Folkestone & Hythe District Council

Agenda

Meeting: **Cabinet**
Date: **17 October 2018**
Time: **5.00 pm**
Place: **Council Chamber - Civic Centre Folkestone**

To: **All members of the Cabinet**

All Councillors for information

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

This meeting will be webcast live to the council's website at https://folkestone-hythe.public-i.tv/core/portal/home. Although unlikely, no guarantee can be made that Members of the public in attendance will not appear in the webcast footage. It is therefore recommended that anyone with an objection to being filmed does not enter the council chamber.

1. **Apologies for Absence**

2. **Declarations of Interest**

   Members of the Council should declare any interests which fall under the following categories. Please see the end of the agenda for definitions*:

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

3. **Minutes (Pages 5 - 10)**

   To consider and approve, as a correct record, the minutes of the meeting held on 12 September 2018.

Queries about the agenda? Need a different format?

Contact Jemma West – Tel: 01303 853369
Email: committee@folkestone-hythe.gov.uk or download from our website
www.folkestone-hythe.gov.uk

Date of Publication: Tuesday, 9 October 2018

4. **Annual Audit Letter 2017/18 (Pages 11 - 26)**

This report considers Grant Thornton's Annual Audit Letter which summarises the findings from the 2017/18 audit.

5. **Treasury Management monitoring report 2018/19 (Pages 27 - 42)**

This report provides an update on the council's treasury management activities that have taken place during 2018/19 against the agreed strategy for the year. The report also provides an update on the treasury management indicators approved by Council earlier this year.

6. **Medium Term Financial Strategy 2019/20 to 2022/23 (Pages 43 - 68)**

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 2023. 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. **Street naming and numbering Policy (Pages 69 - 84)**

This report provides an update on the Street Naming and Numbering policy adopted in April 2017, and suggestions for potential improvements to assist with the running of the service.

8. **Waste and Street cleansing project 2021 (Pages 85 - 102)**

The report provides an update on the Waste 2021 Project now that the options appraisal stage of the project has been completed. The report sets out recommendations about the future collection scheme and how the service could be delivered.

*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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Agenda Item 3

Minutes

Cabinet

Held at:	Council Chamber - Civic Centre Folkestone
Date	Wednesday, 12 September 2018
Present	Councillors Mrs Ann Berry, John Collier, Malcolm Dearden, Alan Ewart-James, David Godfrey, Mrs Jennifer Hollingsbee, Rory Love, David Monk and *Stuart Peall
Apologies for Absence	Councillors Dick Pascoe
Officers Present:	Ritchie Bennett (HR Business Partner - Performance), *Amandeep Khroud (Head of Democratic Services and Law), Tim Madden (Corporate Director - Customer, Support and Specialist Services), Susan Priest (Head of Paid Service), Matt Rain (Communications Manager), Sarah Robson (Head of Communities), Charlotte Spendley (Head of Finance), Adrian Tofts (Planning Policy Manager), Jemma West (Senior Committee Services Officer) and David Whittington (Planning Policy Team Leader) (* For part of the meeting)

NOTE: All decisions are subject to call-in arrangements. The deadline for call-in is Friday 21 September 2018 at 5pm. Decisions not called in may be implemented on Monday 24 September 2018.

21. **Declarations of Interest**

There were no declarations at the meeting.

22. **Minutes**

The minutes of the meetings held on 11 and 18 July 2018 were submitted, approved and signed by the Chairman.

23. **General Fund Revenue Budget Monitoring - 1st Quarter, 2018/19**

The monitoring report provided a projection of the end of year financial position of the General Fund revenue budget, based on expenditure to the 31 July 2018.

The report had been considered by the Overview and Scrutiny Committee at their meeting held on 11 September 2018. The minutes of the meeting had been circulated to Cabinet Members.

Proposed by Councillor Dearden,
Seconded by Councillor Hollingsbee; and

RESOLVED:
That report C/18/30 be received and noted.

(Voting figures: For 8; Against 0, Abstentions 0).

REASONS FOR DECISION:
Cabinet needs to be informed of the council's General Fund revenue budget position and take appropriate action to deal with any variance from the approved budget.

24. General Fund Capital Budget Monitoring Position 2018/19

The monitoring report provided a projection of the current financial position for the General Fund capital programme, based on expenditure to 31 July 2018 and identified variances compared to the latest approved budget.

The report had been considered by the Overview and Scrutiny Committee at their meeting held on 11 September 2018. The minutes of the meeting had been circulated to Cabinet Members.

Proposed by Councillor Dearden,
Seconded by Councillor Godfrey; and

RESOLVED:
That report C/18/28 be received and noted.

(Voting figures: For 8; Against 0; Abstentions 0).

REASONS FOR DECISION:
Cabinet needs to be kept informed of the General Fund capital programme position and take appropriate action to deal with any variance from the approved budget.

25. Housing Revenue Account and Capital Budget Monitoring 2018/19 - 1st Quarter

The monitoring report provided a projection of the end of year financial position for the Housing Revenue Account (HRA) revenue expenditure and HRA capital programme based on net expenditure to 30 June 2018.

The report had been considered by the Overview and Scrutiny Committee at their meeting held on 11 September 2018. The minutes of the meeting had been circulated to Cabinet Members.

Proposed by Councillor Ewart-James;
Seconded by Councillor Collier; and

RESOLVED:
That Report C/18/31 be received and noted.

(Voting figures: For 8; Against 0; Abstentions 0).

REASONS FOR DECISION:
Cabinet needs to be kept informed of the Housing Revenue Account position and take appropriate action to deal with any variance from the approved budget and be informed of the final 2018/19 position.

26. **Treasury Management Annual report 17/18**

The report reviewed the council's treasury management activities for 2017/18, including the actual treasury management indicators. The report met the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

The report had been considered by the Overview and Scrutiny Committee at their meeting held on 11 September 2018. The minutes of the meeting had been circulated to Cabinet Members.

Proposed by Councillor Dearden,
Seconded by Councillor Hollingsbee; and

RESOLVED:
To receive and note Report C/18/29.

(Voting figures: For 8; Against 0; Abstentions 0).

REASONS FOR DECISION:
Both CIPFA's Code of Practice on Treasury Management in the Public Services and their Prudential Code for Capital Finance in Local Authorities, together with the Council's Financial Procedure Rules, require that an annual report on treasury management is received by the Council after the close of the financial year.

27. **Digital Strategy 2018 - 2023**

The Digital Strategy summarised the direction the Council is taking with regard to offering a greater range of digital services for our residents and businesses and introducing new ways of working for staff.

The Cabinet Member for Customers, Communications and Digital Delivery gave his thanks to the team for their work on the Strategy.

The report had been considered by the Overview and Scrutiny Committee at their meeting held on 11 September 2018. The minutes of the meeting had been circulated to Cabinet Members.

Proposed by Councillor Love,
Seconded by Councillor Godfrey; and

RESOLVED:

1. **That report C/18/26 be received and noted.**
2. **That the Folkestone & Hythe District Council Digital Strategy 2018-23 be adopted.**

(Voting figures: For 8; Against 0; Abstentions 0).

REASONS FOR DECISION:
Cabinet was recommended to adopt the Digital Strategy 2018-2023 for the following reasons:

- Implementing the Digital Strategy will provide clear direction for service areas to work towards in the development of their service delivery models, guiding their choices about software and devices to help improve efficiency.
- Supports a consistent online experience for customers when transacting online with the Council.
- Provides staff with a clearer picture of how their working environment is going to evolve and change.

28. **Quarter 1 Performance Report 2018/19**

The report provided an update on the Council’s performance for the first quarter of 2018/19, covering 1 April 2018 to 30 June 2018. The report enabled the Council to assess progress against the approved key performance indicators for each service area.

Key performance indicators will be monitored during 2018/19 and reported to CLT and Members quarterly.

The report had been considered by the Overview and Scrutiny Committee at their meeting held on 11 September 2018. The minutes of the meeting had been circulated to Cabinet Members.

Proposed by Councillor Monk,
Seconded by Councillor Love; and

RESOLVED:

1. That report C/18/25 be received and noted.
2. That the performance information for Quarter 1 be noted.

(Voting figures: For 8; Against 0; Abstentions 0).

REASONS FOR DECISION:
Cabinet was asked to agree the recommendations set out because:
a) The Council is committed to monitoring performance across all of its service areas to ensure progress and improvement is maintained.
b) The Council needs to ensure that performance is measured, monitored and the results are used to identify where services are working well and where there are failings and appropriate action needs to be taken.

29. **Equality and Diversity Annual report**

The Equality Act 2010 places a statutory duty on the council to prepare and publish information annually to demonstrate compliance with the Public Sector Equality Duty. The draft Equality & Diversity Annual Report is therefore presented for consideration and approval prior to publication.

The report had been considered by the Overview and Scrutiny Committee at their meeting held on 11 September 2018. The minutes of the meeting had been circulated to Cabinet Members.

