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Hythe & Romney Marsh
Shepway District Council
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Agenda

Meeting:	**Overview and Scrutiny Committee**
Date:	**10 October 2017**
Time:	**7.00 pm**
Place:	**Council Chamber - Civic Centre, Folkestone**
To:	**All members of the Overview and Scrutiny Committee**

The committee will consider the matters, listed below, at the date, time and place shown above. The meeting will be open to the press and public.

Members of the committee, who wish to have information on any matter arising on the agenda, which is not fully covered in these papers, are requested to give notice, prior to the meeting, to the Chairman or appropriate officer.

1. **Apologies for Absence**

2. **Declarations of Interest**

   Members of the committee should declare any interests which fall under the following categories*:

   a) disclosable pecuniary interests (DPI);
   b) other significant interests (OSI);
   c) voluntary announcements of other interests.

3. **Minutes (Pages 5 - 20)**

   To consider and approve, as a correct record, the minutes of the meeting held on 12 September 2017.

4. **National Non Domestic Rates Locally-Administered Relief Scheme (Pages 21 - 44)**

   Report C/17/45 The purpose of this report is to present the detailed policy for implementation of the locally-administered National Non Domestic Rates relief scheme, as announced in the Chancellor's Spring Budget on 8

Queries about the agenda? Need a different format?

Contact Sue Lewis – Tel: 01303 853265
Email: committee@shepway.gov.uk or download from our website
www.shepway.gov.uk

Date of Publication: Monday, 2 October 2017

March 2017.

5. **Sandgate Controlled Parking Zone**

Officers will do a presentation on the outcome of the recent consultation for the proposed extension of the Sandgate CPZ. Officers will explain why the extension was proposed, the results of the consultation and the decision.

6. **Medium Term Financial Strategy 2018/19 to 2021/22 (Pages 45 - 72)**

Report C/17/47 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. It puts the financial perspective on the council's Corporate Plan priorities, expressing the aims and objectives of various plans and strategies in financial terms over the four year period ending 31st March 2022. It covers both revenue and capital for the General Fund and the Housing Revenue Account. Also included are the Council's reserves policies. The MTFS is a key element of sound corporate governance and financial management.

7. **Treasury Management Monitoring Report 2017/18 (Pages 73 - 88)**

Report C/17/48 provides an update on the council's treasury management activities that have taken place during 2017/18 against the agreed strategy for the year. The report also provides an update on the treasury management indicators approved by Council earlier this year.

8. **Charter for Otterpool Park**

A presentation will be given by Chris Lewis, Planning Advisor.

9. **Otterpool Park - long term stewardship**

A presentation will be given by Julia Wallace, Masterplanning, Urban Design and Viability Manager.

*Explanations as to different levels of interest

(a) A member with a disclosable pecuniary interest (DPI) must declare the nature as well as the existence of any such interest and the agenda item(s) to which it relates must be stated. A member who declares a DPI in relation to any item must leave the meeting for that item (unless a relevant dispensation has been granted).

(b) A member with an other significant interest (OSI) under the local code of conduct relating to items on this agenda must declare the nature as well as the existence of any such interest and the agenda item(s) to which it relates must be stated. A member who declares an OSI in relation to any item will need to remove him/herself to the public gallery before the debate and not vote on that item (unless a relevant dispensation has been granted). However, prior to leaving, the member may address the meeting in the same way that a member of the public may do so.

(c) Members may make voluntary announcements of other interests which are not required to be disclosed under (a) and (b). These are announcements made for transparency reasons alone, such as:

• membership of outside bodies that have made representations on agenda items, or

• where a member knows a person involved, but does not have a close association with that person, or

• where an item would affect the well-being of a member, relative, close associate, employer, etc. but not his/her financial position.

Voluntary announcements do not prevent the member from participating or voting on the relevant item

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Minutes

Overview and Scrutiny Committee

Held at:	Council Chamber - Civic Centre, Folkestone
Date	Tuesday, 12 September 2017
Present	Councillors Miss Susan Carey, Peter Gane (Chairman), Mrs Claire Jeffrey (Vice-Chair), Michael Lyons, Frank McKenna, Ian Meyers and Russell Tillson
Apologies for Absence	Councillor Clive Goddard, Councillor Ms Janet Holben and Councillor Mrs Rodica Wheeler
Officers Present:	Andy Jarrett (Head of Strategic Development Project), Lian Kaczykowski (Architecct), Jyotsna Leney (Community Services Manager), Sue Lewis (Committee Services Officer) and Sarah Robson (Head of Communities)
Others Present:	

32. **Declarations of Interest**

There were no declarations of interest.

33. **Minutes**

The minutes of the meetings held on 11 and 20 July 2017 were submitted, approved and signed by the Chairman.

34. **Homelessness reduction act overview**

Report OS/17/04 details the proposed changes to homelessness legislation and includes an overview of the implications and risks of these proposed changes to the Council.

Sarah Robson, Head of Communities presented members with a presentation on the changes proposed to the homelessness legislation. A copy of this is attached for information.

Members were informed that there is a higher importance on homelessness and early prevention. The main changes are listed in the attached papers which indicates the new duties the council will need to undertake.

Particular attention was paid to the following:

- Duty to help to secure accommodation for 56 days, with a further 56 days to follow.

- Local impact – significant increase in caseloads by at least 50%.This will be something that will have to be picked up with additional staff being employed to help cover the work.

  It is hoped that with changes to processes and procedures, together with using the 'locator' system already in place more effectively there will only be a need to employ 4/5 additional staff.

- London placements – an area members were particularly concerned with and why Kent has a high number of London placements. London authorities receive more allowance for housing and should therefore, not need to send placements. It was also thought that legislation requires councils to inform of placements in writing.

  Because of this it was agreed that Councillor Gane, as Chairman of the Committee puts a motion to full Council to ask that a letter is sent to the government minister for housing to address this as a matter of urgency.

- Funding has been confirmed for the next 2years, with the hope that a third year will also be given. Some of the funding will being used for additional staffing roles and prevention work.

- Health is an ongoing issue and officers are working with GP's to deal with these issues. The council have a number of newly funded roles that are looking at wider support for families and ways to prevent homelessness in the first place.

Proposed by Councillor Peter Gane
Seconded by Councillor Ms Susan Carey and

Resolved:
1. **To receive and note Report OS/17/04.**
2. **To receive an update report next year informing how the new legislation is working and the impact this has had on staffing.**

(Voting: For 7; Against 0; Abstentions 0)

35. **Safeguarding Activity - Annual Report 16-17**

Report OS/17/03 The Council has a statutory safeguarding role within the wider public sector, with responsibilities to children, young people and vulnerable adults. A review of safeguarding activity is presented with detail in Appendix 1. An updated safeguarding policy of the Council has been approved by CMT and will be considered by Cabinet on 13th September 2017.

Jyotsna Leney, Community Services Manager informed members that the Council had recently updated its safeguarding policy which will be considered by Cabinet at their meeting on 13 September, this report provides an outline to the policy and provides members with an overview of the changes made.

The Council is required to have a designated officer to lead on safeguarding concerns with other staff having differing roles and abilities ranging from limited contact to full supervisory contact, leading to consultation with social services when required.

The annual report demonstrated that the Council is dealing with safeguarding concerns appropriately and that they are meeting legislative requirements around safeguarding issues.

Members welcomed the report and its implications but asked that more work and information is given in respect of issues surrounding 'prevent'. Officers suggested that if members wished a number of speakers could be asked to attend a future meeting to inform the committee of the work that is being done and how it affects the district.

Proposed by Councillor Peter Gane
Seconded by Councillor Ian Meyers and

Resolved:

1. **To receive and note Report OS/17/03.**
2. **To receive and note the annual report on activity demonstrating how the council is meeting its obligations to safeguard children and vulnerable adults.**
3. **To note that the Council has been successfully awarded full compliance on the s11 self – assessment audited by the Kent Safeguarding Children's Board.**
4. **To receive a further report on 'prevent' and the effects in the district.**

(Voting: For 7; Against 0; Abstentions 0)

36. **Exclusion of the public**

Proposed by Councillor Peter Gane
Seconded by Councillor Mrs Claire Jeffrey and

Resolved:

To exclude the public for the following item of business on the grounds that it is likely to disclose exempt information, as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 –

'Information relating to the financial or business affairs of any particular person (including the authority holding that information). 'Financial or business affairs' includes contemplated as well as current activities'.

(Voting: For 7; Against 0; Abstentions 0)

37. **Varne, The Green, Coast Drive; Development Proposal**

Outline planning permission was granted last year for 4 large dwellings on this Council owned site. Report C/17/33 comprises an options appraisal to assess how best to meet Council objectives and maximise value for money from the asset.

Andy Jarrett, Head of Strategic Development Projects informed members that planning permission had been granted in 2016.Officers have been working on a number of options to try and achieve a better return on the site. These options are listed in the report. The conclusion was that option 1 - development and holiday lets, as the preferred option.

A number of concerns were raised by members below:

- Homelessness – having received the previous report it was suggested that perhaps the site could be used for additional housing needs.
- Officer time – are resources in place to manage the site build and rental options?
- Selling the site – it was suggested that the option to sell the site would be preferable, receiving the income now rather than over a number of years.

Because of the concerns raised the recommendations are set out for Cabinet to review.

Proposed by Councillor Ms Susan Carey
Seconded by Councillor Peter Gane and

Resolved:
1. **To receive and note report C/17/33.**
2. **To go for sale of undeveloped land (possibly self builds) as the preferred option of the Overview and Scrutiny Committee to secure the money now rather than risk of holiday rentals.**

(Voting: For 4; Against 2; Abstentions 1;

The Homelessness Reduction Act

Presentation to OSC

Sarah Robson

12 September 2017

Folkestone
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Background

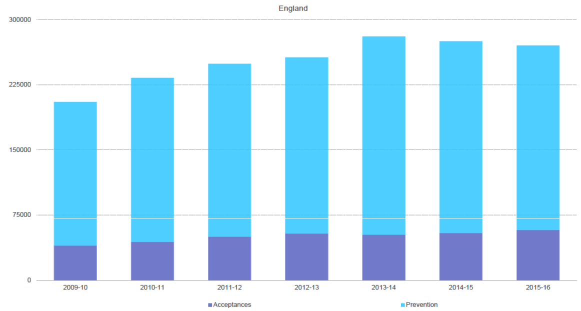
- In 2015, Wales implemented new homeless legislation with a focus on prevention
- Following this, the homeless charity Crisis carried out a mystery shopping exercise to understand rising homeless numbers in England, particularly rough sleepers
- From the findings, 16 Local Authorities showed that the quality of housing advice available to homeless households was generally poor, and often unlawful
- Additionally, the treatment of homeless people by councils was found to be unacceptable
- House of Commons Select Committee undertook an inquiry, with the final report containing far-reaching recommendations published July 2016
- Alongside the report, a Homelessness Reduction Bill (HRB), which aimed to improve the support and advice offered to all homeless people, was produced

Why change is proposed

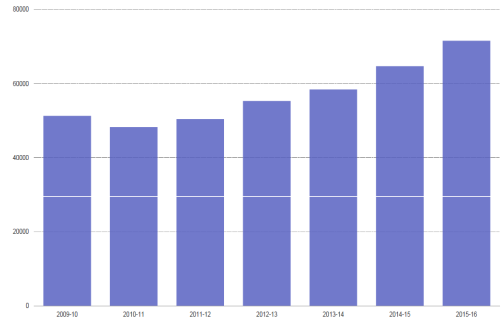
- Nationally, 50% of homeless applicants owed a **homeless duty** by the local authority (DCLG)
- Current Homelessness legislation does not help a substantial proportion of those people seeking accommodation who are homeless. The main focus is people in **priority need; with a local connection; who are not intentionally homelessness**
- Frustration - many local authorities adopt approaches of ‘gate-keeping’ rather than proactive demand management and prevention
- Increasing visibility of rough sleeping in the UK
- Temporary accommodation use is increasing; 10% national increase in 12 months

Background – the national picture

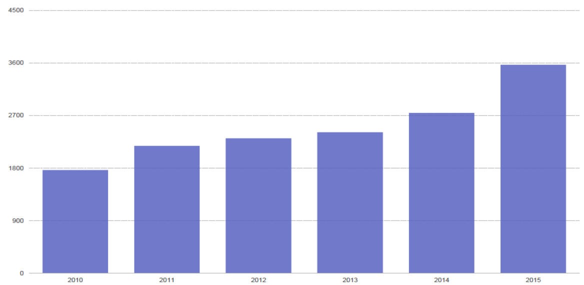
Homelessness Levels



Temporary Accommodation



Rough Sleeping



Homelessness Reduction Act 2017

2017 CHAPTER 13

An Act to make provision about measures for reducing homelessness; and for connected purposes [27th April 2017]

BE IT ENACTED by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

- Became an Act of Parliament on 27 April 2017, but is not likely to be enacted until 1 April 2018
- Sets out a framework for the biggest changes to homelessness legislation since the enactment of the Housing (Homeless Persons) Act 1977
- Amends Part 7 of the Housing Act 1996. There are 13 clauses that amend many of the existing duties and bring in a substantial number of new duties many of which will require a change in working practices and additional resources
- Shelter estimates homelessness applications will rise by up to 50% as a result
- The government is making funds available for local authorities to be able to introduce the new act

