to finance the capital programme where possible but other sources of funding such as the Financial Planning Reserve, internal borrowing, external borrowing and the Vehicle Renewal Reserve may be used to fund specific items.

Asset Maintenance

9 The asset maintenance programme seeks to allocate budgets to individual areas and schemes in accordance with the asset management plan and service requirement, reflecting backlog maintenance, health & safety and income generation as priorities.

10 The asset maintenance programme has been increase by £50,000 to reflect the need to increase the maintenance budget to keep Council owned premises in good order. Cabinet approved the bid on 11 January 2018 as SCIA 10.

11 The table below sets out the asset maintenance programme for the next 4 years.

Table 2: Total asset maintenance programme

	2017/18	**2018/19**	**2019/20**	**2020/21**
	£'000	£'000	£'000	£'000
Budget	500	561	572	586

Key Implications

Financial

All financial implications are covered elsewhere in this report.

Legal Implications and Risk Assessment Statement.

There are no legal or human rights issues. The Council must agree a Capital Programme as part of its financial plan and ensure that resources are available to fund it.

Equality Assessment

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to (i) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010, (ii) advance equality of opportunity between people from different groups, and (iii) foster good relations between people from different groups. The decisions recommended through this paper directly impact on end users. The impact has been analysed and varies between groups of people. The results of this analysis are set out immediately below.

It is a statutory duty to provide Disabled Facility Grants to the older and or disabled residents in the district.

Conclusions

Members are asked to review the scheme bids submitted at Appendix A, and approve the programme and funding at Appendix B.

Appendices	Appendix A – Scheme Bid Documents Appendix B – Proposed 2018/21 capital programme
Background Papers	None

Adrian Rowbotham
Chief Finance Officer

Capital Programme 2018/21

Scheme Bid Document - Scheme: Vehicle Replacement Programme

Description: Purchase of replacement commercial fleet vehicles that have reached the end of their fully depreciated operational life.

Service: **Environmental and Operational Services**

Portfolio Holder/Chief Officer: Councillor Matthew Dickins/Richard Wilson

Financials:

CAPITAL COSTS	TOTAL £000	2018/19 £000	2019/20 £000	2020/21 £000
Gross scheme cost	1,660	548	549	563
External Contributions (list)				
Net scheme cost	1,660	548	549	563
ONGOING REVENUE IMPLICATIONS (excluding loss of interest)				
Contribution to Vehicle replacement Reserve		47	47	47
Income streams				
Net cost		47	47	47

Funding Source: Funding is via the vehicle replacement fund which is financed by fixed transport charges, the sale of old vehicles and by an annual revenue contribution. Fixed transport charges include an annual replacement fund contribution as well as individual depreciation charges levied on each fleet purchase over predetermined periods.

Other Resource Implications :	
Staffing	Managed by fleet management overhead account by existing employees.
Asset Values	Approximately £3 million

Justification: Key Infrastructure

To maintain services, mainly statutory. Supports all the Council's priorities

Appendix A

Capital Programme 2018/21

Scheme Bid Document - Scheme: Disabled Facility Grant

Description: Money provided by the Better Care Fund for the provision of both mandatory and discretionary activities to ensure those eligible for assistance remain residing in their own home along with the new requirement to fund initiatives to better integrate housing with social care and Health Services, through preventive and responsive services.

Service: Private Sector Housing

Portfolio Holder/Chief Officer: Cllr Lowe/Richard Wilson

Financials:

CAPITAL COSTS	TOTAL	2018/19	2019/20	20/21
	£000	£000	£000	£000
Gross scheme cost	2,667	889	889	889
External Contributions (list)				
Better Care Fund, via KCC	(2,667)	(889)	(889)	(889)
Net scheme cost	0	0	0	0
ONGOING REVENUE IMPLICATIONS (excluding loss of interest)				
Running costs				
Income streams				
Net cost		0	0	0

Funding Source: Scheme will be fulling funded from the Better Care Fund.

Other Resource Implications :	
Staffing	Managed with existing staffing establishment
Asset Values	Assets not in Council ownership

Justification: Statutory Duty

It is a statutory duty to provide DFG’s to older and or disabled residents. £250,000 is ring fenced for aids and adaptations for West Kent Housing Association (WKHA) tenants and both this and the Council’s DFG service are eligible for DCLG funding. Larger grants are managed by Home Improvement Agency (HIA)

From 2015 the DCLG total budget for Kent has been administered by KCC (ring fenced for each Council).

Capital Programme 2018/21

Scheme Bid Document - Scheme: CCTV Equipment Replacement Programme

Description: Phased purchase of replacement CCTV system equipment that has reached, or gone beyond, the end of its serviceable life.