Proposed by Councillor Mrs Hollingsbee,
Seconded by Councillor Ewart-James; and

RESOLVED:
1. That report C/18/27 be received and noted.
2. That the draft Equality & Diversity Annual Report outlined in Appendix 1 be approved.

(Voting figures: For 8; Against 0; Abstentions 0).

REASONS FOR DECISION:
The council needs to ensure that it meets the statutory requirements of the Public Sector Equality Duty. The report demonstrated the council’s commitment to positively contributing to the advancement of equality and good relations, summarises the activities undertaken in 2016/17 to promote equality, diversity, and inclusion, and highlights the positive measures that have been taken to remove barriers, improve access to services, and increase customer satisfaction.

30. **St Mary in the Marsh Neighbourhood Development Plan**

The report set out the recommendations of the independent Examiner’s report, the proposed modifications to the St Mary in the Marsh Neighbourhood Development Plan and outlines the next stage in the process, the Referendum.

Proposed by Councillor Collier,
Seconded by Councillor Mrs Hollingsbee; and

RESOLVED:

1. **That report C/18/32 be received and noted.**
2. **That the proposed modifications to the St Mary in the Marsh Neighbourhood Plan be agreed;**
3. **That the Plan, with modification, meets the basic conditions specified by statute and complies with the provision made by or under Section 38A and 38B of the Planning and Compulsory Purchase Act 2004; and**
4. **That the decision and to undertake a Referendum within the designated Neighbourhood Area be publicised.**

(Voting figures: For 9; Against 0; Abstentions 0).

During consideration of the report, Councillor Peall was in attendance at the meeting.

REASONS FOR DECISION:
The District Council has now received the Examiner's Report into the St Mary in the Marsh Neighbourhood Development Plan and this sets out proposed modifications to meet the 'basic conditions' set out in Government legislation. The District Council, as Local Planning Authority, must now consider these and decide what action to take. Following this decision, a Decision Statement must be published and the District Council must then organise and hold a referendum.

Folkestone & Hythe District Council

This report will be made public 9 October 2018

Report number **C/18/37**

To: Cabinet
Date: 17 October 2018
Key Decision: Non-Key Decision
Head of Service: Charlotte Spendley, Head of Finance
Cabinet Member: Councillor Malcolm Dearden – Cabinet Member for Finance

SUBJECT: Annual Audit Letter 2017/18

SUMMARY: This report considers Grant Thornton's Annual Audit Letter which summarises the findings from the 2017/18 audit.

REASONS FOR RECOMMENDATION:
Cabinet is asked to note the report as set out below because the council is required to receive and note the findings and summary of Grant Thornton's annual assessment of the Council. The report was also considered by the Audit and Governance Committee on 26 September 2018.

RECOMMENDATIONS:
1. To receive and note report C/18/37.
2. To consider Grant Thornton's Annual Audit Letter 2017/18.

1. INTRODUCTION AND BACKGROUND

1.1 The Annual Audit Letter 2017/18 summarises the findings from Grant Thornton's audit of the council. These findings have previously been set out in detail in Grant Thornton's report that was considered by Audit and Governance Committee on 30 July 2018 (Report AuG/18/07 refers). The Audit and Governance Committee also considered the Audit Letter which summarises the position on 26 September 2018 (Report AuG/18/10 refers).

1.2 Cabinet is asked to consider Grant Thornton's Annual Audit Letter 2017/18.

2. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

2.1 **Legal Officer's Comments** (DK)
There are no legal implications arising directly out of this report.

2.2 **Finance Officer's Comments** (CS**)**
There are no financial implications arising directly out of this report.

2.3 **Diversity and Equalities Implications** (CS)
There are no diversity and equality implications arising directly out of this report.

3. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Charlotte Spendley, Head of Finance
Tel: 01303 853420 / 07935 517986
E-mail: charlotte.spendley@folkestone-hythe.gov.uk

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

None

Appendices:

Appendix 1: Grant Thornton's Annual Audit Letter 2017/18

Grant Thornton

Annual Audit Letter

Year ending 31 March 2018

Folkestone and Hythe District Council

24 August 2018

Contents

Your key Grant Thornton team members are:

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Folkestone and Hythe District Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee, as those charged with governance, in our Audit Findings Report on 30 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £1,784,000, which is 2**%** of the Council's prior year audited gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	We completed limited work on the Council’s consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers. We have completed the majority of work under the Code. To the opinion date we received two enquiries and one objection from electors in relation to the 2017/18 financial statements. We were unable to certify the completion 2017/18 audit when we gave our audit opinion, due to the outstanding elector objection which is still being considered.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.
Certificate	We are unable to certify that we have completed the audit of the accounts of Folkestone and Hythe District Council until we resolve the outstanding elector objection which is still being considered.

Working with the Council

During the 2017/18 financial year we have:

- Worked closely with the new officers in the Council's Finance Team to complete and efficient audit for the earlier 31 July 2018 submission deadline
- Sharing our insight – we provided regular committee updates covering best practice. We also shared our thought leadership reports
- Carried out detailed work in responding to the elector enquiries and objection

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality
In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £1,784,000, which is 2**%** of the Council's prior year audited gross expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower threshold of £89,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the Narrative Report and the Annual Governance Statement to check they are consistent with our understanding of the group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Folkestone and Hythe District Council, mean that all forms of fraud are seen as unacceptable Therefore we did not consider this to be a significant risk for the Council.	Our audit work did not identify any issues in respect any issues in respect of improper revenue recognition.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . We identified management override of controls as a risk requiring special audit consideration.	Our audit work included but not restricted to: • gaining an understanding of accounting estimates, judgements and decisions made by management and considered their reasonableness • obtaining a full list of journal entries, identifying and testing unusual journal entries for appropriateness and • evaluating the rationale for any changes in accounting policies or significant unusual transactions	Our audit work did not identify any issues in respect of management override of controls.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment The Council revalues its property, plant and equipment regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	Our audit work included but was not restricted to: • review of the Council's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • considering the competence, expertise and objectivity of any management experts used • corresponding with the Council's valuer on the basis on which the valuation is carried out and challenge of the key assumptions • reviewing and challenging the information used by the Council's valuer to ensure it is robust and consistent with our understanding • testing revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluating the assumptions made by you for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value	We found one issue regarding the b/f asset register. There was a historic mismatch between the fixed asset register and the general ledger which did not affect the balance sheet net book value of assets but caused a discrepancy in the cost, accumulated depreciation and other movements figures in Note 14. All amounts did ultimately reconcile to the same net book value that was reflected in the balance sheet in the draft accounts but this adjustment ensured the disclosure more accurately reflects the Council's full fixed asset register. We reported the full details of the changes to the accounts in Appendix B to our Audit Findings Report. Our audit work did not otherwise identify any issues in respect of the valuation of property, plant and equipment.
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	Our audit work included but was not restricted to: • identifying the controls put in place by you to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • evaluating the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. We have gained an understanding of the basis on which the valuation was carried out • undertaking procedures to confirm the reasonableness of the actuarial assumptions made • checking the consistency of the pension fund asset and liability and disclosures in the notes to the financial statements with the actuarial report from the Council's actuary	Our audit work did not identify any issues in respect of the pension fund net liability.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the group's financial statements on 31 July 2018, complying with the national deadline.

Preparation of the accounts

The group presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Governance Committee on 30 July 2018.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

To the opinion date we received two enquiries and one objection from electors in relation to the 2017/18 financial statements. We were unable to certify the completion 2017/18 audit when we gave our audit opinion, due to the outstanding elector objection which is still being considered.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the accounts until we resolve the objection in relation de the 2017/18 accounts which is being considered. We are satisfied that the matter is not material to the financial statements.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
Medium Term Financial Resilience The current Medium Term Financial Strategy was approved in September 2016 and was updated in October 2017. Changes to the Local Government financial settlement to 2019/20 resulting in decreases in the Settlement Funding Assessment and New Homes Bonus grant funding mean that the cumulative savings gap has increased by £3.5m over the 2016 assessment. The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council. You have savings plans in place including: - Service redesign and reviews around the future operating model - Savings through retendering of the waste contract - Generation of additional revenues through capital investment and Oportunitas. We will review the Council's Medium Term Financial Plan, including the robustness of assumptions. We will review savings plans and revenue generating schemes. We will discuss the Council's plans and outcomes with management, as well as reviewing how finances are reported to Councillors.	The Council's Medium Term Financial Strategy (MTRS) is the key financial planning document which sets out the financial implications of the Council's corporate strategy over 5 years for the purposes of decision making and for you to provide assurance that you have a sustainable position in place to deliver service priorities and other investments in the local area. The Council established it's Medium Term Financial Strategy by using the current year 2017/18 year budget as a baseline along with known variances from the outturn. The 2018/19 budget work completed feeds into the extrapolation of this performance through to 2022 by the application of known and estimated increases to income and expenditure. We have analysed the Council's detailed breakdown of anticipated and estimated reductions/increases in income and expenditure and 2018/19 and subsequent periods. We discussed the key items with management and looked at the key assumptions in the MTFS. Through this work we concluded that they were realistically and prudently estimated. You identified a savings requirement of £6.525 million through to 2020/21 to achieve balanced positions and maintain the general fund at its current level. This financial position has been significantly impacted by pressures around the waste contract and the New Homes Bonus. Management have undertaken work to address the funding gap, primarily by developing plans to: - Take advantage of commercial opportunities wherever possible - Develop alternative income streams and maximise existing ones - Develop and implement transformational plans for efficiencies, including potential implementation of a new operating model - Ensuring financial discipline based on previous budget performance - Use of reserves in a sustainable and prudent manor Savings plans are monitored through budget monitoring processes and management discuss plans which were falling behind and mitigations. Based on the Council's track record of successfully achieving savings targets, and the reasonableness of the underlying planning process and assumptions, you have appropriate planning and monitoring arrangements to achieve the current savings requirement in the MTFS. Based on our work we have found no evidence that the Council does not have proper arrangements and therefore the risk is mitigated.