Main changes (1)

- Focus on homeless prevention: earlier and more proactively (i.e. casework)
- New Duty to Prevent; and new duty to Relieve (within 56 day period)
- ‘Threatened with Homelessness’ within 56 days rather than 28 days
- ‘Not reasonable to continue to occupy’ after expiry of Section 21 notice
- New ‘Duty to Refer’ on statutory agencies. Police, Hospitals, will be referring more cases to CBC
- Duty to produce Personal Housing Plans; and Duty to Co-operate with applicant – more paperwork!
- New Duties owed regardless of priority need - no longer just families with children and vulnerable adults

Main changes (2)

- New Duties owed regardless of intentionality
- Some new Duties owed regardless of Local connection
- “…*extend homelessness prevention so that help is provided at an earlier stage to all eligible households regardless of priority need status, intentionality and whether they have a local connection…”*
- New abilities to request Review (11 stages)
- **Duty to help to secure accommodation for 56 days.** However, the **new duty to ‘help secure accommodation’ is unclear** and is likely to mean more TA needed in the absence of alternatives in such a strong PRS housing market, mindful of the likely cost implication
- **Care Leavers** – very specific new duty related to ‘choice’

Local impact

- Changes will increase the workload of the HOT by at least 50%, which is unachievable with the current staffing resource
- Increase in the use and cost of temporary accommodation
- Number of homeless cases owed the new duties will increase
- Critical shortage of affordable housing options in the private rented sector and social housing
- Restraints of frozen Local Housing Allowance
- Out of London placements
- Increased legal challenge and costs – no case law

Other contributory factors:

- Impact of welfare reform: Benefit Cap and Universal Credit increasing households presenting as homeless – we're seeing people we don't usually expect to see…

SDC response: Implementation plan

- Member and corporate understanding of impacts
- Ensure robust strategies, policies and procedures are in place (East Kent Homelessness Strategy, Shepway Housing Strategy and Allocations Policy)
- Review Case Management processes and systems – new IT system essential, Personal Housing Plans, establish clear pathways
- Ensure staff are given the tools and training to be able to deliver their job effectively
- Consider the wider publicity of the Council's homelessness policies
- Plan for the demand and supply of accommodation more effectively
- Further enhance the customer experience of homeless applicants
- Clarify the service's approach to how it will deliver its objectives - enabling, advice, solutions, independent living, housing standards
- Work with partners to tackle the issues raised (review protocols with statutory authorities – Police, Health, Mental Health etc.)

Funding

- The Flexible Homelessness Support Grant (FHSG) replaces the Temporary Accommodation Management Fee (TAMF) awarded to local councils
- DCLG confirmed funding allocation to SDC over two years as:
  - £128,068.50 for 2017/18
  - £147,355.24 for 2018/19
- Transitional Funding from DCLG will also be awarded to recognise the new burden the HRA places on local authorities. It is estimated to be between £50,000 to £70,000 per annum over 2 years, commencing 2018/19. The exact figure will not be confirmed until later in 2017
- Funding can be used to support some additional staffing roles and prevention work. However, the Communities service structure has been reviewed to support the staffing resource required to meet the demands of the HRA within existing budgetary constraints

Mitigating the costs of the HRA

- Invest in property/properties to provide temporary accommodation - reduce TA spend/generate income
- Use vacant Council land or sites with planning permission, but start dates not imminent, for portable, modular homes for TA
- Continue Social Lettings Agency, incentivising landlords in the private sector to offer properties to the Council at affordable rent
- Lobby for changes in the Local Housing Allowance rate, frozen until April 2020. Freeze continues to make difficult for councils to find affordable private rented properties to prevent and relieve homelessness

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This Report will be made public on 2 October 2017

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Report Number **C/17/45**

To:	**Cabinet**
Date:	**11 October 2017**
Status:	**Key Decision**
Head of service:	**Charlotte Spendley**
Cabinet Member:	**Councillor Malcolm Dearden, Finance**

SUBJECT: **NATIONAL NON DOMESTIC RATES LOCALLY-ADMINISTERED RELIEF SCHEME**

SUMMARY: The purpose of this report is to present the detailed policy for implementation of the locally-administered National Non Domestic Rates relief scheme, as announced in the Chancellor's Spring Budget on 8 March 2017.

REASONS FOR RECOMMENDATION: Cabinet members asked to have sight of the final policy when available.

RECOMMENDATIONS:

1. **To receive and note report C/17/45.**

1. BACKGROUND

1.1 On 1 April 2017 the latest revaluation of National Non Domestic Rates (NNDR) came into effect. The effect is to adjust the rateable value of non domestic properties to reflect changes in the property market and consequently can lead to changes in the NNDR charges payable by ratepayers.

1.2 Across Shepway district the overall increase in NNDR payable is 6.8%; however some ratepayers have seen much more significant increases which are only partially assisted by the standard Transitional Relief that is awarded to ratepayers as part of the revaluation process.

1.3 In his Budget on 8 March 2017, the Chancellor announced that the Government would also make available a discretionary fund of £300 million over four years from 2017/2018 to support those businesses that face the steepest increases in their NNDR bill as a result of the revaluation.

1.4 Each local authority will be provided with a share of the £300 million to support local businesses. Relief will be administered through the discretionary powers of billing authorities under section 47 of the Local Government Act 1988. No new legislation is required.

1.5 A proportion (expected to be 50%) of the cost will be borne directly by Central Government and the remainder will be funded through the council's Section 31 grant.

1.6 Shepway's discretionary relief funding allocation comprises:

	£
2017/18	213,000
2018/19	103,000
2019/20	43,000
2020/21	6,000
Total	£365,000

The decision of the Council to award discretionary relief cannot take account of the value of the funding allocation. It is possible for councils to grant more relief than the funding allocation; when the maximum grant level has been reached any additional costs are borne 40% by the Council, 10% by the major preceptors and 50% by Government.

1.7 It is for local authorities to design their discretionary relief schemes and determine the eligibility of local ratepayers for support. The scheme must state the criteria that ratepayers across the authority, or in specific locations within the area, must meet in order to qualify for discretionary relief.

1.8 Reliefs will be awarded from 1 April 2017. The Government have advised that there is no formal deadline with regard to making a decision on the scheme but, in respect of providing an efficient service to ratepayers and projecting and collecting revenue, it is in the interest of each local authority for this to be done promptly.

1.9 The Government requires local authorities to offer more support to ratepayers/localities that face the most significant increases in their bills (specified as being greater than a 12.5% increase when compared to 2016/2017) and ratepayers that occupy lower value properties (less than £200,000 rateable value).

2. SCHEME CRITERIA

2.1 The Policy is at appendix 1 detailing full requirements.

2.2 The Government has specified that locally-administered schemes must include the following eligibility criteria:

- Properties with a rateable value of property below £200,000.

2.3 In addition the local discretionary criteria for inclusion in the Shepway locally-administered relief scheme are as follows:

- The ratepayer occupied the premises on 31 March 2017
- Relief will be adjusted when rates increase or decrease.
- Rates increased by at least 12.5% comparing 2016/2017 after reliefs and reductions to 2017/2018 after transitional relief and discretionary reliefs

3. SCHEME DEVELOPMENT

3.1 Along with other Kent districts, Shepway District Council has engaged the Services of an independent consultant to assist developing the locally-administered scheme. This service will include:

- Defining eligibility criteria, taking into account the specified and discretionary criteria
- Designing the processes for applications, revisions and cancellations
- Confirming the relationship with other NNDR reliefs
- Process for making awards and award adjustments
- Process for revision of decisions
- Appeals process
- State aid considerations
- Any other locally-administered scheme requirements.

3.2 The scheme will be managed by the Business Rates and Corporate Debt Team in Finance, overseen by the Chief Finance Officer.

3.3 There is a requirement for each local authority to rebill ratepayers following locally defined discretionary rate relief being applied to eligible accounts as soon as practicable.

3.4 The Government has advised that no flexibility can be allowed on the annual funding sums to be spread across the financial years.

3.5 The Council has consulted with the major precepting authorities.

3.6 Following approval of the scheme the next step will be to contact businesses directly who may be eligible to receive the support and invite them to apply. This will require ratepayers to confirm that they are eligible under state aid rules. Full details and an application form will be available on the Council's website. Those qualifying for relief will have it applied to their business rates account as soon as possible.

4. RISK MANAGEMENT ISSUES

4.1 There are no significant risks relating to this proposal.

Perceived risk	Seriousness	Likelihood	Preventative action
Insufficient funds to administer the relief scheme	Medium	Low	Recommended criteria will not result in applications that exceed the funding allocation.
High volume of appeals from ineligible ratepayers	Low	Medium	The recommended criteria will be clearly defined and the scheme will include a transparent and effective appeals procedure.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

Legal Officer's Comments (DK)

There are no legal implications arising directly out of this report to the extent the Council follows the guidelines and requirements contained in the Spring Budget for 2017.

Finance Officer's Comments (DC)

The Council will receive funding through the s31 Grant process to cover the cost (lost income) of this initiative. The overall effect on income should be neutral over the period of the scheme, which will be monitored accordingly.

Diversities and Equalities Implications (PM)

The locally-administered relief scheme will be administered in line with Government guidance and the Council's local equalities policies.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Jo Robinson, Business Rates and Corporate Debt Manager
Telephone: 01303 853350
Email: jo.robinson@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

Government consultation on proposals on the design and implementation of the locally-administered NNDR relief scheme
https://www.gov.uk/government/consultations/discretionary-business-rates-relief-scheme

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Shepway District Council
Policy for the granting of the Discretionary Business Rates Relief

Version Control

Version	*Version date*	*Revised by*	*Description*
1	May 2017	LM	Policy
2	May 2017	DA	Revisions
3	June 2017	LM	Revisions RE
4	July 2017	LM	Revisions
5	September 2017	LM	Revisions / Final

Contents

1.0 Purpose of the Policy

1.1 The purpose of this policy is to determine the level of Discretionary Business Rates Relief to be granted to certain defined ratepayers within the Council's area.

1.2 The Local Government Finance Act 1988 and subsequent legislation requires the Council to grant discretionary relief for premises occupied by Charities and similar organisations that own or occupy them wholly or mainly for charitable purposes. Likewise, certain premises situated within a rural settlement area will be eligible for relief. Powers have also been granted under the Localism Act 2011, which allow for the granting of discretionary rate relief to any premises where the Council feels the granting of such relief would be of benefit to the local community.

1.3 In addition to the above, Central Government is keen that in certain cases, assistance should be provided to businesses who have had increases in their rate liability due to the revaluation of premises in April 2017. In these cases, and where the Council meets Central Government guidelines, grants are available under section 31 of the Local Government Act 2003.

1.4 Whilst the Council is obliged to grant relief to premises, which fall within the mandatory category, the Council also has powers to grant discretionary relief and reductions to ratepayers, subject to certain criteria being met.

1.5 This document outlines the following areas:

- Details of the criteria for receiving an award under the Discretionary Business Rates Relief Scheme
- The Council's general policy for granting of all types of Discretionary Reliefs;
- Guidance on granting and administering the reliefs;
- European Union requirements including provisions for State Aid; and
- The Council's Scheme of Delegation.

1.6 This document covers all aspects of the new Discretionary Business Rates Relief scheme which is available from 1st April 2017. Where businesses apply for relief they will be granted (or not granted) relief in line with the following policy.

2.0 Discretionary Relief – Legislative Background

Introduction

2.1 The original purpose of discretionary relief was to provide assistance where the property does not qualify for mandatory relief, or to 'top' up cases where ratepayers already receive mandatory relief.

2.2 Over recent years, and particularly since 2011, the discretionary relief provisions have been amended to allow authorities the flexibility to provide more assistance to businesses and organisations.

2.3 The range of bodies, which are eligible for discretionary rate relief, is wide and has been developed by both the Council and Central Government to address certain issues with business rates..

2.4 Unlike mandatory relief, ratepayers are obliged to make a written application to the Council. The Council will expect all businesses to make applications in such a format as is required (which may vary from time to time) and for the business to provide such information, evidence, certificates etc. as required in order to determine whether relief should be awarded.

2.5 The Council is obliged to consider carefully every application on its merits, taking into account the contribution that the organisation makes to the amenities within the authority's area. There is no statutory appeal process or Tribunal against any decision made by the Council, although as with any decision of a public authority, decisions can be reviewed by Judicial Review. The authority will however, upon request, review decisions made. Details of the internal review process are given within this policy.

2.6 The granting of discretionary relief falls broadly into the following categories:

a. Discretionary Relief – Charities who already receive mandatory relief.
b. Discretionary Relief – Premises occupied by organisations not established or conducted for profit whose main objects are charitable or are otherwise philanthropic or religious or concerned with education, social welfare, science, literature or the fine arts **or** premises occupied by organisations not established or conducted for profit and wholly or mainly used for purposes recreation;
c. Discretionary Relief – Granted under the Localism Act 2011 provisions;
d. Local Newspaper Relief (from 1st April 2017 for a period of two years);
e. Local Public House Relief (from April 2017 for a one year period);
f. Supporting Small Businesses Relief (from 1st April 2017 for a period of five years or until business pay their full rate charge or their transitional rate charge (calculated in accordance with the Non-Domestic Rating (Chargeable Amounts) (England) Regulations 2016); and
g. Discretionary Business Rates Relief Scheme (from 1st April 2017 for a period of up to four years)

2.7 This policy document purely covers the granting of awards under the Discretionary Business Rates Relief Scheme which covers a period from 1st April 2017 for up to four years. The decision to grant or not to grant discretionary relief is a matter purely for the Council. The Council's policy for granting other reliefs can be found on the Councils website www.shepway.gov.uk.