Service: **Environmental and Operational Services**

Portfolio Holder/Chief Officer: Councillor Matthew Dickins/Richard Wilson

Financials:

CAPITAL COSTS	TOTAL £000	2018/19 £000	2019/20 £000	2020/21 £000
Gross scheme cost	70	50	20	0
External Contributions (list)				
Net scheme cost	70	50	20	0

ONGOING REVENUE IMPLICATIONS (excluding loss of interest)				
Running costs				
Income streams				
Net cost		0	0	0

Funding Source: This Capital BID will be funded from Capital Receipts.

Other Resource Implications :	
Staffing	Managed by CCTV Manager and Head of Direct Services.
Asset Values	Approximately £380,000

Justification: Key Infrastructure

To maintain effective public open space CCTV service. Supports the Council's Safe Communities priorities

Appendix A

Capital Programme 2018/21

Scheme Bid Document - Scheme: Property Investment Strategy

Description: A total of £43m has been put aside for the purposes of continuing to build a diversified and balanced portfolio of investment assets. This was agreed at the following meetings:

- £5m Council 22 July 2014
- £3m Council 17 February 2015
- £10m Council 21 July 2015
- £25m Council 25 April 2017

A separate report on the Property Investment Strategy is also included on the agenda of the Finance Advisory Committee on 30/01/18 and Cabinet on 06/02/18, which shows that £25.198m is not yet spent. This includes the Buckhurst 2 Housing scheme which is expected to cost £5m.

Service: Finance

Portfolio Holder/Chief Officer: Cllr Fleming and Cllr Scholey/Adrian Rowbotham and Lesley Bowles

Financials:

CAPITAL COSTS	TOTAL	2018/19	2019/20	2020/21
	£000	£000	£000	£000
Gross scheme cost	43,000	25,198	-	-
External Contributions (list)				
Net scheme cost	43,000	25,198	-	-
ONGOING REVENUE IMPLICATIONS (excluding loss of interest)				
Running costs				
Income streams				
Net cost		-	-	-

*Revenue implications are included in the business case for each scheme.

Funding Source: A business case will be produced for each scheme that will include the most appropriate funding source. Funding sources are expected to be: Capital Receipts, Reserves, Internal Borrowing, External Borrowing.

Any expenditure will need to meet the criteria of the Property Investment Strategy and deliver revenue income. Any schemes via Quercus 7 will also be funded from this budget.

Other Resource Implications :	
Staffing	Resource would be required from the Legal Section (or possible external legal advisors) to undertake legal pre purchase due diligence. There is also likely to be an increase in the level of Landlord and Tenant related legal work. The Property Investment Strategy requires an element of financial management, which will include billing rents, service charge and insurance.
Asset Values	Development and improvement of assets will increase asset values.

Justification: Additional Income

The Property Investment Strategy is a major part of the overall strategy to contribute to the Council continuing to be financially self-sufficient.

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Appendix B

Capital Programme 2018-21

Chief Officer/Scheme	Funding Source	Total approved scheme £000	Previous year spend £000	2017/18 Forecast £000	2018/19 Budget £000	2019/20 Budget £000	2020/21 Budget £000	Total over programme period £000
Communities and Business								
Parish projects	Capital Receipts	-	-	10	51	-	-	61
Environmental and Operational Services								
Dunbrik Vehicle Workshop	Capital Receipts	254	252	4	-	-		256
Dunbrik Vehicle Wash	Capital Receipts	30	-	30	-	-	-	30
Commercial vehicle replacements	Vehicle Renewal Res.	1,645	-	548	548	549	563	2,208
Disabled Facilities Grants (gross)	Better Care Fund	2,667	-	675	889	889	889	3,342
Sennocke Hotel	Fin Plan Reserve & Capital Receipts	7,530	378	4,142	2,928	82	-	7,530
Bradbourne Car Park	Internal Borrowing	5,300	5,309	36	-	-	-	5,345
Buckhurst 2 Car Park	External Borrowing	9,850	3	3,890	5,931	26	-	9,850
CCTV					50	20	-	70
Finance								
Property Investment Strategy	Prop. Inv. Reserve	43,000	9,430	97	25,198			34,725
TOTAL				9,432	35,595	1,566	1,452	63,417

Funding Sources

	2017/18	2018/19	2019/20	2020/21
Capital Receipts	2,686	4,111	46	-
Financial Plan Reserve & Cap Receipts	1,500	2,928	82	-
Vehicle Renewal Reserve	548	548	549	563
Property Investment Strategy Reserve ***	97	25,198	0	0
Better Care Fund (KCC)	675	889	889	889
Internal Borrowing	36	-	-	-
Capital Reserve (from Revenue)	-	561	-	-
External Borrowing	3,890	1,360	-	-
	9,432	35,595	1,566	1,452

*** Part will be funded from Capital Receipts, Reserves, Internal Borrowing and External Borrowing.

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