Value for Money conclusion

Key Value for Money Risks (continued)

Risks identified in our audit plan	Findings and conclusions
Delivering the full potential on capital plans The development of the Otterpool Park Garden Town, alongside smaller scale capital plans, has the potential to make a long term positive contribution to the finances of the Council as well as a long term impact on the area. These plans will involve significant levels of additional borrowing and involve a complex set of stakeholders, participants and potential beneficiaries (both social and financial). The Council is currently laying out potential models for delivery of the large scale scheme alongside obtaining planning permissions. In December 2017 you appointed a panel of experts to provide independent advice, review the framework masterplan and ensure the scheme delivers the full potential. We will review the governance arrangements and decision making processed ongoing around the capital investment plans and how the council continues to reassess and re-measure the public and financial benefits as the plans evolve.	The Council is progressing with this major capital investment plan although it is recognised that these are still at a relatively early stage. During the 2017-18 year you appointed a team of experts to help make sure that Otterpool Park delivers its potential as a garden town. You also have set terms of reference for an Otterpool Park Place Panel to oversee the development, put in place a Framework Masterplan and secured additional funding from Homes England for the ongoing costs of developing the plans. Through our discussions with management and our review of key documents we were able to take assurance that the Council has put in place proper arrangements for making decisions about the capital developments through its reporting to members, and these governance arrangements are understood by key officers. The Council needs to ensure that governance arrangements are maintained as the projects develop and that transparency is maintained. You intend to develop and publish a full business case process for the projects. Based on our work we have found no evidence that the Council does not have proper arrangements and therefore the risk is mitigated.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	7 March 2018
Audit Findings Report	30 July 2018
Annual Audit Letter	24 August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	£60,458	£60,458	£60,458
Housing Benefit Grant Certification	£11,160	TBC (work not yet complete)	£12,938
Total fees	**£71,624**	**TBC**	**£71,624**

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for other services

Service	Fees £
Audit related services	
- Certification of Housing capital receipts grant 2016-17	£2,000

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

Grant Thornton

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This Report will be made public on 9 October 2018

Folkestone & Hythe District Council

Report Number **C/18/34**

To:	**Cabinet**
Date:	**17 October 2018**
Status:	**Non-Key Decision**
Head of service:	**Charlotte Spendley, Head of Finance**
Cabinet Member:	**Councillor Malcom Dearden, Finance**

SUBJECT: **TREASURY MANAGEMENT MONITORING REPORT 2018/19**

SUMMARY: This report provides an update on the council's treasury management activities that have taken place during 2018/19 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/18/34.

1. BACKGROUND

1.1 Full Council approved the Treasury Management Strategy Statement for 2018-19, including treasury management indicators, on 28 February 2018 (report A/17/22 refers).

1.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised in December 2017) 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. The Code also now requires the council to report on its non-treasury investments. 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 2018-19 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 Inflation (CPI) fell to 2.4% in June, a 12 month low, mainly due to the falling out of sterling's depreciation which began in 2016. However, inflation ticked up to 2.5% in July, partly due to higher energy costs feeding through from a 15% increase in oil prices since the start of the year.
iii) The Monetary Policy Committee's (MPC) expects inflation to fall slightly over the remainder of 2018, as sterling's previous depreciation continues to fall out, but to remain above its 2% target for the year.
iv) The unemployment rate has fallen to 4%, its lowest level since 1975.
v) Pay growth rose to 2.9%, but real wages (adjusted for inflation) grew by only 0.4%.
vi) UK Gross Domestic Product (GDP) improved to 0.4% in Q2 of 2018 but is still only expected to be around 1.6% for the year, despite seemingly improving labour market data.
vii) Rising fears of a global trade war following the US decision to impose trade tariffs has seen global equity markets fall, most notably in China.
viii) However, the US Federal Reserve (Fed) remains positive about the US economy and has already raised official interest rates in 2018 in small steps to bring them between 2% and 2.25%. The Fed is also expected to raise rates further later this year and in to 2019.

ix) In August 2018 the MPC increased the UK's Bank Base Rate from 0.5% to 0.75% broadly due to inflationary concerns.

2.2 **Financial Markets**

2.2.1 Gilt yields, which the Public Works Loan Board borrowing rates are linked to, displayed marked volatility so far during 2018. In particular, following Italy's political crisis in late May when government bond yields saw sharp moves similar to those at the height of the European financial crisis with, notably, falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the yield on the 5-year benchmark gilt only rose slightly from 1.13% to 1.14%, the 10-year from 1.37% to 1.39% and the 20-year gilt from 1.74% to 1.85%.

2.2.2 Money markets rates remained low: 1-month, 3-month and 12-month LIBID rates averaged 0.45%, 0.60% and 0.87% respectively over the period.

2.3 **Interest Rate Outlook**

2.3.1 Given the continuing uncertainty over the Brexit negotiations and also the UK's relatively weak economic environment, Arlingclose's central case is for the UK Bank Base Rate to remain unchanged until the Spring of 2019 when it is forecast to rise by 0.25% to 1% with a further rise to 1.25% much later in the year. There is a general expectation that if there were to be further rises to the Bank Rate these will be in shallow steps and over time.

2.3.2 Arlingclose's central case for gilt yields is for them to remain broadly stable for the remainder of 2018/19 with limited rises during 2019/20. However, geo-political events are likely to mean gilt yields will continue to experience periods of volatility.

2.3.3 With the authority's borrowing portfolio currently being virtually 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 2018, the authority had net borrowing of £20.5m 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

	31.3.18 Actual £m
General Fund CFR	18.1
HRA CFR	47.4
Total CFR	**65.5**
Less: Usable reserves	(41.0)
Less: Working capital	(4.0)
Net borrowing	**20.5**

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 2018 and the change since the 31 March 2018 is show in table 2 below.

Table 2: Treasury Management Summary

	31.3.18 Balance £m	**Net Movement £m**	**31.8.18 Balance £m**	**31.8.18 Rate %**
Long-term borrowing	55.9	-	55.9	3.41
Short-term borrowing	1.9	(1.0)	0.9	1.06
Total borrowing	**57.8**	**(1.0)**	**56.8**	**3.38**
Long-term investments	(13.9)	4.9	(9.0)	3.14
Short-term investments	(19.8)	1.8	(18.0)	0.61
Cash and cash equivalents	(3.6)	(12.5)	(16.1)	0.67
Total investments	**(37.3)**	**(5.8)**	**(43.1)**	**1.16**
Net borrowing	**20.5**	**(6.8)**	**13.7**	

3.3 The overall reduction of £5.8m in net borrowing is not unexpected and broadly represents the in-year benefit of cash flows from local taxation. 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 £12.5m to £16.1m. This is higher than is typically required to meet the council's normal liquidity requirements. However, a series of planned new long-term investments totalling £10m, covered in more detail in section 5 of this report, will reduce the level of cash and cash equivalents held.

4. BORROWING STRATEGY AND ACTIVITY 2018/19

4.1 At 31 August 2018, the Authority held £56.8m of loans, a net reduction of £1.0m compared to 31 March 2018, 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 2018 compared to 31 March 2018 is shown in table 3 below.

Table 3: Borrowing Position – Two Pool Debt Approach

	31.3.18 Balance £m	**Net Movement £m**	**31.8.18 Balance £m**	**31.8.18 Rate %**
General Fund				
Public Works Loan Board	7.7	(0.5)	7.2	4.69%
Local authorities (short-term)	0.5	-	0.5	0.50%
Total General Fund borrowing	8.2	(0.5)	7.7	4.42%
Housing Revenue Account				
Public Works Loan Board	49.6	(0.5)	49.1	3.21%
Total HRA borrowing	49.6	(0.5)	49.1	3.21%
Total borrowing	**57.8**	**(1.0)**	**56.8**	**3.38%**
CFR	**65.5**	**-**	**65.5**	
Under-borrowed	**(7.7)**	**(1.0)**	**(8.7)**	

4.2 The weighted average maturity of the overall loans portfolio at 31 August 2018 was 13.7 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 long term borrowing has so far been undertaken in 2018/19, while existing loans of £1.5m have been allowed to mature without replacement. The authority's CFR at 31 August 2018 exceeded its gross borrowing position by £8.7m, i.e. it used internal borrowing from its cash surpluses to meet this difference. This strategy has enabled the authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

4.5 Based on the council's approved capital expenditure plans, the CFR is forecast to increase by about a further £7m during 2018/19. This increase was already anticipated to be met from further internal borrowing from available cash surpluses. However, it now seems likely the expenditure for some of the capital investment schemes planned to me met from prudential borrowing in 2018/19 will now be incurred in 2019/20. This will be covered in more detail in a future report to Cabinet as part of the regular budget monitoring process.