The Council's general approach to granting Discretionary Relief

2.8 In deciding which organisations should receive discretionary rate relief, the Council has considered the following factors and priorities:

a. That any award should support business, charities, organisations and groups that help to retain services in the Council's area and not compete directly with existing businesses in an unfair manner;
b. It should help and encourage business, charities, organisations, groups and communities to become self-reliant;
c. Awarding discretionary relief should not distort competition or significantly change the provision of services within the Council's area;
d. Local organisations will be given priority over national organisations. Where requested, the organisation will need to supply the Council with clear evidence of **all** financial affairs including, and most importantly, the amounts of monies raised, used and invested locally. This will be essential where the organisation is national in nature;
e. To enable appropriate organisations to start, develop or continue their activities, which deliver outcomes to the community and that also relate to the priorities of the Council, which, without granting discretionary relief they would be unable to do;
f. To assist the Council in delivering services which could not be provided otherwise;
g. To enable the Council to determine the level of rate change in comparison with the organisation's financial situation; and
h. To ensure that the financial impact of awarding discretionary business rate relief is justified in terms of the local outcomes achieved by the organisation receiving it;

2.9 Where any reduction or remission is granted to a ratepayer under S49 Local Government Finance Act 1988 where hardship is proven to the Council, then there will be no requirement to grant Discretionary Rate Relief for that amount.

2.10 In certain cases, the order in which relief is granted is specified. Mandatory relief shall be granted in all cases where the criteria is met irrespective of whether discretionary relief can be granted or not.

The Council's approach to granting Government led Discretionary Relief schemes

2.11 Over the past few years, a number of schemes have been led by Central Government but without specific legislative changes. These are administered under S47 of the Local Government Finance Act 1988 and guidance if often provided. The Council is keen to support such initiatives especially where they are designed to help local businesses and will look to maximise both the reliefs given as well as maximising any grants receivable. However, the Council reserves the right to vary its approach where thought appropriate.

2.12 In the case of the Discretionary Business Rate Relief scheme, Central Government is keen that individual Councils develop their own scheme to meet local needs. Government has allocated funds to the Council using a particular methodology, but it has been keen to point out that this should have **no** bearing on the actual scheme adopted by the Council.

3.0 Effect on the Council's Finances

3.1 The granting of discretionary relief will, in the main, potentially involve a cost to the Council. Since the change to the funding for Non-Domestic Rating in April 2013, the effect of the relief is complex.

3.2 Any amounts granted prior to 1st April 2013 and continuing since that date will be included in the Council's baseline within the Business Rates Retention Scheme. Any amounts granted for similar cases after 1st April 2013, the costs of the relief will be borne in accordance with the Business Rates Retention Scheme share namely 50% borne by Central Government, 40% by the Council and 10% by Kent County Council. This also applies where mandatory relief is granted.

3.3 In March 2017, Central Government announced that it would make available a discretionary fund of £300 million over four years from 2017-18 to support those businesses that face the steepest increases in their business rates bills as a result of the revaluation. Government determined that Councils would be best placed to determine how this fund should be targeted and administered to support those businesses and locations within their area that are in the greatest need.

3.4 Where Central Government leads an initiative such as the Discretionary Business Rates Relief Scheme, grants are often made available. This is not automatic and Central Government will look to the Council to adopt any recommended criteria when granting in these areas to ensure that any grant is paid

3.5 Every authority within England is to be provided with a share of the fund to support their local businesses. This is to be administered through billing authorities' discretionary relief powers under section 47 of the Local Government Act 1988. The full effects of the financial allocation are shown below.

3.6 The allocation of monies to authorities and the methodology of the funding award is completely separate to the scheme itself and Government believes that local authorities are best placed to judge the particular circumstances of local ratepayers and direct the funding where it is most needed to support local economies.

3.7 The funding is not provided equally over the four-year period but in the following approximate proportions:

Year 1 (2017/18) 58%

Year 2 (2018/19) 28%

Year 3 (2019/20) 12%

Year 4 (2020/21) 2%

3.8 Councils will be compensated for any relief granted under section 31 of the Local Government Act 2003. The Government has decided that any underspend **cannot** be 'vired' from one year to the next.

3.9 A key criteria of reimbursement will be that all Billing Authorities will consult with major precepting authorities when formulating their schemes.

3.10 The financial effects to the Council of the Discretionary Business Rates Relief Scheme are shown in the following table

Amount of discretionary fund awarded (£000s) – Shepway District Council			
2017-18	2018-19	2019-20	2020-21
213	103	43	6

3.11 The above is to be awarded up to the maximum level set by Central Government. It is possible for the Council to grant more relief than that allocated by grant. However, once the maximum grant level has been reached, any additional amount granted is borne 40% by the Council, 10% by the County Council and 50% by Central Government.

4.0 Discretionary Relief – EU State Aid requirements

4.1 European Union competition rules generally prohibit Government subsidies to businesses. Relief from taxes, including non-domestic rates, can constitute state aid. The Council must bear this in mind when granting discretionary rate relief.

4.2 Rate relief for charities and non-profit making bodies is not generally considered to be state aid, because the recipients are not in market competition with other businesses. However, where other bodies receive relief and are engaged in commercial activities or if they are displacing an economic operator or if they have a commercial partner, rate relief could constitute state aid.

4.3 Relief will be State Aid compliant where it is provided in accordance with the De Minimis Regulations (1407/2013)[1] . The De Minimis Regulations allow an undertaking to receive up to €200,000 of De Minimis aid in a three-year period (consisting of the current financial year and the two previous financial years).

4.4 Where the relief to any one business is greater than the De Minimis level, then permission will need to be obtained from the European Commission. In such cases the matter will be referred to the Department for Communities and Local Government (DCLG) for advice and then referred back to the Council for consideration. It will be for the ratepayer to provide confirmation as to whether the State Aid provisions apply to them.

4.5 In all cases, where discretionary relief is to be granted or where liability is to be reduced, when making an application, ratepayers will be required to provide the Council with sufficient information to determine whether these provisions are applicable in their case.

[1] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:352:0001:0008:EN:PDF

5.0 Administration of Discretionary Relief – General approach

5.1 The following section outlines the procedures followed by officers in granting, amending or cancelling discretionary relief and reduction. This is essentially laid down by legislation[2]

Applications and Evidence

5.2 All reliefs must be applied for. Application forms are produced by the Council both in hard copy and electronic format. The relevant application form is included within Appendix A of this policy. The Council will specify how applications are to be received and this may vary from time to time.

5.3 Organisations are required to provide a completed application form plus any such evidence, documents, accounts, financial statements etc. necessary to allow the Council to make a decision. Where insufficient information is provided, then no relief will be granted. In some cases, it may be necessary for officers to visit premises and we would expect organisations claiming relief to facilitate this where necessary.

5.4 Applications should initially be made to the Business Rates Section and will be determined in accordance with this policy.

5.5 **The Council will provide this service and guidance free of charge. Ratepayers are encouraged to approach the Council direct and not pay for such services through third parties.**

Granting of relief

5.6 In all cases, the Council will notify the ratepayer of decisions made.

5.7 Where an application is successful, then the following will be notified to them in writing:

- The amount of relief granted and the date from which it has been granted;
- If relief has been granted for a specified period, the date on which it will end;
- The new chargeable amount;
- The details of any planned review dates and the notice that will be given in advance of a change to the level of relief granted; and
- A requirement that the applicant should notify the Council of any change in circumstances that may affect entitlement to relief.

5.8 Where relief is not granted then the following information is provided, again in writing:

- An explanation of the decision within the context of the Council's statutory duty; and
- An explanation of the appeal rights (see below).

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[2] The Non-Domestic Rating (Discretionary Relief) Regulations 1989

5.9 Discretionary relief is to be granted from the beginning of the financial year in which the decision is made. Since 1997 decisions can be made up to 6 months after the end of the financial year for which the application was made. In such cases, the Council *may* backdate its decision.

5.10 A decision to award discretionary relief and how much relief is given is normally only applicable to the financial year for which the application is made. However, the Council reserves the right to grant relief for any other period as appropriate. In relation to the Discretionary Business Rate Relief scheme, awards will, in the main be granted from 1st April 2017.

5.11 A fresh application for discretionary relief will be necessary for each financial year **or** at such time-period as the Council determines.

Variation of a decision

5.12 Variations in any decision will be notified to ratepayers as soon as practicable and will take effect as follows:

- Where the amount is to be increased due to a change in rate charge or a change in the Council's decision which increases the award – this will apply from the date of the increase in rate charge or the date determined by the Council as appropriate;
- Where the amount is to increase for any other reason it will take effect at the expiry of a financial year, and so that at least one year's notice is given;
- Where the amount is to be reduced due to a reduction in the rate charge or liability including any reduction in rateable value, awarding of another relief or exemption this will apply from the date of the decrease in rate charge; and
- Where the amount is to be reduced for any other reason, it will take effect at the expiry of a financial year, and so that at least one year's notice is given.

5.13 A decision may be revoked at any time, however, a one year period of notice will be given and the change will take effect at the expiry of a financial year.

6.0 Scheme of Delegation

Granting, Varying, Reviewing and Revocation of Relief

6.1 All powers in relation to reliefs are given under the Local Government Finance Act 1988, the Local Government and Rating Act 1997, the Local Government Act 2003 and the Localism Act 2011.However section 223 of the Local Government Act 1992 allows for delegation of decisions by the Council to Cabinet, Committees, Sub-Committees or Officers.

6.2 The Council's scheme of delegation allows for the Corporate Debt Manager to award, revise or revoke any discretionary relief applications. However, any application which is considered to be of a significant nature will be subject to consultation with the S151 Officer of the Council, and / or the relevant Executive member prior to final determination.

6.3 Applications that are refused will, on request, be reconsidered if additional supporting information is provided or the refusal is subsequently considered to be based on a misinterpretation of the application.

Reviews

6.4 The policy for granting relief will be reviewed annually or sooner where there is a substantial change to the legislation or funding rules. At such time, a revised policy will be brought before the relevant committee of the Council.

6.5 The Corporate Debt Manager will submit a report on a six-monthly basis to the section 151 Officer summarising the position on applications received, granted and not granted.

Appeals

6.6 Where the Council receives an appeal from the ratepayer regarding the granting, non-granting or the amount of any discretionary relief, the case will be reviewed by the Corporate Debt Manager. Where a decision is revised then the ratepayer shall be informed, likewise if the original decision is upheld.

6.7 Where the ratepayer continues to be aggrieved by the decision, the case will be referred to the section 151 Officer for review. Where appropriate, cases of this nature may also be referred to the Executive member as appropriate.

6.8 Ultimately the formal appeal process for the ratepayer is Judicial Review although the Council will endeavour to explain any decision fully and openly with the ratepayer.

7.0 Consultation

7.1 The Council has consulted with the major preceptors in relation to this scheme and has taken their comments into account when determining the eligibility criteria. This is an essential part of the Discretionary Business Rates Relief Scheme and is in line with the grant determination issued by the Department of Communities and Local Government (DCLG) No.31/3071.

7.2 The grant determination states that a condition of the fund is that consultation is undertaken with 'relevant authorities'. Relevant authorities for the purposes of this scheme means:

a. Any major precepting authority; and
b. Any combined authority.

7.3 In the case of Shepway District Council only the major precepting authorities have been consulted namely:

a. Kent County Council;
b. The Police and Crime Commissioner for Kent; and
c. The Kent Fire and Rescue Service.

8.0 Decisions by the Council under this scheme

8.1 Decisions by the Council are made directly in line with the Scheme of Delegation as outlined within section 6 of this policy. Any decision to award relief under this scheme will follow the core principles of the Council's discretionary relief policy as defined by section 2.8.

8.2 It should be noted that, whilst the funding from Central Government for Discretionary Business Rate Relief Scheme is limited, the decision of the Council whether to award any relief under this scheme **cannot not take account** of the level of any funding.

Discretionary Business Rate Relief Scheme– the Council's policy for granting discretionary relief.

Applications for relief under this scheme

8.3 The Council is keen to identify ratepayers who may qualify for the relief and as such will look to encourage certain ratepayers to apply. The Council will look to simplify the application process wherever possible, but it will expect any ratepayers to provide such information as is required by the Council to support their application.

8.4 The Council has decided that relief under the scheme will be awarded using the following criteria:

a. The scheme is designed to assist ratepayers who have suffered significant increases in rate liability due to the revaluation and the subsequent increase to their Rateable Value;
b. Relief will not be awarded where mandatory relief is granted;
c. In assessing any potential entitlement to an award under this scheme, the Council will compare the following:
    i. The rate liability of the ratepayer at 31st March 2017 after any reliefs and reductions; and
    ii. The rate liability of the ratepayer at 1st April 2017 taking into account any transitional relief or discretionary relief within this policy;
d. Relief will be awarded where the calculation in c. above would result in an increase of more than **12.5%** (determined by the Council as an acceptable increase);
e. Relief will only be given to premises which are liable for occupied rates. No relief within this scheme will be granted for unoccupied premises;
f. Relief will only be granted to ratepayers who were in occupation at 31st March 2017 and in occupation on 1st April 2017 and for each day subsequently.
g. Ratepayers taking up occupation after the 1st April 2017 will **not** be eligible for relief on the basis that new ratepayers would not have suffered from increases due to a revaluation;
h. Relief may be awarded for more than one premises as long as **all** other criteria are met;
i. Relief will **not** be awarded where the ratepayer has applied for a reduction under S44a of the Local Government Finance Act 1988; and
j. Relief will not be awarded for any increase in rateable value on or after 1st April 2017.