4.6 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.

4.7 A series of short term loans totalling £0.5m have been borrowed from Folkestone Town Council since 1st April 2018 for cash flow purposes at a variable interest rate set at 0.25% below the official Bank Base Rate.

4.8 **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 2018, the authority’s investment balance has ranged between £36m and £49.8m due to timing differences between income and expenditure. The average investment balance held to 31 August 2018 was £43m. The investment position during the period to 31 August 2018 is shown in table 4 below. A list of the individual investments held at 31 August 2018 is shown in appendix 1 to this report.

Table 4: Investment Position

	31.3.18 Balance £m	**Net Movement £m**	**31.8.18 Balance £m**	**Average Return**
Banks & building societies (unsecured)	-	3.0	3.0	0.69%
Covered bonds (secured)	7.3	(3.8)	3.5	1.01%
Government (incl. local authorities)	21.0	(3.0)	18.0	0.61%
Money Market Funds	3.6	9.5	13.1	0.66%
Other Pooled Funds	5.4	0.1	5.5	4.50%
Total investments	**37.3**	**5.8**	**43.1**	**1.16%**

5.2 The weighted average maturity of the investment portfolio at 31 August 2018 was 108 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 **Multi-Asset Income Funds**

5.4.1 The authority's medium term cash flow forecast indicates it is expected to hold a minimum level of reserves and working capital of at least £15m over the next 4 to 5 years. Given the relatively low overall returns on cash investments, the authority has been exploring options that will help to mitigate the risk of capital erosion from below inflation investment yields while maintaining good quality security and liquidity for its cash. The authority already has a £5m long term investment in a property fund providing above inflation returns. Following discussions with Arlingclose, multi-asset income funds (also known as diversified income funds) were chosen as the most appropriate investment instrument for the remaining £10m of the authority's available long term cash.

5.4.2 Multi-asset income funds are pooled investment vehicles operated by professional fund managers who invest in a diversified range of good credit quality instruments including:-

- bonds (government and corporate)
- equities (uk and foreign)
- cash
- property
- alternatives, including leasing arrangements

5.4.3 The typical characteristics of these funds are:-

- Longer term investments with a duration of between 3 to 5 years
- Aim to provide an income yield about 3% above the bank base rate
- Able to provide a capital return over time but are subject to some price volatility in the short to medium term.
- Liquid, with funds being accessible within a few days' notice if required
- Require a minimum £1m investment

5.4.4 **Fund Selection Process** – Arlingclose review the relative performance of this class of fund and provide a recommended list of counterparties to invest with. Officers, supported by Arlingclose, met with individual fund managers to explore their products in more detail. Following this process, and in consultation with the Cabinet Member for Finance, it was agreed to invest the £10m across the following four funds:

Fund		**Fund Size £m**	**Investment £m**
i)	UBS Multi-Asset Income Fund	41	1.0
ii)	CCLA Diversified Income Fund	103	2.0
iii)	Kames Diversified Monthly Income Fund	467	3.5
iv)	Investec Diversified Income Fund	491	3.5
			10.0

5.4.5 The authority's investment in these funds is expected to be made by early October 2018. Based on the past performance of these funds, the authority is anticipating an additional return from these investments of about £250,000 in a full year. £200,000 of this extra income is already anticipated in the authority's Medium Term Financial Strategy.

5.5 Investment Benchmarking

5.5.1 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**
FHDC					
31.03.2018	3.3	AA-	12%	189	0.86%
30.06.2018	4.7	A+	59%	146	1.19%
Similar LAs	4.4	AA-	61%	98	1.37%
All LAs	4.5	AA-	62%	42	1.13%

5.5.2 The investment benchmarking, which is a snapshot at the end of each quarter, demonstrates the authority's risk profile had risen slightly and was just above both its peer group and the wider local authority population at 30 June 2018 (measured against other Arlingclose clients only). This was also reflected in the average credit rating of the investment counterparties dropping one notch to A+ from AA-. The main reason for this margin increase in risk is the authority had an unsecured short term investment of £3m with a bank during this period.

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 2018/19 remains its £5.5m externally managed pooled property fund. The CCLA Local Authorities' Property Fund generated a total net income return of about £60k or 4.5% for the quarter to 30 June 2018 and the capital value of the Authority's investment increased during the same period by about 0.5% or £30k. Encouragingly, the authority's investment in the fund has grown by approximately 9% or £460k compared to its original investment of £5m while providing an annual income return of between 4.5% and 5%. 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 Broadly UK bank credit default swap prices (the banking sector's insurance against default) rose marginally over the early summer before falling back to their levels at the start of the financial year.

6.2.2 There have been few credit rating changes during the period and none directly affecting the authority's counterparty list adversely.

7. FINANCIAL SUMMARY

7.1 The projected outturn for the net cost of treasury management to the General Fund in 2018/19 is summarised in table 6 below:

Table 6: Financial Summary

	2018/19 Original Estimate	2018/19 Projection	Variance
	£'000	£'000	£'000
Interest on all Borrowing	2,049	2,049	-
Related HRA Charge	(1,597)	(1,597)	-
General Fund Borrowing Cost	**452**	**452**	**-**
Investment Income	(534)	(572)	(38)
HRA Element	75	75	-
Net General Fund Investment Income	**(459)**	**(497)**	**(38)**
Net General Fund Borrowing Cost	**(7)**	**(45)**	**(38)**

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 a rise in interest rates benefitting the investment portfolio.

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 Cabinet Member for Finance.

8. Non-Treasury Investments

8.1 Although not classed as treasury management activities, the 2017 CIPFA Code and the MHCLG Investment Guidance requires the authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons. This includes the authority's investment in its wholly owned subsidiary company, Oportunitas Limited. These are summarised in table 7 below:

Table 7: Non-Treasury Investments

Investment Type	Value 31/08/18 £'000	Projected Income 2018/19 £'000	Rate of Return %
Investment Property	**8,000**	**182**	**2.27**
Oportunitas loan & equity	**3,919**	**161**	**4.27**
	11,919	**359**	**2.84**

8.2 The Lloyds Bank Local Authority Mortgage Scheme jointly funded by the authority and Kent County Council ended on 1 August 2018. The Bank repaid the authority's net investment of £0.5m.

8.3 The rate of return on these non-treasury investments is higher than that earned on treasury investments reflecting the additional risks to the authority of holding such investments.

9. COMPLIANCE REPORT

9.1 The Corporate Director for Customer, Support and Specialist Services is pleased to report that all treasury management activities undertaken to 31 August 2018 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 8 below.

Table 8: Investment Limits

	Maximum to 31.8.18	**31.8.18 Actual**	**2018/19 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	£7.2m	£3.5m	£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	£24.7m	£13.1m	£25m in total	✓
Any group of pooled funds under the same management	£5.5m	£5.5m	£10m per manager	✓

9.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 9 below.

Table 9: Debt Limits

	Maximum to 31.8.18	31.8.18 Actual	2018/19 Operational Boundary	2018/19 Authorised Limit	Complied
Borrowing	58.3	56.8	87.0	90.0	✓
PFI & finance leases	-	-	-	-	✓
Total debt	**58.3**	**56.8**	**87.0**	**90.0**	✓

9.3 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.

10. TREASURY MANAGEMENT INDICATORS

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

10.2 **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.

	31.8.18 Actual	2018/19 Target	Complied
Portfolio average credit rating	A+	A	✓

10.3 **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.

	31.8.18 Actual	2018/19 Target	Complied
Total cash available within 3 months	£29.1m	£5m	✓

10.4 **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:

	31.8.18 Actual	2018/19 Limit	Complied
Upper limit on fixed interest rate exposure	£58m	£66m	✓
Upper limit on variable interest rate exposure	£0m	£0m	✓

10.4.1 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.

10.5 **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:

	31.8.18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	1.6%	30%	0%	✓
12 months and within 24 months	1.9%	40%	0%	✓
24 months and within 5 years	13.4%	50%	0%	✓
5 years and within 10 years	35.2%	80%	0%	✓
10 years and above	47.9%	100%	0%	✓

10.5.1 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.

10.6 **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:

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£3.5m	£3.5	-
Limit on principal invested beyond year end	£23m	£18m	£13m
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.