Amount of Relief

8.6 The amount of relief is tapered and will be calculated as follows:

2017/18

Award = Increase in rate liability calculated in 8.4D LESS 12.5% (acceptable increase). For the avoidance of doubt all ratepayers will be required to pay the first 12.5% of any increase and the relief will be awarded for any amount above that level.

2018/19

Award = 2017/18 award x 50% (for clarity this will be half of the relief awarded in 2017/18)

2019/20

Award = 2018/19 award x 50% (for clarity this will be half of the relief awarded in 2018/19)

2020/21

Award = 2019/20 award x 10% (for clarity this will be 10% of the relief awarded in 2019/20)

Variation and amendment of relief under the scheme

8.7 As with all reliefs, the amount of relief awarded under the Discretionary Businesses Rates relief scheme will be recalculated in the event of a change of circumstances. This will include, for example, a backdated change to the rateable value of the hereditament. This change of circumstances could arise during the year in question or during a later year.

8.8 The Non-Domestic Rating (Discretionary Relief) Regulations 1989 (S.I. 1989/1059) requires the Council to provide ratepayers with at least one year's notice in writing before any decision to revoke or vary a decision so as to increase the amount the ratepayer has to pay takes effect. Such a revocation or variation of a decision can only take effect at the end of a financial year. But within these regulations, the Council may still make decisions which are conditional upon eligibility criteria or rules for calculating relief which allow the amount of relief to be amended within the year to reflect changing circumstances.

9.0 Reporting changes in circumstances

9.1 Where any award is granted to a ratepayer, the Council will require any changes in circumstances which may affect the relief to be reported as soon as possible. This will be important where the change would result in the amount of the award being reduced or cancelled e.g. where the premises comes unoccupied or is used for a purpose other than that determined by the Council as eligible for relief.

9.2 Where a change of circumstances is reported, the relief will, if appropriate be revised or cancelled as appropriate. Where any award is to be reduced, the Council will look to recover the amount from the date the change of circumstances occurred.

10.0 Fraud

10.1 Where a ratepayer falsely applies for any relief, or where the ratepayer provides false information, makes false representation, or deliberately withholds information in order to gain relief, prosecutions will be considered under the Fraud Act 2006.

Appendix A

Application Form for the Discretionary Business Rate Relief Scheme.

Agenda Item 6

This Report will be made public on 2 October 2017

Folkestone
Hythe & Romney Marsh
Shepway District Council
www.shepway.gov.uk

Report Number **C/17/47**

To: **Cabinet**
Date: **11 October 2017**
Status: **Key Decision**
Corporate Director: **Tim Madden, Organisational Change**
Cabinet Member: **Councillor David Monk, Leader of the Council**

SUBJECT: Medium Term Financial Strategy 2018/19 to 2021/22

SUMMARY: The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. It puts the financial perspective on the council's Corporate Plan priorities, expressing the aims and objectives of various plans and strategies in financial terms over the four year period ending 31st March 2022. It covers both revenue and capital for the General Fund and the Housing Revenue Account. Also included are the Council's reserves policies. The MTFS is a key element of sound corporate governance and financial management.

REASONS FOR RECOMMENDATION:

Cabinet is asked to agree the recommendations set out below because:-

(a) The MTFS is the council's key financial planning document.
(b) The strategy defines the financial resources needed to deliver the council's corporate objectives and priorities and covers the financial implications of other key strategies.
(c) The council needs to be able to carry out an early assessment of the financial implications of its approved policies and strategies and also external financial pressures facing the authority to ensure that it has robust budgeting and remains financially viable.

RECOMMENDATIONS:

Cabinet is asked to recommend to Council:

1. **To receive and note Report C/17/47.**
2. **To recommend that the Medium Term Financial Strategy, as appended to this report, is adopted.**

3. To agree the flexible use of capital receipts as set out in the report to fund the council's future efficiency programme.

1. THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)

1.1 The MTFS is the council's key financial planning tool and underpins the strategic approach to financial planning. It is a live document which needs to be periodically reviewed to reflect changing priorities and objectives. As the MTFS outlines the financial resources necessary to deliver strategic priorities, it should not be viewed in isolation but as part of the wider corporate process.

1.2 The council last reviewed the MTFS at its meeting of 14 September 2016. The attached MTFS has updated the document agreed at that point based on the work completed to date in preparation of the 2018/19 budget. The detailed budget strategy, which sets out the detailed preparation for the 2018/19 budget, will be presented to Cabinet at its meeting of 15th November 2016. The MTFS provides the medium term view of the financial position of the Council.

1.3 The attached document reflects a summarized version of the key financial elements facing the Council. It covers key areas of the council's finances and in particular updates the financial projections which are of importance at this stage of the process and links to the new corporate plan. The intention is, once the 2018/19 budget is completed, to refresh this document and to present the full version to Cabinet and Council which will take into account the final budget of the council which will be agreed in February 2018.

1.4 As in recent years, local authority financial management is set against a background of uncertainty and the MTFS is subject to influence outside the authority's control. Nationally, the uncertainty following the "Brexit" vote, the change of Political leadership and any potential impact on the economy and public finances means that all local authorities need to try and plan for future uncertainties. In addition, there are a number of pieces of local government legislation currently under consideration which will mean that the environment for local authorities is changing and they will need to adapt to new circumstances. Key changes include the future funding arrangements for Business Rates, the end of the Revenue Support Grant and any structural or devolution proposals which will affect councils in different areas according to local circumstances. These will have a significant impact upon the financial profiling of the Council. The impact of decisions arising from council policy could also affect the MTFS and therefore further iterations of the MTFS will reflect the financial implications of those decisions taken.

1.5 The current strategy has been developed in the context of this period of uncertainty. As such, assumptions have had to be made with regard to future income streams and assessments of future government grant. Although these are very much best estimates, they are taken in the context of the current economic climate and the expected continuation of the desire to eliminate the current deficit. As such, a difficult but realistic forecast of income trends has been incorporated into this MTFS model.

1.6 There is significant long term pressure upon the finances of the council. These were set out in some detail in the previous report to Cabinet on the 31st May 2017 (Report C/17/03) and the current MTFS is largely based upon those assumptions.

1.7 The current MTFS forecasts a cumulative funding gap of £6.525 million over the lifetime of this MTFS. This is based on a 2% annual council tax increase for the period of the MTFS. These will be subject to Political decisions at the appropriate time. The table below also shows the cumulative deficit over the period of the MTFS.

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Deficit	574	1,726	3,468	6,525

1.8 The position set out above is in advance of the budget strategy which will be presented to Cabinet at its meeting of the 15th November. That will address the detailed measures to consider the deficit for 2018/19 in terms of identifying savings but also any known cost pressures. In light of the increasing pressures facing the council, all budget considerations will also look at the impact in future years and the sustainability of any options.

1.9 As part of the 2016 Finance Settlement, the government indicated it wished to offer local authorities the option of producing an "Efficiency Plan" in exchange for "locking into" the four year settlement for Revenue Support Grant as set out commencing in 2016/17. The format of that plan is undefined however it is clear that the government does not wish to create a significant bureaucracy and will expect it to contribute to financial management of the authority.

1.10 The MTFS to a large extent covers the requirements of the efficiency plan, however there has been additional text added to make the links to wider corporate documents which will shape, influence and direct the future role of the Council including its financial stability. The statement was agreed by the DCLG during 2016.

1.11 A further development the government has introduced is to allow greater flexibility in the use of capital receipts. This allows capital receipts to be used to fund revenue investments provided they meet certain criteria which are set out within the MTFS. This allows the investments needed to be drawn from capital rather than needing to be taken from revenue thus increasing the flexibility for the Council. The previous MTFS utlised the capital receipt arising from the sale of 3 – 5 Shorncliffe Road to fund its digital delivery programme and to support the revenue savings arising out of these. It is intended to continue the use of capital receipts in this way and in particular to support the Future Operating Model transformation programme to deliver further efficiencies within the council. TYhis will be subject to further separate reports to the Cabinet as plans are made for this programme.

1.12 The MTFS is included at Annex A to this report and sets out the financial forecast for the Council.

2. RISK MANAGEMENT ISSUES

2.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
The Council does not remain up to date up to date with changes in legislation and other developments.	High	Low	Financial Services are keeping abreast of finance changes. Heads of Service to keep up to date with / communicate changes to their areas of work.
Assumptions may be inaccurate	High	Medium	Budget monitoring process is up to date and a close eye is being kept on financial developments nationally. Assumptions are constantly reviewed and amended in light of information received.
Local Government Finance Settlement is worse than anticipated.	High	Medium	Realistic assumptions have already been included and any new information is being assessed as to its likely impact. Reduction in grant funding reduces external impact.
MTFS becomes out of date	High	Low	This is reviewed annually through the budget process.
Significant financial shocks worsen the current position of the council	High	Medium	There is ongoing monitoring of the overall financial position and climate and by adopting the MTFS

			a longer term time horizon is maintained to anticipate and respond to uncertain events..

3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

3.1 **Legal Officer's Comments** (DK)

There are no legal implications arising out of this report.

3.2 **Finance Officer's Comments** (TM)

There are no direct financial consequences arising from this report. However the strategy will influence the management of the council's resources ensuring that the focus is on the objectives and targets outlined in the corporate plan.

3.3 **Diversity and Equalities Implications** (TM)

There are no diversity and equality implications arising from this document. When the budget for 2017/18 is prepared, an Equalities Impact Assessment will be completed.

4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councilors with any questions arising out of this report should contact the following officer prior to the meeting

Tim Madden, Corporate Director, Organisational Change
Tel: 01303 853371   E-mail: tim.madden@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

No background documents have been used.

Appendices:

Medium Term Financial Strategy 2018/19 – 2021/22

MEDIUM TERM FINANCIAL STRATEGY

2018/19 TO 2021/22

(Version produced in September 2017)

Folkestone
Hythe & Romney Marsh
Shepway District Council
www.shepway.gov.uk

MEDIUM TERM FINANCIAL STRATEGY

Introduction

This document sets out the key challenges and approach of the Council in relation to Shepway District Council's Medium Term Financial Strategy ('MTFS') for the next four years. The MTFS provides an integrated view of the whole of the council's finances and it also maps out the objectives to be secured, policies to be applied and risks to be managed over the period.

Since the introduction of austerity in 2010, local government has taken a disproportionately large share of the reductions in public expenditure as part of efforts to balance the nation's finances. Whilst the promotion of "austerity" seems to be on the decline, there is no indication of a change at a national level in terms of the funding for local government. The current national political uncertainty and the priority of Brexit in the government's agenda suggests it is reasonable to assume the approach adopted by local authorities since 2010 will need to continue for the foreseeable future.

In response to this financial challenge, local government has innovated, streamlined services and increased productivity. The Government's plans to devolve more responsibilities to local government have currently been delayed although it is to be expected that this direction of travel will continue, particularly in relation to business rates and additional responsibilities to be funded through this source. The devolution of business rates is intended to be fiscally neutral but the details of how this will work have yet to be determined. This will bring both risks and opportunities for the council.

The MTFS is a critical document in setting out the council's approach to establishing a strong financial base to enable the council's policies and priorities to be delivered whilst ensuring the council's finances are sustainable. Within the document are some key issues which will need to be tackled. The annual budget setting process will set out the detailed actions required to meet these but will in all cases be consistent with the direction and objectives of the MTFS.

Shepway Council - the Current Position

Shepway Council covers an area of 140 square miles and has a population of just over 100,000 people with approximately 48,200 dwellings in the district. The council has responsibility for a wide range of services including waste collection, planning, environmental enforcement, housing and homelessness, parking and grounds maintenance. In 2017/18 it planned to spend approximately £15.4 million per annum net revenue expenditure on services.

The Council's Aspirations

The vision and strategic objectives of the council are laid out in the Corporate Plan 2017 to 2020 and are shown below:

The vision for Shepway:

Investing for the next generation – delivering more of what matters

As a council, to help achieve the vision for the district, our strategic objectives are:

- More Homes – Provide and enable the right amount, type and range of housing
- More Jobs – Work with businesses to provide jobs in a vibrant local economy
- Appearance Matters – Provide an attractive and clean environment
- Health Matters – Keep our communities healthy and safe
- Achieving stability – Achieve financial stability through a commercial and collaborative approach
- Delivering Excellence – Deliver excellent customer service through the commitment of staff and members

The council will have a particular emphasis on supporting the growth and sustainability of the economy to increase prosperity, to increase the number of houses in a sustainable manner over the longer term and on improving our effectiveness and efficiency through service design and digital delivery. By focusing on these key priorities, the council will be able to direct resources to achieving its key strategic objectives and to ensure sustainability in its activities.

Strategic Financial Objectives

The MTFS covers all areas of the council spending and is underpinned by the strategic financial objectives as set out below:

- To maintain a balanced Budget such that expenditure matches income from Council Tax, fees and charges, and government and other grants and to maintain that position.
- To maximise the council's income by setting fees and charges, where it has the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write offs.
- To ensure a long term sustainable view is taken of any investments and the appropriate risk analysis is provided in considering those.
- To set a rate for Council Tax which maximises income necessary for the council to deliver its strategic objectives but ensures that

government referendum limits are not exceeded. The percentage increase will be reviewed annually.

- To ensure resources are aligned with the council's strategic vision and corporate priorities.
- To consider and take advantage of commercial opportunities as they arise to achieve a commercial return
- To maintain an adequate and prudent level of reserves.

The council faces a number of difficult decisions if it is to achieve its corporate priorities. Effective prioritisation and management of resources therefore continues to remain significant for the coming years.

The Efficiency Plan

The government has offered local authorities a minimum grant envelope for the 4 year period of this strategy. In order to secure this, the council must produce an efficiency strategy which was originally set out in the previous MTFS. Although the strategic financial approach is set out within this document, it is more than just an MTFS. It represents the council's ambition to not just to survive financially, but to thrive and develop a sustainable future for the district. The key strands of this are:

- The Corporate Plan 2017 - 20 the key objectives of which are set out above
- The Shepway Economic Development Strategy 2015 - 2020
- The councils digital delivery programme
- The flexible use of capital receipts (see later in this document)
- The Medium Term Financial Strategy
- The HRA Business Plan
- The investment in longer term strategic developments to secure the financial future of the council
- The development of the garden town at Otterpool Park with a long term financial benefit for the council and establishing sustainable communities for the future
- A sustainable and prudent reserves policy to underpin the financial resilience of the council
- Looking at opportunities for commercial activity to generate income to support the financial position of the council and maintain services
- A fundamental review of the council's operating model in order to ensure it is fit for the future and maximises efficiencies.

The range of documents and approaches provides the overall strategy of the council in delivering its future agenda and as a combination they are owned by the council as a whole. This MTFS brings together the financial strands of that approach in the context of the current financial climate.

Financial Pressures and Projections

The council is part of the local government sector which has been one of the areas hardest hit by central government's deficit reduction plan. The spending review 2015 confirmed a transition away from direct central government grant. The current financial forecast anticipates that 2018/19 will be the final year of Revenue Support Grant from the government. **Table 1** below shows the decline in RSG from 2013/14 and indicates the reduction in financial support the council has had to address over the last 5 years.

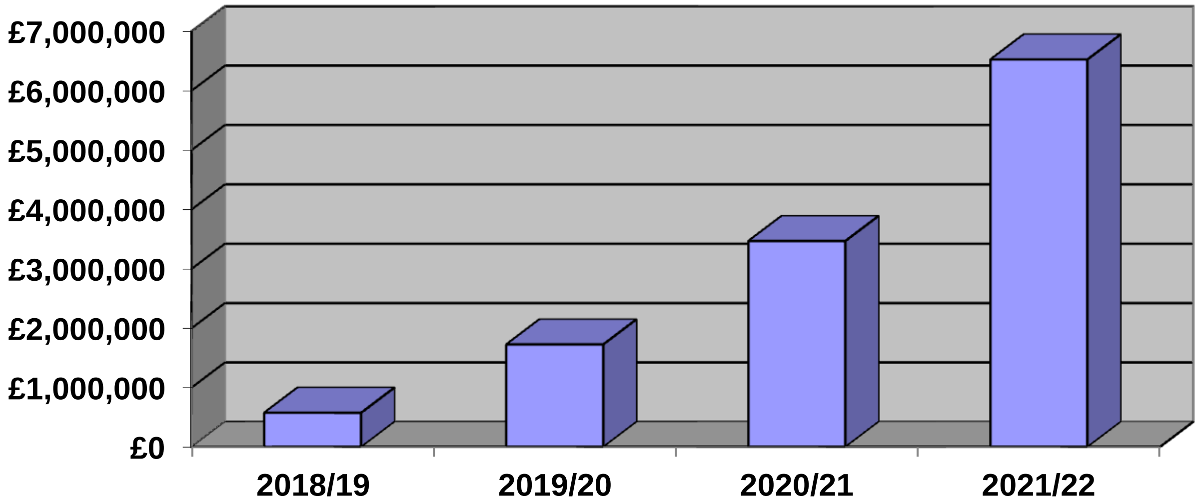
Table 1 – Forecast Level of Revenue Support Grant

Financial Year	Revenue Support Grant
£000	**£000**
2013/14	**4,901**
2014/15	**3,828**
2015/16	**2,753**
2016/17	**1,736**
2017/18	**848**
2018/19	**305**
2019/20	**0**

The table shows that the forecast level of grant for 2019/20 is nil and this is expected to be the "new norm" although the government is also currently undertaking a "fair funding review" of local government finance which is expected to be implemented in 2020. In some respects the reduction in funding and the elimination in grant are consistent with the government's desire to see more money raised locally to provide local services. Proposals to localise business rates by 2020/21 will place significant responsibility in local areas with significant risk but also with opportunity. It also requires the Council to take control of its financial future in the knowledge that the uncertainty around the level of central government grant is no longer a factor in planning the authority's finances.

This reduction in grant, when taken together with a range of elements including inflation, legislation and the general economic climate have meant that the financial projections for the council continue to show an ongoing deficit which the financial planning processes of the council will need to address. The level of the deficit projection for the period to 2021/22 is detailed in **Appendix 1** and is shown in **Table 2** below:

Table 2 – Cumulative Deficit over the MTFS period



The above represents the cumulative deficit position based on the current actions and an annual 2% increase in council tax. . It is worth noting that these challenges are being faced across the country by the local authority sector and are not in themselves unique to Shepway. However, the ongoing impact of reduced government funding, price and pay inflation, service pressures, customer demands and changing legislation have resulted, over the medium term, in an extremely challenging financial position.

In particular key pressures such as the impact of the waste contract from January 2021and uncertainty around New Homes Bonus have significantly impacted upon the worsening financial position. This does not include emerging pressures such as the rise in homelessness and bed and breakfast costs to the council.

The current forecast means that there will need to be significant work undertaken to address the forecast deficit. Set out below are some of the key areas to be developed through the 2018/19 budget strategy and beyond to address those financial challenges.

- Take advantage of commercial opportunities wherever possible to cover costs and to review our fees and charges.
- Alternative income streams. Looking to generate future income sources through investments in the district which can generate a return over the longer term for the council including the development of Oportunitas Ltd to increase those income streams. The development of Otterpool Park provides the opportunity to explore options for longer term income generation and once planning permission is achieved a strategy will be put in place to achieve this. Other developments will be considered within the context of achieving an ongoing return for the council to support its future revenue position.
- Continuing to transform the way we work to maximise operational efficiencies. Following on from the “ways of working” project, further investment is to be made on utilising digital delivery to gain significant efficiencies but also to improve the customer experience. The council is currently exploring the development of a new future operating model to modernise technology across

the council and also to change how the council interacts with its customers and residents. Agreement for exploratory work was given at Cabinet in June 2017 with a further report and plan, setting out further actions and an implementation timescale, due in January 2018.
- Review of previous years' out turn and our base budget to ensure maximum value is obtained from those resources already allocated – effectively to ensure financial discipline and good housekeeping are maintained
- Taking advantage of any grants where they align with the council's priorities but also to ensure there are arrangements in place for when those grants cease
- Considering the use of reserves in a sustainable and prudent manner to support the council's strategy.

To maintain the council's financial standing it is important that it continues its proactive approach to financial planning and ensures that the savings plans are deliverable and that any investments are focussed on the financial health of the authority.

Council Tax

The Council Tax is one of the key funding streams for the council and accounts for approximately 50% of the council's income. Although this is a significant funding source, it is subject to restrictions by central government. The Localism Act included a requirement to hold a local referendum if any Council Tax increase is deemed 'excessive' and this level is currently set at 2% by central government.

If a council wishes to increase its Council Tax levy beyond pre-determined levels it will have to produce a 'shadow budget' at the maximum level allowed and implement this if the referendum is lost and also to bear the costs of any referendum. It should be noted that the government has the ability to either increase or decrease the level at which a referendum would be triggered.

The government has previously provided funding for a council tax freeze however there has been no funding for this policy in recent years and it has been assumed that there will not be a freeze over the period of this strategy. Appendix 1 has assumed a council tax increase of 2% per annum for the period of this strategy (a 1% increase has an effect of approximately £85,000 per annum).

Use of Reserves

The council has a level of reserves which provides it with some protection against the difficult economic times. The level of reserves currently held by Shepway gives it a secure financial base however the changing environment means the approach to reserves will change for the following key reasons:

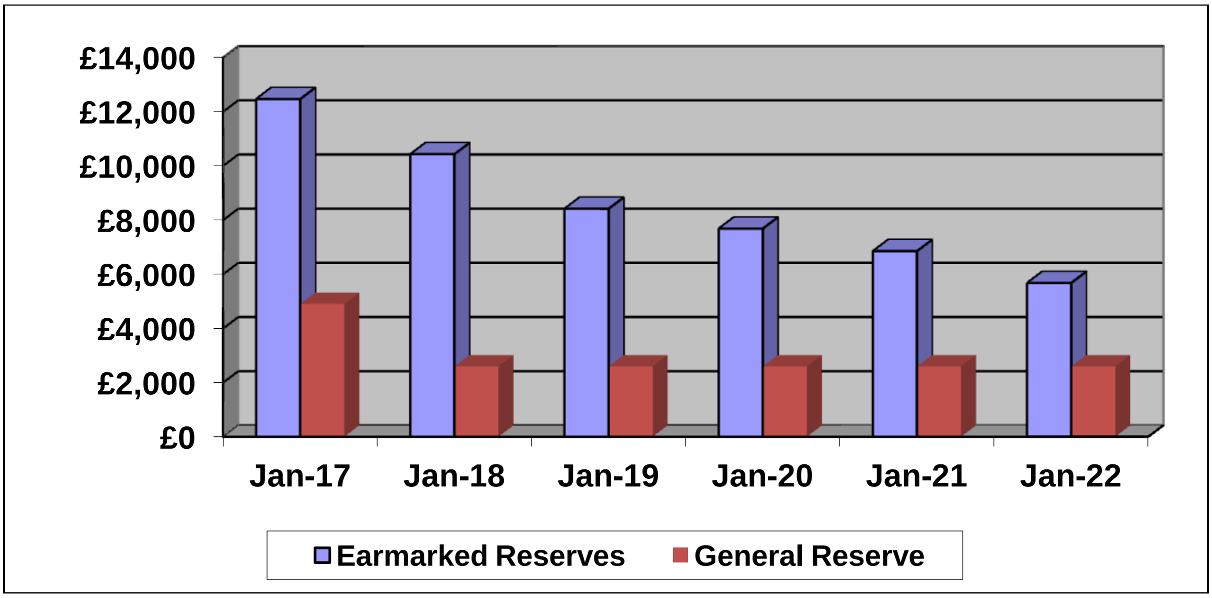
Firstly, the reducing level of government grant as identified above means that it is vital to consider how to achieve income streams in the future. Whilst it is feasible to borrow additional funds and in many ways this is appropriate given the current low interest environment, this does come at a cost so at times it can be more prudent to apply the reserves especially given the lack of return on any cash holdings.

Secondly, central government has indicated that local authorities should look to use their reserves as part of their financial planning and not to hold high levels of reserves without a clear purpose.

Appendix 2 to this report sets out the council's overall reserves policy and the context in which decisions are made as to the appropriate level of reserves.

The council's prudent approach to reserves means that a number of investments have been made using reserves to support initiatives such as Oportunitas and the Empty Homes programme. However, Table 3 below shows that reserves are moving to a more justifiable but lower level. Whilst this provides a reasonably secure basis for the council, it does indicate a reduced level of flexibility for the future. The projected level of reserves for the next 4 years is shown as a bar chart in **Table 3** below. The actual figures are shown in Appendix 2.

Table 3 – Level of Reserves for MTFS period 2017/18 to 2018/19



New Homes Bonus (NHB)

The New Homes Bonus was introduced in 2011/12 and has become an important funding source for councils. It is designed by Central Government to incentivise new house building. Local authorities are rewarded with a financial bonus, equal to the national average Council Tax on each additional property built and paid for the following six years after the occupation as a non ring fenced grant. This bonus is split in two tier areas 80% to the District Council and 20% to the County Council and includes where properties which have been empty for more than six months are brought back into use. There is also an enhancement for affordable homes. This provides a bonus system that gives a fiscal incentive to encourage local authorities to facilitate housing growth. The first bonus was paid in the financial year 2011/12 and builds successively in the following financial years to 2016/17 after which the bonus will be paid on a rolling basis. However, after the initial funding that the Government has set aside for the scheme has been exhausted, the cost of paying the New Homes Bonus will be met by top slicing formula grant.

The future of the New Homes Bonus was reviewed for the 2017/18 financial year with the length of time it is paid reduced from 6 years to 5 years (for the 2017/18 award) and to 4 years from 2018/19 onwards. A "baseline" of 0.4% growth was also established before any bonus was paid. These funds were used to support those authorities with adult social care responsibilities.