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 2018 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@folkestone-hythe.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 2018

APPENDIX 1 – INVESTMENTS HELD AT 31 AUGUST 2018

Counterparty	Amount £	Terms	Interest Rate %
Banks and Building Societies (unsecured)			
Goldman Sachs International Bank	3,000,000	95 day Notice account - Notice given maturity 01/10/18	0.69
Covered Bonds (Secured)			
Royal Bank Scotland	1,000,842	Covered Floating Rate Note to 15/05/20	1.06
Royal Bank Scotland	2,505,138	Covered Floating Rate Note to 15/05/20	0.99
Government			
Peterborough City Council	3,000,000	1 Year Fixed Deposit to 29/09/18	0.40
London Borough Croydon	5,000,000	2 Year Fixed Deposit to 31/05/19	0.80
West Dunbartonshire Council	5,000,000	2 Month Fixed Deposit to 03/09/18	0.50
Eastleigh Borough Council	5,000,000	2 Month Fixed Deposit to 29/10/18	0.65
Money Market Funds			
Federated Investors MMF	3,130,000	Money Market Fund instant access.	0.66
BNP Paribas MMF	4,970,000	Money Market Fund instant access.	0.67
Legal & General MMF	5,000,000	Money Market Fund instant access.	0.65
Other Pooled Funds			
CCLA Property Fund	5,467,152	Commercial Property Fund	4.50
Total Investments	**43,073,132**		
* Net of Fees			

This Report will be made public on 9 October 2018.

Folkestone & Hythe District Council

Report Number: **C/18/36**

To:	**Cabinet**
Date:	**17 October 2018**
Status:	**Key Decision**
Corporate Director:	**Tim Madden, Customers, Support and Specialist Services**
Cabinet Member:	**Councillor David Monk, Leader of the Council**

SUBJECT: Medium Term Financial Strategy 2019/20 to 2022/23

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 2023. 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/18/36.**
2. **To recommend that the Medium Term Financial Strategy, as appended to this report, is adopted.**

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 17 October 2017. The attached MTFS has updated the document agreed at that point based on the work completed to date in preparation of the 2019/20 budget. The detailed budget strategy, which sets out the detailed preparation for the 2019/20 budget, will be presented to Cabinet at its meeting of 14th November 2018. 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 2019/20 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 2019.

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 continued uncertainty around the terms of any "Brexit" agreement and the government's Fair Funding Review means that all local authorities need to try and plan for future uncertainties. These include 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 uncertainties identified above. 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 and broadly the financial projection is in line with that in previous years. The key change is the Fair Funding Review (see above) which looks to make significant changes from April 2020 to Council funding nationally.

This gives a level of uncertainty when looking at future projections and developing the underpinning assumptions for the financial forecast

1.7 The current MTFS forecasts a cumulative funding gap of £4.362 million over the lifetime of this MTFS. This is based on the assumption of 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	721	1,723	3,043	4,362

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 14th November. That will address the detailed measures to consider the deficit for 2019/20 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 The MTFS covers the key aspects of the Council's future plans to address the projected deficit and also to place the Council on a sustainable and secure footing for the future. This includes the impact of the Council's current transformation programme, its use of flexible capital receipts to support that programme, the future approach to investment in the district and the key drivers associated with the future position. This is an overarching view and detail will be found in subsequent reports to Cabinet and Council.

1.10 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. This is subject to ongoing review especially given the changes in future funding arrangements.
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, Customers, Support and Specialist Services

Tel: 01303 853371 E-mail: tim.madden@folkestone-hythe.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 2019/20 – 2022/23

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MEDIUM TERM FINANCIAL STRATEGY

2019/20 TO 2022/23

(Version produced in September 2018)

MEDIUM TERM FINANCIAL STRATEGY

Introduction

This document sets out the key challenges and approach of the Council in relation to Folkestone and Hythe 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. The financial year 2019/210 will be the first year where the Council no longer receives any Revenue Support Grant. The current national political uncertainty surrounding the shape of Brexit and its continuing priority 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 through the localisation of business rates are now intended to take effect from April 2020 although detail as to whether there will be additional responsibilities are not yet clear. The devolution of business rates is intended to be fiscally neutral but the details of how this will work are currently being developed alongside the Fair Funding Review. This will bring both risks and opportunities for the council and will be implemented for the 2020/21 financial year.

The MTFS is the 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.

Folkestone and Hythe Council - the Current Position

Folkestone and Hythe 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 2018/19 it planned to spend approximately £17.1 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 Folkestone and Hythe:

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.

As part of further strengthening the council's corporate position going forward, in June 2018, the Local Government Association (LGA) Peer Review Team undertook a review of the council's organisational leadership and governance; financial plans; capacity to deliver; and, focus on commercialisation, highlighting both areas of strength and areas for development in the years ahead.

The Council will continue to deliver a range of major projects and initiatives focusing on putting the community and our customers first, whilst ensuring our financial stability, including a Council-wide transformation programme alongside realising development projects at sites including Biggins Wood, Princes Parade and ultimately, Otterpool Park – a garden town for the future.

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 offered local authorities a minimum grant envelope for 4 years starting from 2016/17 through to 2019/20. This has provided a degree of stability in funding for the Council. 2019/20 is the final year of this "offer" and in order to secure this, the Council must produce an efficiency strategy. There are a number of programmes to support this efficiency plan including:

- The Corporate Plan 2017 - 20 the key objectives of which are set out above
- The Economic Development Strategy 2015 - 2020
- The Council's 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

- The implementation of the Transformation programme, together with the Council's transformation partners, Iese, to develop new operating model and deliver efficiencies whilst improving the customer experience

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.

Budget Process

The MTFS represents an overarching view of the finances of the organisation. It is the document that takes a longer medium term look at the financial environment the Council is operating in and looks to anticipate future demands and pressures so the Council can take longer term decisions over its financial sustainability. In addition to this, there are a number of key documents which contribute to the overall financial health of the organisation. These are:

- The budget strategy. This is produced on an annual basis and sets out the strategy for setting and managing the budget for the following financial year. It is here the detailed decisions on expenditure are taken.
- The detailed revenue estimates. These are the operational detail for the following years budget and form the basis of the following years budget monitoring and management.
- The capital programme. Which sets out the Council's capital expenditure plans over the medium term. This also informs the revenue budget of the costs and implications of any proposed developments.
- The Housing Revenue Account. This sets out the annual capital and revenue budget for the Council's housing stock and links to the 30 year business plan.
- The treasury management and investment strategy. This sets out the approach to managing the cash available to the Council and how to maximise its value to the Council. It also sets out the Council's investments and plans to achieve future returns over the longer term.
- Fees and Charges. This sets out a corporate view of the fees and charges which are levied by the Council for consideration each year.

Together these reports lead to the final council tax setting report and the agreement of the budget for the following year.

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 and for Folkestone and Hythe the grant has consistently reduced from £4.901 million in 2013/14 to nil in 2019/20.   This is in line with the government's intention to see more money raised locally to provide local services.

The government is currently undertaking a major review of the funding of local authorities known as the Fair Funding Review. This is anticipated to take effect from 2020/21 and includes local business rates retention at 75%, a revised allocation of resources and new arrangements to replace the New Homes Bonus to reward those Councils which support home building. The detail behind much of this review, and therefore the impact upon Folkestone and Hythe, is unclear and does mean that the forecasts from 2020/21 onwards have a level of uncertainty which will need to be monitored as those details become available.

Acknowledging the future uncertainty, the forecasts set out below have recognised the current service levels plus any known and agreed variations. They are based on a continuation of those service levels and reasonable assumptions in relation to pay and price inflation and other known pressures. The forecast is based on a mid range scenario and will need to be updated in line with government announcements and as new information becomes available. The current forecast is set out at Table 1 below:

Table 1 – Medium Term Financial Forecast

Financial Forecast	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
Cumulative Deficit	721	1,723	3,043	4,362
Annual (y-o-y)	721	1,002	1,320	1,319

The table identifies the ongoing pressure the Council is facing. A more detailed presentation is attached at Appendix 1. Some of the underlying assumptions drivers are set out in the paragraphs below:

Council Tax

The Council Tax is one of the key funding streams for the council and accounts for approximately two thirds 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 3% by central government.

The MTFS has assumed an ongoing Council Tax increase of 2% per annum however this will be subject to a Political decision on an annual basis dependant on circumstances in that time.