Shepway currently utilises half of its existing New Homes Bonus to support services with the remaining amounts being set aside within a reserve to fund the additional cost of services. Whilst this strategy has allowed the council to build up its reserves which will give it some future stability, careful attention will need to be given to any changes within this income stream particularly towards the end of this strategy and beyond and whether it will continue in the longer term as the financial landscape changes.

Business Rates (Non Domestic Rates)

From 2013, the government introduced a scheme through which local authorities would be able to retain a proportion of any business rates growth above a set baseline. The purpose was to give local authorities a financial incentive to encourage and foster economic growth within their area and to work collaboratively with other authorities and business organisations to achieve that growth. Whilst this scheme has been broadly welcomed by local authorities, there are concerns over the potential volatility of this income stream with the level of appeals and that even a small variation in the overall revenue generated can carry a significant financial impact. The government is currently undertaking a review of how business rates operate and has undertaken a major consultation exercise with a view to achieving 100% localisation of business rates by the end of the current parliament.

With regard to the MTFS, Shepway has welcomed the emphasis on economic growth but has been cautious about building this into the base budget. Part of this is due to the impact of appeals and the volatility of the income which makes it more complex to forecast. Where possible, any surpluses have been placed within a reserve until there is a degree of certainty before they can be used which may well not be until the following financial year. This is prudent management to manage the natural fluctuations of the business cycle. The council also, in 2015/16, joined the Kent business rates pool on the basis of financial modelling which demonstrates a financial gain to the authority due to a reduction in the amount being paid to central government. This has been extended into 2017/18 and the benefits of pooling are under consideration for future years.

The Chancellor of the Exchequer has announced further changes to the Business Rates regime with proposals being presented which will devolve 100% of business rates to local government rather that the current 50%. These proposals were under discussion but have been delayed by the 2017 general election. It is still expected that the changes will be forthcoming and will be fiscally neutral at a national level and that there will be additional responsibilities given to councils as part of these arrangements. These are subject to the current consultation with legislation being introduced in April 2017.

Housing Revenue Account

The council has a separate account, the Housing Revenue Account (HRA) which supports local authority housing throughout the district. The HRA is now required to produce a 30 year business plan which demonstrates the affordability and sustainability of the management and investment in the council's housing stock. This full plan was reviewed and agreed by the council's Cabinet at its meeting of 23 March 2016 and can be found at the following link.

http://www.shepway.gov.uk/moderngov/documents/s18931/rcabt20160323%20appendix%20to%20HRA%20Business%20Plan.pdf

The main strategic objectives of the HRA business plan are:

- To provide high quality affordable homes that meet fully the Shepway housing standard.
- To provide an efficient and effective housing management service, and invest in service improvements.
- To maximise the recovery of rental income.
- To build new council homes.

The refreshed HRA business plan agreed the following principles:

- The repayment of the council's HRA debt by year 25 of the business plan (by around 2040-41)
- The implementation of a fully funded Shepway Housing Standard Programme throughout the 30 year life of the Business Plan.
- The provision of resources for a new build and housing acquisition programme. Due to the recent policy changes announced by the Government, it has been necessary to reduce our delivery target of up to 300 homes over the next 10 years, to up to 200 homes over the next 10 years.
- A minimum balance of £2million to be retained within the HRA at all times.
- Minimum borrowing headroom of £2million to be retained at all times.
- The plan should provide sufficient resources to fund environmental improvements to the communal parts on the council's estate areas.
- A detailed review of the Business Plan should be completed every year (previously stated as every 5 years)

Medium Term Capital Programme

The Medium Term Capital Programme sets out how capital resources are used to achieve the council's vision and corporate priorities. Funding for capital projects is limited and where possible external funding is used to supplement the programme. The council has an affordable Capital Programme and this is assessed against business cases taking into account future resources to support projects. A strategy has been adopted which will look to utilise capital receipts to support investments for the council. Demand for financing potential new projects continues to outweigh the funding available and developments such as Princes Parade and Otterpool Park will need to be prioritised as part of the programme.

The main strategic objectives of the Capital Programme, which provide the underlying principles for financial planning, can be summarised as follows:

- To maintain a five year rolling Capital Programme which remains within the approved affordable, sustainable and prudential limits.
- To ensure capital resources are aligned with the council's strategic vision and corporate priorities by ensuring all schemes are prioritised according to the council's prioritisation methodology.
- Prudential Borrowing to be undertaken to support the councils priorities where there is a business case for it to do so and there are sufficient monies to meet in full the implications of capital expenditure, both borrowing and running costs.
- To maximise available resources by actively seeking external funding to support council priorities and disposing of surplus assets.
- To use internal resources alongside external resources where appropriate to support the capital programme and minimise any borrowing costs.

The council forecasts its capital programme over a 5 year period and the latest position is set out in the report to council on the 22nd February 2017. This can be found at:

http://www.shepway.gov.uk/moderngov/documents/s23154/rcoun20170222%20gen%20fund%20mtfp%20and%20quarter%203.pdf

Flexible Use of Capital Receipts

In March 2016 the government produced Statutory Guidance on the Flexible Use of Capital Receipts. Proper accounting practices mean that capital receipts can only be used to support capital expenditure. However, the purpose of the guidance is to give flexibility as to the use of capital. In summary, the guidance allows councils to use capital receipts from the disposal of property, plant and equipment assets received in the period 1 April 2016 to 31 March 2019 to fund revenue spending which is forecast to generate ongoing savings to an authorities or several authorities, and / or to another public sector bodies net service expenditure.

The guidance itself gives examples of the type of expenditure that can be funded from this source although it is not exhaustive. This includes sharing back office services, funding the cost of service reconfiguration where this leads to revenue savings and driving a digital approach to the delivery of more efficient services. A fuller list is provided in the guidance.

This provides an opportunity for the council to invest in some significant projects during this period to embed efficiencies for future years. Previously the council has utilised this funding to support a range of digital initiatives including a significant service transformation for the revenues and benefits service which has generated ongoing revenue savings. As part of its strategy for addressing the future funding gap, the council is considering a major transformation programme. This will include a significant level of investment to enable efficiencies to be realised. Once the detailed planning of this project is completed, it is anticipated that the use of capital receipts will be directed to support this transformation programme.

Developing Areas

The detail for addressing the annual budget gaps will be set out in the council's annual budget strategy report. However, there are 2 significant ongoing activities which will have a major impact on the future finances of the council but are not yet sufficiently developed to be fully incorporated into the MTFS.

Firstly, as previously mentioned, the development of the Otterpool Park Garden Town, within which the council has a significant landholding, offers the potential for an important for a long term financial contribution to the finances of the council. The nature this will take is yet to be developed and can vary between a short term capital receipts to the benefits of a longer term holding. As this is developed this will come to play more significantly into the financial projections of the council. It is, however, anticipated that this will involve a significant level of borrowing in order to secure a financial return to the council but also to meet its social objectives of a quality investment. This will be fully reflected as the long term detailed plan is developed.

Secondly, the council is looking at developing a future operating model. This will not only change how the council delivers services and interacts with its residents, but also offers the opportunity to generate significant efficiency savings. Work is currently being undertaken to identify the proposed plan and benefits prior to looking for a final decision in early 2018.

Risks and Sensitivities

In considering the future projections, it is recognised that there are unknowns which could impact upon the existing forecasts. The MTFS should be seen not as a static document but rather one that is constantly evolving as the environment around it changes. Some of the key risks and sensitivities which need to be monitored are mentioned below.

- Economic conditions. The impact of the economic cycle will need to be considered particularly in relation to business growth, inflationary pressures and interest rate movements. The impact of changes and any impact on public finances will need to be fully evaluated on the financial model.
- Impact of "Brexit". Whilst the government has underwritten EU funding agreed prior to the 2016 Autumn Statement, the impact of the UK's departure from the EU is one that is unclear and may impact both politically and economically.
- Government Finance Legislation. There are key pieces of government legislation which will impact upon the future financial position of the council.

In particular the impact of the localisation of business rates and any additional responsibilities will need to be fully evaluated as well as the governments current fair funding review of local government finance which is due to be introduced in 2020. .

- Other Government Legislation. There are a significant number of political initiatives particularly in relation to localisation and the role of local government. These will need to be assessed for their relevance to Shepway and the impact on future finances.
- Buoyancy of income streams. These will be sensitive to changes in consumer confidence and the economy so will need to be closely monitored.

Conclusion

The MTFS represents the collation of the key financial documents which looks to forecast the likely financial position the council will be facing over the next 4 years. It is the critical financial planning tool for the council and will provide the overall steer for the ongoing discussions throughout the annual budget cycles in dealing with the current economic climate.

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Appendix 1 - MTFS Summary

		Base year 2017/18	2018/19	2019/20
		£	£	£
Heads of Service				
CMT and Leadership Support		833,080	833,080	833,080
Head of HR		962,390	962,390	962,390
Communications		240,530	240,530	240,530
Democratic Services and Law		4,774,650	4,804,650	4,914,650
Head of Finance		4,227,010	4,227,010	4,227,010
Head of Communities		2,254,850	2,254,850	2,254,850
Head of Planning		923,150	923,150	923,150
Head of Commercial and Technical		2,551,020	2,551,020	2,551,020
Head of Strategic Development		359,600	359,600	359,600
Head of Economic Development		470,740	432,740	370,740
Changes not attributed to services		0	119,596	242,182
Recharges to non GF accounts		-1,980,500	-1,980,500	-1,980,500
Unallocated net employee costs		-224,000	125,950	446,879
Head of Service net expenditure		15,392,520	15,854,066	16,345,581
Internal drainage board levies		444,272	453,157	462,220
Interest payable and similar charges		526,000	460,230	438,230
Interest and investment income		-451,000	-509,000	-461,000
New Homes Bonus grant		-1,571,779	-1,024,771	-712,573
Other non-service related grants		-899,353	-788,349	-788,349
		13,440,660	14,445,333	15,284,109
Net transfers to/from reserves		-239,843	-233,971	-483,040
Minimum revenue provision adjust.		388,930	388,930	388,930
Financing of fixed assets		2,190,000	138,000	138,000
		15,779,747	14,738,292	15,327,999
Transfer to/from Collection Fund		-203,378	-100,000	-100,000
Net business rates income		-3,747,186	-3,994,952	-4,084,610
Revenue support grant		-848,143	-305,135	0
		10,981,039	10,338,205	11,143,390
Council Tax Requirement		-9,392,039	-9,625,414	-9,853,950
Surplus/deficit to General Reserve	**A**	1,589,000	712,791	1,289,439
Use of General Reserve for Financing of Fixed Assets		-1,589,000	-138,000	-138,000
Deficit for year		0	574,791	1,151,439
Cumulative Deficit totals		0	574,791	1,726,230

2020/21	2021/22
£	£
833,080	833,080
962,390	962,390
240,530	240,530
5,124,650	6,274,650
4,227,010	4,227,010
2,254,850	2,254,850
923,150	923,150
2,551,020	2,551,020
359,600	359,600
370,740	370,740
367,220	494,758
-1,980,500	-1,980,500
1,030,817	1,357,795
17,264,557	18,869,073
471,464	480,893
432,230	437,230
-474,000	-471,000
-365,508	0
-788,349	-788,349
16,540,394	18,527,847
-829,792	-1,175,870
388,930	388,930
138,000	138,000
16,237,532	17,878,907
-100,000	-100,000
-4,169,491	-4,256,070
0	0
11,968,041	13,522,837
-10,087,915	-10,327,439
1,880,126	3,195,398
-138,000	-138,000
1,742,126	3,057,398
3,468,356	6,525,755

Appendix 2 – Reserves Policy

INTRODUCTION

The establishment, monitoring and review of the levels of reserves and balances are an important element of the council's financial management systems and financial standing.

The Chief Finance Officer (S151 Officer) is required by law to formally report to the council her/his opinion on the adequacy of the council's reserves. Irrespective of this, a well managed authority is clear about the reserves it needs now and in the future to support its service aspirations, whilst at the same time delivering value for money within a climate of significant resource pressure and economic/ social risk.

This policy does not cover non-distributable reserves required to support financial accounting transactions e.g. the Revaluation Reserve, Capital Adjustment Account and Pension Reserve. (Non-distributable reserves are those that cannot be used for revenue or capital purposes.)

Reserves can be held for four reasons:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds to meet known or predicted liabilities.
- A means of setting aside sums for future identified uses and / or investments

Such reserves are generally referred to as earmarked reserves.

WHAT ARE RESERVES?

There is no clear definition of reserves even though reference is made to reserves in legislation. The Chartered Institute of Public Finance and Accountancy (CIPFA) states "amounts set aside for purposes falling outside the definition of provisions should be considered as reserves." Provisions are required for any liabilities of uncertain timing or amount that have been incurred.

Generally there are two types of reserves, those that are available to meet revenue or in some cases capital expenditure (Usable) and those that are not available to finance revenue or capital expenditure (Unusable). Useable reserves result from events that have allowed monies to be set aside, surpluses or decisions causing anticipated expenditure to have been postponed or cancelled. They can be spent or earmarked at the discretion of the council.

The council must manage its reserves in accordance with its strategic longer term planning process.