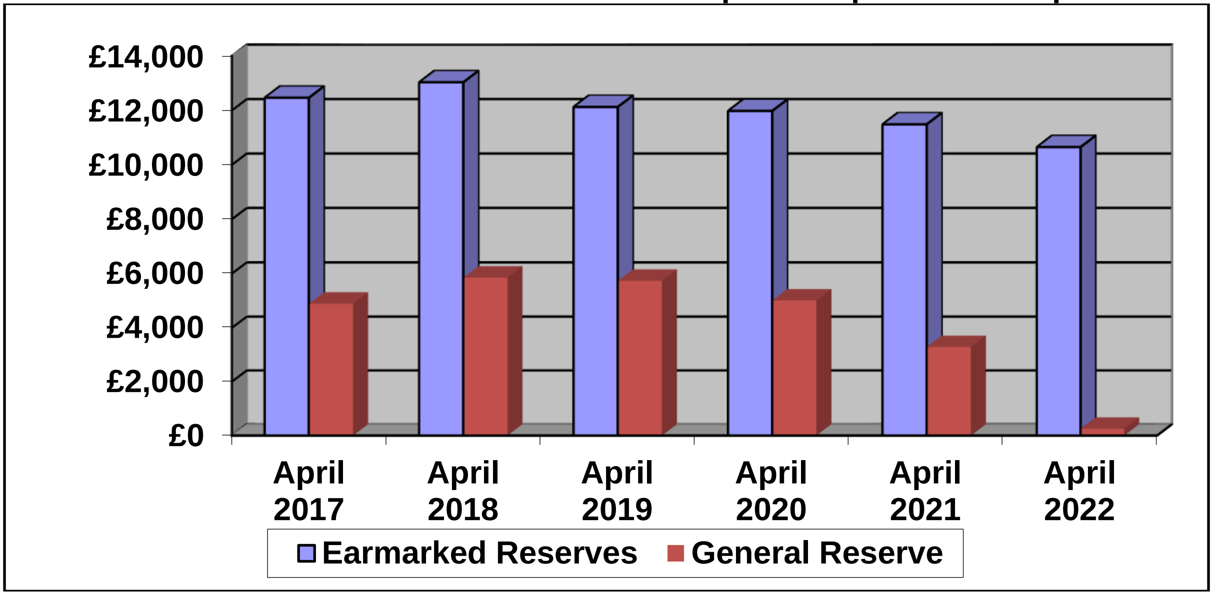
Use of Reserves

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 Folkestone and Hythe gives it a secure financial base however it is important to have an appropriate balance between supporting the financial position of the Council and planning the delivery of services. The Council has identified specific uses for much of the reserves including setting aside sums to support the planning process for Otterpool Park and the use of reserves will be focussed on specific priorities.

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. Table 2 below shows the forecast level of reserves for the period of this strategy.

Table 2 – Forecast Level of Reserves for MTFS period April 2017 to April 2022



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 currently 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.

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.

The government has set out its intention to end New Homes Bonus from the Fair Funding Review in 2020. The intention is to replace this mechanism with a different means of incentivising and rewarding housing growth. The detail of this is unclear and poses a risk to the future funding of the Council. At present, Folkestone and Hythe utilises a proportion 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 over future years. This reserve will deplete by 2022/23 if the current arrangements come to an end with no compensating alternative.

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 stated its intentions to achieve 75% localisation of business rates from 2020.

With regard to the MTFS, the Council 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 is also part of the successful Kent and Medway Business Rates Pilot which is able to retain 100% of business rates for 2018/19 only. This is a 1 year pilot although further bids are welcome for 2019/20. This is of significant financial benefit to the Council but the Council has set this benefit aside in reserves for future use pending future clarification as to future arrangements.

The role of business rates in the funding of the Council will be affected by the Fair Funding Review which will be introduced from April 2020. The full impact of this will only become clear during 2019/20 as proposals are developed. This adds a further element of uncertainty to the projected position and suggests caution is needed in any future projections.

Future Strategies

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 2019/20 budget strategy and beyond to address those financial challenges.

Transformation: The Council has undertaken a major review of its operations and is working with IESE as its transformation partner to radically change how the Council operates and its relationship with its customers. This is based on a complete review of its operation and involves a significant investment in technology. The programme was approved at Council on the 28th February 2018 and is expected to be implemented within a 2 year programme. It is anticipated that this will produce ongoing savings for the Council.

Strategic Investments: The Council is looking to take advantage of its position with a number of developments to produce financial returns whilst at the same time supporting the delivery of housing and regenerating parts of the district. The largest development is that of the proposed new town at Otterpool Park and options are being explored to generate future revenue and capital streams. Other areas include the developments at Varne, the Bigginswood site and further expansion of Oportunitas, the Council's Housing and Regeneration company. The proposed development at Princes Parade will, if approved, also generate a revenue benefit due to the replacement of the current ageing leisure facility.

Commercial Opportunities: The Council will seek to take advantage of commercial opportunities wherever possible to cover costs and to review our fees and charges in order to maximise benefit in line with corporate objectives.

A **financial 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. This is a fundamental annual review of our current operations in order to maximise the use of our current resources.

Using **reserves** in a sustainable and prudent manner to support the council's strategies and priorities. These are informed by the reserves strategies at Appendix 2 and it is recognised that these can only be used on a "one off" basis. However, they can play an important part in supporting initiatives or investments which can produce benefits in the future.

Using opportunities as they arise including government initiatives or incentives. In particular, the Council will seek to participate in the **Business Rates Pilot** scheme to maximise the financial benefit from this area. It also will seek to utilise **Flexible Capital Receipts** where possible to fund the transformation programme and to take pressure off the revenue account. All these are managed on an ongoing basis.

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.

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 Folkestone and Hythe 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 Folkestone and Hythe 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.

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://intranet.shepway.gov.uk/moderngov/documents/s26411/Council%20Version%20MTCPv1.pdf

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 Folkestone and Hythe 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.

Appendix 1 - Summary of MTFS forecast to 2022/23

	Base Year 2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Heads of Service					
Corporate Director Strategic Development	253,830	253,830	253,830	253,830	253,830
CMT and Leadership Support	912,620	912,620	912,620	912,620	912,620
Head of HR	2,459,240	2,459,240	2,459,240	2,459,240	2,459,240
Communications	253,770	253,770	253,770	253,770	253,770
Democratic Services and Law	4,882,470	5,022,470	5,232,470	6,382,470	6,382,470
Head of Finance	3,311,828	3,311,828	3,311,828	3,311,828	3,311,828
Head of Communities	2,181,620	2,181,620	2,181,620	2,181,620	2,181,620
Head of Planning	765,740	765,740	765,740	765,740	765,740
Head of Commercial and Technical	2,421,570	2,421,570	2,421,570	2,421,570	2,421,570
Head of Strategic Development	1,321,470	302,620	302,620	302,620	302,620
Head of Economic Development	298,540	298,540	298,540	298,540	298,540
Changes not attributed to services	0	147,477	298,641	453,584	612,401
Recharges to non GF accounts	-1,980,500	-1,980,500	-1,980,500	-1,980,500	-1,980,500
Unallocated net employee costs	-6,000	552,249	1,252,879	1,695,974	2,142,623
Head of Service net expenditure	17,076,198	16,903,074	17,964,868	19,712,906	20,318,371
Internal drainage board levies	452,770	461,825	471,062	480,483	490,093
Interest payable and similar charges	452,210	431,000	431,000	431,000	431,000
Interest and investment income	-678,430	-586,000	-514,000	-514,000	-514,000
New Homes Bonus grant	-1,361,666	-1,349,468	-702,403	-336,895	0
Other non-service related grants	-1,240,021	-1,240,021	-1,240,021	-1,240,021	-1,240,021
	14,701,061	14,620,410	16,410,506	18,533,473	19,485,443
Net transfers to/from reserves	-906,650	-146,145	-492,897	-838,975	0
Minimum revenue provision adjust.	373,370	373,370	373,370	373,370	373,370
Financing of fixed assets	197,000	138,000	138,000	138,000	138,000
	14,364,781	14,985,635	16,428,979	18,205,868	19,996,813
Transfer to/from Collection Fund	-100,000	0	0	0	0
Net business rates income	-4,244,104	-4,015,399	-4,095,707	-4,177,621	-4,261,173
Revenue support grant	0	0	0	0	0
	10,020,677	10,970,236	12,333,272	14,028,247	15,735,640
Council Tax Requirement	-9,899,677	-10,248,947	-10,610,735	-10,985,293	-11,373,074
Use of general reserve for financing of fixed assets	-121,000				
Surplus/deficit to General Reserve	0	721,289	1,722,537	3,042,954	4,362,565

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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 his/her 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**	**13,038**	**12,131**	**11,985**	**11,492**	**10,653**
General Fund Reserve	**4,902**	**5,861**	**5,740**	**5,019**	**3,296**	**253**
Housing Revenue Account reserve	**7,380**	**8,047**	**4,409**	**2,130**	**2,071**	**2,114**
Usable Capital Receipts Reserve	**6,773**	**7,339**	**5,619**	**7,628**	**7,878**	**8,128**

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 Otterpool 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 until the 2022/23 financial year. This level will be monitored and should be addressed as savings proposals are developed and implemented over the term of this plan. 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, consideration 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 it is a balanced judgement as to whether to invest / spend reserves or to hold these. As part of the MTFS and budget setting, an assessment of the adequacy of reserves and the associated risks will be made annually.