LEVEL OF RESERVES

As mentioned above the council's reserves can be regarded as general and earmarked reserves. In addition, the council maintains a Usable Capital Receipt reserve.

Projected Levels

The projected level of reserves over the next five years is summarised at the table below.

Projected level of reserves over next 5 years

	Balance at 31/3/2017	Balance at 31/3/2018	Balance at 31/3/2019	Balance at 31/3/2020	Balance at 31/3/2021	Balance at 31/3/2022
	£000	£000	£000	£000	£000	£000
Total Earmarked Reserves	**12,468**	**10,431**	**8,416**	**7,684**	**6,853**	**5,676**
General Fund Reserve	**4,900**	**2,305**	**2,595**	**2,595**	**2,595**	**2,595**
Housing Revenue Account reserve	**7,380**	**5,380**	**3,180**	**2,130**	**2,071**	**2,114**
Usable Capital Receipts Reserve	**2,658**	**5,288**	**5,288**	**5,538**	**5,788**	**5,788**

As part of its MTFS, the council also adopts some fundamental principles as to how reserves are used:

- The reserves must only be used to fund one off expenditure.
- Any recurring item may only be funded from reserves if plans are in place to replenish the reserve within 12 months.
- Any unplanned revenue income receipt should be put in reserves pending any future decisions as to its use.

- Reserves should be maintained at a sustainable level to ensure an adequate working balance is maintained.
- Reserves may be used as part of a planned process to balance the budget in order to avoid short term responses which may not be in the best interests of the council.

The council has prudently built up its reserves in recent years to be able to provide for its priorities when required. The level of reserves has, in recent years, reduced in line with planned activities such as investments in Oportunitas and their use for other investment or in lieu of borrowing. This strategy means that reserves are currently at an adequate rather than excessive level however it is recognised this use is of a one off nature to secure future income streams for the council.

The use of reserves is a critical part of the council's budget strategy and the level of reserves is kept under ongoing review. Any future calls on the reserves are considered by looking at the whole position and ensuring minimum reserve levels are adhered to. It is vital that the future needs of the authority such as through the VET reserve are continually refreshed and updated and that earmarked reserves are applied appropriately.

ASSESSING THE ADEQUACY OF RESERVES

The Chartered Institute of Public Finance and Accountancy (CIPFA) state that the Institute 'does not accept a case for introducing a statutory minimum level of reserves, even in exceptional circumstances'. It does however confirm that authorities should make their own judgment on such matters, taking into account all relevant local circumstances on the advice of their Chief Finance Officer.

The Local Government Act 2003 requires the Chief Finance Officer to formally report on the adequacy of the proposed financial reserves.

To arrive at assessing the adequacy of reserves a number of issues need to be addressed:

- What are the strategic, operational and financial risks facing the authority?
- Does the authority comply with the requirements to ensure that there is an adequate system of internal control?
- Are the key financial assumptions in formulating the council's budget robust and reasonable?
- Does the council have adequate financial management and cash flow arrangements?

In addition there are a number of questions an authority can ask to demonstrate that it is managing its affairs satisfactorily, such as:

- What is the track record of the council in its budgetary and financial management?

- What is the council's record regarding Council Tax collection?
- What is the council's capacity to manage in-year budgetary pressures?
- What is the strength of the council's financial reporting?
- What are the procedures to deal with under and over spends during and at the year end?
- In the case of earmarked reserves, will there be expected calls on the reserves that prompted the setting up of the reserves in the first place?

Finally, there is a need to look at the assumptions made in setting the budget, not just for the coming year but also under the MTFS.

The budgetary assumptions cover:

- Inflation and interest rate projections.
- Estimate and timings of capital receipts.
- Treatment of planned efficiency savings.
- Financial risks involved in major funding arrangements.

The assessment of the adequacy of the reserves and the robustness of the estimates are contained within the Chief Finance Officers report to council as part of the budget setting process based upon Section 25 of the Local Government Act of 2003.

Allocation of Reserves

There are to be no withdrawals from reserves, unless of a one-off nature, or if they are part of a planned usage which will lead to the elimination of any deficit and the setting of a balanced budget. It is not normal practice to withdraw from the General Fund Reserve to balance the annual budget, unless plans are in place to provide for an ongoing balanced budget.

Budget Assumptions

These are set out in detail within the Budget Strategy and a sensitivity analysis has been undertaken regarding the financial forecasts for the next five years. The council is responsible for a number of demand led budgets which are difficult to control.

The council has identified its strategic financial risks and has carried out an assessment of that risk. Based on this analysis, the following levels are considered appropriate:

Required Levels of Reserves

	Minimum Level £m
General Fund	2.5
Housing Revenue Account	2.0
Capital Receipts	0.5

The minimum level of the General Reserve balance has been arrived at after assessing the strategic financial risks faced by the council.

The table above shows that a minimum General Reserve balance of £2.5 million should be maintained. This includes an income accrual of £1.224m which is particularly significant given the proposed changes to universal credit and the potential impact on the ability to recover Housing Benefit overpayment. The HRA minimum balance has been set at £2.0 million as part of the preparation of the HRA business plan.

OPPORTUNITY COST OF HOLDING RESERVES

Having set minimum levels, the opportunity cost of holding reserves needs to be considered. All balances are used to either reduce temporary borrowing or are invested subject to other cash flows. Therefore in measuring any opportunity cost of holding these reserves, account needs to be taken of the interest saving. The opportunity cost of holding the reserves is therefore a judgment whether the ‘worth’ of expenditure foregone is more than the income generated. Given the current economic climate and prevailing uncertainty over future grant funding the risks the authority is exposed to exceed the opportunity cost of holding reserves.

REPORTING FRAMEWORK

The level of reserves is continually monitored and a full review is undertaken each year.

Agenda Item 7

This Report will be made public on 2 October 2017

Folkestone
Hythe & Romney Marsh
Shepway District Council
www.shepway.gov.uk

Report Number **C/17/48**

To: **Cabinet**
Date: **11 October 2017**
Status: **Non-Key Decision**
Head of service: **Charlotte Spendley, Head of Finance**
Cabinet Member: **Councillor Malcom Dearden, Finance**

SUBJECT: **TREASURY MANAGEMENT MONITORING REPORT 2017-18**

SUMMARY: This report provides an update on the council's treasury management activities that have taken place during 2017/18 against the agreed strategy for the year. The report also provides an update on the treasury management indicators approved by Council earlier this year.

REASONS FOR RECOMMENDATIONS:
Cabinet is asked to agree the recommendations set out below because:

a) Both the CIPFA Code of Practice on Treasury Management and the Council's Financial Procedure Rules require Members to receive a report on the Council's treasury management activities during the year.

RECOMMENDATIONS:
1. To receive and note report C/17/48.

1. BACKGROUND

1.1 Full Council approved the Treasury Management Strategy Statement for 2017-18, including treasury management indicators, on 22 February 2017 (report A/16/24 refers).

1.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management requires the council, as a minimum, to produce a mid-year report reviewing its treasury management activity undertaken so far against the approved strategy for the year and to consider any significant issues which may impact upon the function for the remainder of the year. This includes reviewing the approved treasury management indicators. This report meets CIPFA's reporting requirement.

1.3 The authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2. ECONOMIC UPDATE AND INTEREST RATE OUTLOOK

2.1 A summary of the key factors affecting the UK economy for 2017-18 is shown below and is based on information supplied by Arlingclose Limited, the council's Treasury Adviser:-

- i) The UK's economic outlook remains uncertain as the government continues to negotiate the country's exit from the European Union.
- ii) UK business confidence is currently muted due to Brexit concerns and is expected to remain so in the short to medium term while the exit negotiations take place.
- iii) UK Gross Domestic Product (GDP) has softened due to subdued consumer spending because of higher inflation and a contraction in real wages and is forecast to be around 1.6% for 2017 and 1.4% in 2018.
- iv) UK Inflation (CPI) rose to 2.9% in May 2017, fell to 2.6% in July but increased back to 2.9% in August. Inflation is expected to remain above the Bank of England's Monetary Policy Committee's (MPC) 2% target for the year and, in part, is being impacted on higher cost of imports following the weakening of sterling over the past year.
- v) The impact of inflation and a contraction in real wage on consumers means savings rates are at an all-time low. When inflation eventually eases, savings will begin to be replenished, further diverting money away from consumption.
- vi) The outlook for the global economy, although mixed, appears reasonably steady overall. Eurozone growth has picked up and remains robust, US growth may cool although it should remain satisfactory. China's growth rate was ahead of expectations but seems likely to weaken.
- vii) Geo-political risks remain elevated helping to anchor safe-haven cash flows into the UK government bond (gilt) market.

2.2 Interest Rate Outlook

2.2.1 Given the UK's weaker economic conditions, Arlingclose's central case is for the MPC to leave the Bank Base Rate at its historically low rate of 0.25% for the remainder of the current financial year and also for 2018/19 and 2019/20. However, the minutes of the MPC's meeting held on 14 September 2017 suggest that the first rate rise may happen much sooner, possibly by the end of the current financial year if inflation remains around its current level and productivity does not weaken. The general expectation is when the Bank Rate does start to rise it will be in shallow steps over time.

2.2.2 Arlingclose's central case for gilt yields is for them to remain broadly stable in 2017/18 and 2018/19 before beginning to rise slowly after that. Interest rates on loans from the Public Works Loan Board (PWLB) are directly linked to the gilt yields.

2.2.3 The following table, based on information from Arlingclose, is the latest forecast of interest rates for the short and medium term. PWLB rates are for their standard new maturity loans.

	Apr 17 – Aug 17 average	Dec 17	Mar 18	2018/19 average	2019/20 average
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%
Investments					
3 month LIBID	0.18%	0.25%	0.25%	0.30%	0.30%
12 month LIBID	0.52%	0.50%	0.50%	0.58%	0.89%
Borrowing					
5 year PWLB	1.47%	1.39%	1.39%	1.39%	1.47%
10 year PWLB	2.13%	1.95%	1.90%	1.85%	1.88%
20 year PWLB	2.78%	2.57%	2.48%	2.49%	2.60%

2.2.4 With the authority's borrowing portfolio currently being all of fixed rate debt, it is its investment portfolio that is much more exposed to changes in interest rates.

3. LOCAL CONTEXT

3.1 On 31 March 2017, the authority had net borrowing of £25.2m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £m
General Fund CFR	18.5
HRA CFR	47.4
Total CFR	**65.9**
Less: Usable reserves	(37.2)
Less: Working capital	(3.5)
Net borrowing	**25.2**

3.2 The authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31 August 2017 and the change since the 31 March 2017 is show in table 2 below.

Table 2: Treasury Management Summary

	31.3.17 Balance £m	Movement £m	31.8.17 Balance £m	31.8.17 Rate %
Long-term borrowing	57.8	(1.5)	56.3	3.4%
Short-term borrowing	1.7	-	1.7	8.3%
Total borrowing	**59.5**	**(1.5)**	**58.0**	**3.6%**
Long-term investments	(6.9)	(6.8)	(13.7)	2.2%
Short-term investments	(22.5)	6.8	(15.7)	0.5%
Cash and cash equivalents	(4.9)	(9.0)	(13.9)	0.3%
Total investments	**(34.3)**	**(9.0)**	**(43.3)**	**1.0%**
Net borrowing	**25.2**	**(10.5)**	**14.7**	

3.3 The reduction of £1.5m in borrowing covers planned repayments of loans to the PWLB. The overall increase of £9m in investments is not unexpected and broadly represents the in-year benefit of cash flows from local taxation. Based on medium term cash flow projections, long term investments, investments made for a period of greater than 1 year, have increased by £6.8m. This includes a £5m investment made with the London Borough of Croydon. The cash and cash equivalent investments, investments where the council can normally access its cash immediately or within a short notice period, have increased by £9m. Although not untypical at this stage of the year, the amount held as cash and cash equivalents is more than required for immediate liquidity needs and the position is being closely monitored.

4. BORROWING STRATEGY AND ACTIVITY 2017/18

4.1 At 31 August 2017, the Authority held £58.0m of loans, a reduction of £1.5m compared to 31 March 2017, as part of its strategy for funding previous years' capital programmes. Following the introduction of the Housing Revenue Account (HRA) Self-Financing regime in 2012 the authority operates a two pool debt approach allocating its loans between the General Fund and HRA. The borrowing position at 31 August 2017 compared to 31 March 2017 is shown in table 3 below.

Table 3: Borrowing Position – Two Pool Debt Approach

	31.3.17 Balance £m	**Net Movement £m**	**31.8.17 Balance £m**	**31.8.17 Rate %**
General Fund				
Public Works Loan Board	8.4	(0.7)	7.7	5.25%
Local authorities (long-term)	0.5	-	0.5	2.32%
Total General Fund borrowing	8.9	(0.7)	8.2	5.09%
Housing Revenue Account				
Public Works Loan Board	50.6	(0.8)	49.8	3.36%
Total HRA borrowing	50.6	(0.8)	49.8	3.36%
Total borrowing	**59.5**	**(1.5)**	**58.0**	**3.60%**
CFR	**65.9**	**-**	**65.9**	
Under-borrowed	**(6.4)**	**(1.5)**	**(7.9)**	

4.2 The weighted average maturity of the overall loans portfolio at 31 August 2017 was 14.2 years.

4.3 The authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the authority's long-term plans change being a secondary objective.

4.4 In furtherance of these objectives no new borrowing has so far been undertaken in 2017/18, while existing loans have been allowed to mature without replacement. This strategy has enabled the authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

4.5 The “cost of carry” analysis performed by Arlingclose has not indicated any value in borrowing in advance for future years’ planned expenditure and therefore none has been taken or, at this stage, is planned to be for the remainder of the current financial year.

4.6 **Debt Rescheduling** – Opportunities to undertake debt rescheduling have been monitored during the year in conjunction with Arlingclose. However, as expected, PWLB interest rates have not reached a level where it would be beneficial to undertake debt rescheduling to create a net saving in borrowing costs. The position is not expected to change for the remainder of the current financial year.

5. INVESTMENTS

5.1 The council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the period to 31 August 2017, the authority’s investment balance has ranged between £34.3m and £52.1m due to timing differences between income and expenditure. The average investment balance held to 31 August 2017 was £43.5m. The investment position during the period to 31 August 2017 is shown in table 4 below. A list of the individual investments held at 31 August 2017 is shown in appendix 1 to this report.

Table 4: Investment Position

	31.3.17 Balance £m	**Net Movement £m**	**31.8.17 Balance £m**	**Average Return**
Banks & building societies (unsecured)	13.0	(6.6)	6.4	0.64%
Covered bonds (secured)	3.3	1.9	5.2	0.53%
Government (incl. local authorities)	8.0	5.0	13.0	0.90%
Money Market Funds	4.8	6.7	11.5	0.22%
Other Pooled Funds	5.2	2.0	7.2	3.60%
Total investments	**34.3**	**9.0**	**43.3**	**1.00%**

5.2 The weighted average maturity of the investment portfolio at 31 August 2017 was 196 days.

5.3 Both the CIPFA Code and government guidance require the authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.4 In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the authority has further diversified into more secure asset classes. A net £6.6m that is available for longer-term investment was moved from bank and building society deposits into investments with other local authorities and covered bonds. Additionally, £2m of cash balances has been invested in a short dated pooled bond fund that has a typical investment duration of up to 6 months. As a result, investment risk was more diversified than the previously. The average income return in 2017/18 has fallen by 0.31% compared to that being received at 31 March 2017 due to both the move towards lower risk investments and the continued impact of a the low interest rate environment. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in table 5 below.

Table 5: Investment Benchmarking

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**WAM* (days)**	**Income Return**
Shepway					
31.03.2017	4.3	AA-	61%	141	1.35%
30.06.2017	3.6	AA-	51%	231	1.04%
Similar LAs	4.3	AA-	66%	118	1.13%
All LAs	4.3	AA-	65%	45	0.89%

5.5 The investment benchmarking, which is a snapshot at the end of each quarter, demonstrates the authority had a lower risk profile than both its peer group and the wider local authority population at 30 June 2017 (measured against other Arlingclose clients only). However the Authority's return was slightly lower than its peer but higher than the overall population.

5.6 Given the increasing risk and continued low returns from short-term unsecured bank investments and in line with advice from Arlingclose, it is the council's aim to continue to diversify into more secure and/or higher yielding asset classes during the remainder of this financial year and beyond.

5.7 The authority's best performing investment in 2017/18 remains its £5.2m externally managed pooled property fund. The CCLA Local Authorities' Property Fund generated a total net income return of £61k or 4.7% for the quarter to 30 June 2017 and the capital value of the Authority's investment increased during the same period by 1% or £50k. The authority's investment in the fund has grown by approximately 4.5% or £228k compared to its original investment of £5m. Because this fund has no defined maturity date, but is available for withdrawal after a notice period, its performance and continued suitability in meeting the authority's investment objectives is regularly reviewed. In light of the fund's continued strong income return and the authority's latest cash flow forecasts, investment in this fund has been maintained for the year.

6. CREDIT RISK AND COUNTERPARTY UPDATE

6.1 Credit Risk

6.1.1 The structure of the authority's approved credit risk methodology for new investments is in line with that suggested by Arlingclose. Based on this approved methodology, Arlingclose provides the Authority with a regular up to date list of eligible counterparties to use and also notifies it immediately of any changes required to this.

6.2 Counterparty Update

6.2.1 UK bank credit default swap prices (the banking sector's insurance against default) have continued their positive downward trend during the first part of 2017/18, reaching a 3 year low during the summer. Bank share prices have not moved in any particular pattern during this period.

6.2.2 There have been a small number of credit rating changes to 31 August 2017. The main ones affecting the authority's investment counterparty list are summarised below:-

i) Standard Chartered Bank's long term rating downgraded by Moody's one notch to A1 from Aa3 due to an expectation that their profitability will be lower following efforts to de-risk their balance sheet.

ii) Major Canadian banks' long term ratings downgraded by Moody's due to an expectation of a more challenging operating environment potentially leading to a deterioration in banks asset quality. Arlingclose had already undertaken a bail in analysis for Canadian banks which resulted in them reducing their recommended maximum investment duration for new investments from 13 months to 6 months.

iii) Major Australian banks' long term ratings downgraded one notch by Moody's to Aa3 from Aa2 due to concerns over their exposure to rising risks from the Australian housing market and the increased proportion of lending to the residential market.

6.2.3 In anticipation of the impact of the UK banking reforms where banks retail operations will be ring-fenced and separated from the remainder of their activities, expected to be implemented over the next year, Arlingclose has reduced the recommended duration for new deposits at Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months. There is some uncertainty which banking entities the Authority will be dealing with once ring-fencing is implemented.

6.2.4 In late September 2017 Moody's downgraded its long term sovereign rating for the UK by one notch to Aa2 from Aa1 and, at the same time, revised their outlook to stable from negative. The main reason behind Moody's rating change is their expectation the UK will suffer from weaker public finances going forward. Arlingclose remains comfortable with their existing investment advice for UK financial institutions although they have warned that Moody's are likely to issue a similar downgrade to UK banks and building societies in the near future.

7. FINANCIAL SUMMARY

7.1 The projected outturn for the net cost of treasury management to the General Fund in 2017/18 is summarised in table 6 below:

Table 6: Financial Summary

	2017/18 Original Estimate	2017/18 Projection	Variance
	£'000	£'000	£'000
Interest on all Borrowing	2,114	2,114	-
Related HRA Charge	(1,676)	(1,676)	-
General Fund Borrowing Cost	**438**	**438**	**-**
Investment Income	(357)	(418)	(61)
HRA Element	52	44	(8)
Net General Fund Investment Income	**(305)**	**(374)**	**(69)**
Net General Fund Borrowing Cost	**133**	**64**	**(69)**

7.2 The projected reduction in the net borrowing cost to the General Fund is mainly due to additional investment income expected to be received from higher than anticipated cash reserves and balances held during 2017/18.

7.3 Opportunities to reduce the net cost of treasury management will continue to be sought as part of the pro-active management to the council's debt and investment portfolios by its officers in consultation with the Portfolio Holder.

8. COMPLIANCE REPORT

8.1 The Corporate Director for Organisational Change is pleased to report that all treasury management activities undertaken to 31 August 2017 complied fully with the CIPFA Code of Practice and the authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	Maximum to 31.8.17	31.8.17 Actual	2017/18 Limit	Complied
Any single organisation, except UK Government	£5m	£5m	£5m each	✓
UK Central Government	nil	nil	Unlimited	✓
Any group of funds under the same management	nil	nil	£5m per group	✓
Negotiable instruments held in a broker's nominee account	£6.3m	£5.3m	£10m per broker	✓
Foreign countries	nil	nil	£5m per country	✓
Registered Providers	nil	nil	£10m in total	✓
Unsecured investments with Building Societies	nil	nil	£5m in total	✓
Loans to unrated corporates	nil	nil	£5m in total	✓
Money Market Funds	£24.1m	£11.5m	£25m in total	✓
Any group of pooled funds under the same management	£7.2m	£7.2m	£10m per manager	✓

8.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	Maximum to 31.8.17	31.8.17 Actual	2017/18 Operational Boundary	2017/18 Authorised Limit	Complied
Borrowing	59.5	58.0	65.0	69.9	✓
PFI & finance leases	-	-	-	-	✓
Total debt	**59.5**	**58.0**	**65.0**	**69.9**	✓

8.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

9. TREASURY MANAGEMENT INDICATORS

9.1 The authority measures and manages its exposures to treasury management risks using the following indicators.

9.2 **Security:** The authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating *or* of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.8.17 Actual	**2017/18 Target**	**Complied**
Portfolio average credit rating	AA-	A	✓

9.3 **Liquidity:** The authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	31.8.17 Actual	**2017/18 Target**	**Complied**
Total cash available within 3 months	£21.9m	£5m	✓

9.4 **Interest Rate Exposures**: This indicator is set to control the authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed was:

	31.8.17 Actual	**2017/18 Limit**	**Complied**
Upper limit on fixed interest rate exposure	£58m	£63m	✓
Upper limit on variable interest rate exposure	£0m	£0m	✓

9.4.1 Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

9.5 **Maturity Structure of Borrowing:** This indicator is set to control the authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.8.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	2.9%	30%	0%	✓
12 months and within 24 months	0.7%	40%	0%	✓
24 months and within 5 years	6.4%	50%	0%	✓
5 years and within 10 years	36.2%	80%	0%	✓
10 years and above	53.8%	100%	0%	✓

9.5.1 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

9.6 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	£8.5m	£8.5	£3.5
Limit on principal invested beyond year end	£20m	£15m	£10m
Complied	✓	✓	✓

Note – Although the investment with the CCLA LA Property Fund is viewed as a long term, its terms allow the authority to seek principal redemption on a monthly basis. Therefore this investment is not included within the above indicator.

10. MiFID II

10.1 Currently the authority is classified as a professional client. As a result of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II) from 3rd January 2018 financial services firms will be obliged to treat all local authority clients as retail clients unless they have elected to opt to professional client status and meet certain conditions. These conditions are that the authority's investment portfolio exceeds £10m and either it has carried out more than forty transactions in the relevant market in the past year or that the person carrying out the transactions has at least one year's experience working in the financial sector. In addition there are qualitative criteria around financial services firms assessing that the authority has sufficient knowledge and expertise.

10.2 If the authority does not opt up to professional status it may gain extra protections. However it is also likely that the authority will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, t-bills, bonds, shares and financial advice.

10.3 The authority expects to meet the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status.

11. CONCLUSIONS

11.1 The UK's economic outlook means interest rates are expected to remain broadly unchanged for the remainder of the current financial year.

11.2 The authority will maintain its strategy keeping borrowing and investments below their underlying levels (internal borrowing) in order to reduce risk and keep interest costs lower.

11.3 The loan and investment portfolios will continue to be closely monitored to ensure they efficiently contribute towards the authority's medium term financial strategy.

11.4 The authority's treasury management activities undertaken to 31 August 2017 complied fully with the approved Treasury Management Strategy.

12. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

12.1 Legal Officer's Comments (DK)

There are no legal implications arising directly out of this report. Part 1 of the Local Government Act 2003 gives the Council the power to borrow and to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. It also requires the Council to act prudently when carrying out these activities, including an obligation to determine and keep under review how much money it can borrow. In addition, the Council is required by the Local Government Finance Act 1992 to produce a balanced budget. The Council must bear in mind its fiduciary duties to local tax payers and its continuing obligation to ensure it has funding to perform the statutory undertakings it has to comply with.

12.2 Finance Officer's Comments (LW)

Prepared by Financial Services, no further comments.

12.3 Diversities and Equalities Implications

The report does not cover a new service or policy or a revision of either and therefore does not require an Equality Impact Assessment.

13. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting:

Lee Walker, Group Accountant
Telephone: 01303 853593
E-mail: lee.walker@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

None

Appendices:
Appendix 1 – Investments held at 31 August 2017

APPENDIX 1 – INVESTMENTS HELD AT 31 AUGUST 2017

Counterparty	Amount £	Terms	Interest Rate %
Banks and Building Societies (unsecured)			
Lloyds	3,000,000	1 Year Fixed to 15/02/18	0.90
Goldman Sachs International Bank	3,000,000	95 day Notice account	0.46
National Westminster	424,000	Business Reserve instant access	0.01
Covered Bonds (Secured)			
Royal Bank Scotland	1,000,842	Covered Floating Rate Note to 15/05/20	0.54
Royal Bank Scotland	2,505,136	Covered Floating Rate Note to 15/05/20	0.50
Yorkshire Building Society	1,740,167	Covered Fixed Rate Bond to 12/04/18	0.57
Government			
Peterborough City Council	3,000,000	2 Year Fixed Deposit to 29/09/17	0.92
Lancashire County Council	5,000,000	2 Year Fixed Deposit to 16/11/17	1.00
London Borough Croydon	5,000,000	2 Year Fixed Deposit to 31/05/19	0.80
Money Market Funds			
Standard Life MMF	5,000,000	Money Market Fund instant access.	0.22
BNP Paribas MMF	5,000,000	Money Market Fund instant access.	0.23
Legal & General MMF	1,449,000	Money Market Fund instant access.	0.20
Other Pooled Funds			
CCLA Property Fund	5,187,015	Commercial Property Fund	*4.70
JP Morgan	2,000,000	Sterling Managed Reserve	**0.65
Total Investments	**43,306,160**		
* Net of Fees			
** Indicative Variable Rate			

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