REPORTING FRAMEWORK

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

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This Report will be made public on 9 October 2018

Folkestone & Hythe District Council

Report Number **C/18/38**

To: Cabinet
Date: 8th October 2018
Status: Non Key Decision
Head of service: Amandeep Khroud – Head of Democratic Services and Law
Cabinet Member: Councillor Mrs Ann Berry

SUBJECT: Street Naming and Numbering Policy update

SUMMARY: This report provides an update on the Street Naming & Numbering policy adopted in April 2017, and suggestions for potential improvements to assist with the running of the service.

REASON FOR RECOMMENDATIONS
Cabinet is asked to agree the recommendations below because:

1. The implementation of the policy has been a success and of great use in the management of the street naming and numbering service.
2. Areas for improvement have been identified; adopting them will assist the department in providing the best possible service to customers and the wider district.

RECOMMENDATIONS
1. To receive and note report C/18/38.
2. To continue to make use of the Street Naming and Numbering policy.
3. To consider the improvements to the policy suggested in this report.

1. BACKGROUND

1.1. The Council is the street naming and numbering authority for the district. The naming and numbering of streets is governed by various agreements and statutory provisions, including the Town Improvement Clauses Act 1847, the Public Health Act 1925, the County of Kent Act 1981 and the Public Sector Mapping Agreement (PSMA).

1.2. Street Naming and Numbering is an important function as it allows the Council to maintain a comprehensive and accurate address database covering all properties in the district. In turn this enables:

- Emergency Services to find a property quickly and effectively
- Post to be delivered efficiently
- Visitors to locate their destination
- Statutory undertakers will not normally connect their services until such time as the premises have been given a formal postal address
- Reliable delivery of services and goods by courier companies
- Records of Service Providers to be kept in an efficient manner
- Companies to accept an address for official purposes. For example, insurance, credit rating, contract acceptance

1.3 As of April 2017 the Council adopted a new street naming and numbering policy. This has served to codify previous working practices, providing consistency of approach for service users.

2. POLICY IMPACT

2.1. The implementation of the policy has been positive. The street naming and numbering officer has cited the usefulness of having a defined policy which acts as an effective reference for members of the public when explaining why a naming or numbering decision has been taken.

2.2. The policy has clearly codified the working practices of the department, providing additional transparency to the public about the department's processes. This acts to ensure that cases are processed uniformly without arbitrary decision making.

2.3. Utilising the policy, Key Performance Indicators have been consistently met, and no formal complaints have been raised about the conduct of the service. On this basis, it can be concluded that the introduction of the policy has been a success and its use should be maintained going forward.

2.4. Despite this, some practical lessons have been learned from the implementation of the policy, identifying areas where some improvements could be made. These are explored below in section 3.

2.5. Statistics for the Council's addressing caseload are as follows:

	2015	2016	2017	2018
New property address	297	725	289	493
Change of address	54	77	31	25
Address queries	24	17	85	26

3. POTENTIAL IMPROVEMENT

3.1. The Council's current stance is that all new properties must have a property number. Similarly, properties with existing numbers may only apply for a name *in addition* to the property's number. A relatively small number of properties pre-date uniform mapping requirements and currently have a property name but no number. Given the distinct public interest in Council addressing remaining consistent and accurate, it is suggested that the Council waive its addressing charge for applications to add a number, when the property is situated in a street that is already numbered. This would ensure consistency with surrounding properties. It should be noted that it is not suggested that this concession should be offered to properties located on streets that lack any pre-existing numbering. This is due to the additional complications that would be introduced by needing to number an entire street at the same time.

3.2. Additional guidance should be offered regarding unacceptable names for proposed properties and street names. Currently the Council retains a discretionary right to refuse requests, primarily relating to applications which could be considered rude, obscene, racist, or which would contravene any aspect of the Council's public sector equality duty. This definition is currently provided under Section 6 ('New Developments'). It is proposed that this definition should be extended to Sections 4 ('Naming Residential and Commercial Buildings) and Section 7 (Address Changes) in order to avoid ambiguity.

3.3. Additionally, it is proposed that the above definition is broadened to include names that are 'likely to be highly controversial or contentious in the locality'. This permits Council officers to take stock of a proposed name's wider context and the potential impact it could have on the surrounding area, even if the name were not rude or obscene when taken in isolation. An example of names falling under this category could include highly charged political references.

3.4. There are some outstanding general housecleaning issues relating to the Council name change. Contact details and some grammatical / syntax issues have been updated.

3.5. Proposed changes to reflect the above suggestions are included in the annex 1 revised policy document.

4. RISK MANAGEMENT ISSUES

4.1. There is not a great deal of risk management involved in the implementation of the above proposals. The small element of risk is as follows:

Perceived risk	**Seriousness**	**Likelihood**	**Preventative action**
Reputational damage due to lack of tools to refuse inappropriate naming requests.	**Low**	**Low**	Adopt above suggestions relating to inappropriate names.

5. OFFICER COMMENTS

5.1. **Legal Officer's Comments** (DK)

There are no legal implications arising directly out of this report other than those already referred to therein.

5.2. **Finance Officer's Comments** (LW)

The report suggests the Council waive a fee for numbering under specific circumstances however, this is expected to affect a very small number of properties and therefore have a very small financial impact. Over the last few years there has only been 1 case where this has occurred and the cost was £57.

5.3. **Diversities and Equalities Implications** (GE)

There are no equalities implications arising directly out of this report.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Jamie Naylor, Senior Information Officer
e-mail: Jamie.Naylor@folkestone-hythe.gov.uk

The following documents have been relied upon in the preparation of this report: None.

Appendices:
Appendix 1 – Street Naming and Numbering Policy draft.

Contents

1. Introduction

1.1. Street Naming and Numbering is a statutory function enacted by Sections 64 and 65 of the Towns Improvement Clauses Act 1847 and Sections 17 and 19 of the Public Health Act 1925 and section 10 of The County of Kent Act 1981.

1.2. The purpose of this policy is to ensure all new street and building names/numbers are consistently allocated for the effective delivery of council services, the efficient delivery of mail and ensuring that emergency service vehicles are able to quickly locate a property.

1.3. Folkestone & Hythe District Council (the Council) is licensed under the Public Sector Mapping Agreement (PSMA) which entitles use of Ordinance Survey and National Land Property Gazetteer (NLPG)

1.4. This policy is written in accordance with best practice for maintaining the NLPG using the Data Entry Conventions reference manual.

1.5. The NLPG is maintained by the Local Land and Property Gazetteer (LLPG) Custodians and Street Naming & Numbering Officers in accordance with the reference manual mentioned above.

1.6. The NLPG is the definitive national database for England and Wales that provides for the unique identification of land and property and is an implementation of the British Standard, BS 7666:2006 Parts 1 and 2.

1.7. This policy covers anyone wanting to:

- Create an address for a new property;
- Name a new road;
- Change the name or number of a property ;
- Change the name of a road;

1.8 Developers or property owners are encouraged to propose their own preferred names for consideration; any suggestion for a road name should have some historical or other connection with the area. More than one suggestion for a new name is normally required in case the preferred option fails to meet the criteria outlined in this policy.

1.9 Where street names or previous numbers have been established without reference to the authority, the Council has the powers to issue a Renaming or Renumbering Order, under section 64 of the Town Improvement Clauses Act 1847 and Section 10(4) of the County of Kent Act 1981.

1.10 Street Naming and Numbering is a chargeable service. Fees are available on the Council website, www.folkestone-hythe.gov.uk or by contacting Street Naming and Numbering at addressing@folkestone-hythe.gov.uk.

2. Naming Streets

2.1` The Council has a duty to ensure that street names are clearly displayed. Any person, who destroys, defaces or puts up a number or name other than the official mark, shall be liable to a Level 1 fine under the provisions of Criminal Justice Act 1982 for every such offence.

2.2 New street names should avoid duplicating any similar name already in use in the town/village or in the same postcode area. A variation in the terminal word (for example, "street", "road, "avenue") will not normally be accepted as sufficient reason to duplicate a name. In the past it has been common to request to repeat existing names in a new road or building title (for example a request for "St Mary's Close" off an existing St Mary's Way, near St Mary's Church) , however this can cause confusion in an emergency.

2.3 Street names should not be difficult to pronounce or awkward to spell. Both street and building names should not normally start with 'The' or end with 'S' if the 'S' suggests a plural such as 'lanes'.

2.4 The council will not adopt any unofficial 'marketing ' titles used by developers in the sale of new properties.

2.5 All new street names should ideally end with one of the following suffixes:

- Street (for any thoroughfare).
- Road (for any thoroughfare).
- Way (for major roads).
- Broadway (for major roads).
- Avenue (for residential roads).
- Drive (for residential roads).
- Grove (for residential roads).
- Lane (for residential roads).
- Gardens (for residential roads) subject to there being no confusion with any local open space.
- Place (for residential roads).
- Crescent (for a crescent shaped road).
- Court (for a cul-de-sac only) subject to there being no confusion with buildings in the area.
- Close (for a cul-de-sac only).
- Square (for a square only).
- Hill (for a hillside road only).
- Circus (for a large roundabout).

- Vale (for residential valley roads).
- Rise (for residential roads with noticeable gradient).
- Wharf (for residential roads associated with a water feature).
- Mews (for residential courtyard developments only).
- Corniche (for residential cliff side homes only).

All new pedestrian ways should end with one of the following suffixes:

- Walk.
- Path.
- Way.
- Mall.
- Footpath.

Exceptions:

Single or dual names without suffixes are acceptable in appropriate places (for example, Broadway for major roads only); such names will have to be appropriate for the locality.

2.6 For private houses the name should not repeat the name of the road or that of any other house or building or be phonetically similar to any property in the same postcode area.

2.7 The use of North, East, South or West (as in Alfred Road North and Alfred Road South) is only acceptable where the road is continuous and passes over a major junction. It is not acceptable when the road is in two separate parts with no vehicular access between the two. The council will avoid having two phonetically similar names within the same postcode. For example, Alfred Road and Alfred Close or Churchill Road and Birch Hill Road.

2.8 The use of a name which relates to people either living or those alive during living memory will not normally be permitted other than in exceptional circumstances; justifications will be required to make such exceptions.

2.9 The council also has a duty to ensure that street names are clearly displayed. Any person, who destroys, defaces or puts up a number or name other than the official mark, shall be liable to a Level 1 fine under the provisions of Criminal Justice Act 1982 for every such offence.

2.10 **Licence obligations**

The Council will name all streets in accordance with the PSMA and the Data Entry Conventions and Best Practice.

3 Numbering buildings

3.1 The Town Improvements Clauses Act 1847 and the County of Kent Act 1981 Part Ill require the council to ensure houses and buildings are "marked with numbers as they think fit".

3.2 A new street should normally be numbered from the start of the street with odd numbers on the LEFT and even numbers on the RIGHT, except for a cul-de-sacs, crescents, etc, where consecutive numbering in a clockwise direction is preferred. The start of a street will be determined by the nearest main or major road. In the case of a major road numbering will start from the point nearest the town travelling away from the town centre and the numbering rules will be applied.

3.3 Private garages and similar buildings used for housing cars will not normally be numbered; an exception being garage courts where individual units are rented and not directly associated with a particular dwelling.

3.4 A proper numbering sequence shall be maintained with, subject to provisions regarding the number 13 in new developments, no numbers omitted. In the case of new developments the number 13 will normally be omitted from sequence unless the developer makes a request that it be included. Once a street has been numbered, the Council will not normally re-number properties. Renumbering properties will normally only occur where persistent delivery problems can be demonstrated.

3.5 If a multiple occupancy building has entrances in more than one street, then each entrance may be numbered in the appropriate street from which access is gained. However, the building will normally only have a single number per street (i.e. not 82 - 86 but simply 82).

3.6 Buildings (including those on corner sites) are numbered according to the street in which the main entrance is located. The manipulation of numbering in order to secure a "prestige" address or to avoid an address, which is thought to be less desirable, will not be sanctioned.

3.7 Flats will normally have numbers rather than letters or descriptions (i.e. Flat 1 and not Flat A or Ground Floor Flat). The numbering of flats will start from the bottom in ascending delivery order. This is important for access by the emergency services and consistency with electricity and gas meter installations. The addressing of flats as ‘54A’ rather than ‘Flat A, 54’ will not be sanctioned unless a separate door to the street exists for each property.

3.8 The Council will use numbers followed by letters where there is no alternative. For example, when a large house is demolished and replaced by a number of smaller houses, if including the new houses in the numbered street sequence would involve renumbering all the higher numbered houses on that side of the street each new house should be given the number of the old house with either A, B, C or D added. Letters will also be used if a new development is located before the numbering scheme commences. For example, if 4 houses are built in a location prior to the first property number 2, the new dwellings would become 2A, 2B, 2C & 2D.

3.9 Wherever possible the Council will endeavour to avoid using number suffixes in a new estate where additional properties have been added to the layout after initial numbering, in this case the council will renumber the entire street. The council will make a per property charge for this change.

3.10 In the event that an existing property is registered with a name but no number on a street where the remaining properties are already numbered, the owner may request that the Council issue a number in addition to the name. Under these specific circumstances, no charge will be applied as it is considered that the public interest in ensuring consistent numbering outweighs the administrative burden incurred. New properties or developments on existing streets will be processed as normal in accordance with the above elements of Section 3.

3.11 Licence obligations

The Council will number all buildings in accordance with the PSMA and the Data Entry Conventions and Best Practice.

4 Naming Residential and Commercial Buildings

a. The accurate naming of residential and commercial buildings is imperative to the efficient and effective response of emergency services in an emergency situation. The Council will have high regard to any potential impact on the emergency services when determining residential and commercial naming applications.

b. New residential or commercial buildings will be numbered as per Section 3 of this policy. Numbering of buildings provides the emergency services with an accurate addressing point when responding to an emergency.

c. Owners/Landlords wishing to add a name to a building must make application to the council.

d. The naming of a building will not supersede the building number. The building number will remain with the building to primarily assist the emergency services.

e. Property names should not be difficult to pronounce or awkward to spell; building names should not normally start with 'The' or end with 's' if the 's' suggests a plural such as 'Barns'.

f. The use of names and their combination with numbers that could be considered rude, obscene, racist, or which would contravene any aspect of the Council's public sector equality duty will not be permitted. Additionally, the Council may not consider names that are likely to be highly controversial or contentious in the locality.

g. Property names should avoid using the name of the street they are addressed off and the words Place, Mews, Gardens or any other suffix that could make the name sound like a street name.

h. Applications from commercial properties to include the business name will be determined on its own merits. When determining an application, the Council will place high emphasis on the potential for duplicate business names and how this may impact ease of use for emergency services.

i. **Licence Obligations**

The council will name residential and commercial properties in accordance with the PSMA and the Data Entry Conventions and Best Practice.

5 Providing Post Codes

j. When an approved address is agreed by all parties, the Council will notify Royal Mail who will confirm a postcode.

k. The post code provided by the Royal Mail will be assigned to the address and included in the addressing schedule.

l. The maintenance and any future changes to this postcode is the responsibility Royal Mail.

m. The council is solely reliant on Royal Mail for provision and notification of postcodes.

n. The council does not have powers to amend or create postcodes.

6 New Developments

o. The developer should not allocate any postal addresses, including postcode, to potential occupiers, either directly or indirectly (for example via solicitors or estate agents) before formal approval has been issued in writing by the Council. The Council will not be liable for any costs or damages caused by failure to comply with this rule.

p. Applicants are encouraged to contact the Council prior to a formal application to obtain advice on the Council's naming policy and the positioning of nameplates; this also applies to the conversion of buildings into flats.

q. Addresses will not normally be issued for a development until work has commenced.

r. Applications for an address in principal or before commencement will be determined on their own merits. The Council will have regard to duplications and expected build times when determining such applications.

s. The applicant or developer should suggest a possible name or names for the street.

t. Several suggestions for names should be made in case there is potential for conflict with existing names. Other than in exceptional circumstances the use of a name which relates to people either living or those alive during living memory will not normally be permitted; justifications will be required to make such exceptions.

u. The consent of the Lord Chamberlain's Office must be obtained for the use of a name with any reference to the Royal family or the word Royal is to be used. The Council will expect developers to have sought this consent before such names are suggested and to evidence the Office’s approval.

v. It is unlawful to display a street nameplate until a street name has been approved by the Council.

w. The developer will cover the initial costs of the street nameplate.

x. All properties on newly named streets will be allocated numbers in preference to names.

y. All new properties on existing streets will be numbered unless the existing properties on that street are named.

z. When numbering or naming is complete the Council will upload the information to the NLPG.

aa. **Licence Obligations**

The Council will name and number all new developments in accordance with the PSMA and the Data Entry Conventions and Best Practice.

7 Address Changes

bb. If a property is known only by a name then an application may be made to the Council to change that name provided it does not create a potential for confusion with another property. Under certain circumstances, the property may also be eligible to receive a number for free, as detailed in Section 3.10.

cc. If the property has a house number, the Council will not sanction a name change that drops the use of the number. The Council will consider the introduction of a name in addition to the number, provided it does not create a potential for confusion with another property.

dd. The use of names and their combination with numbers that could be considered rude, obscene, racist, or which would contravene any aspect of the Council's public sector equality duty will not be permitted. Additionally, the Council may not consider names that are likely to be highly controversial or contentious in the locality.

ee. The term “Farm” or “Farmhouse” will not normally be permitted for a domestic dwelling unless the property concerned is part of a working farm and communication to that business is sent to the property. An exception would be 'Old Smersole Farmhouse' where the property was originally called Smersole Farm but is now not part of the working farm.

ff. The Council will require explanation of the meaning of any name that is not easily found in an English dictionary.

gg. Requests to change or add a name must include the following information:

- Existing address
- Proposed new address
- Reason for change
- Evidence of approval of owner if property is rented
- Explanation of non-English words

hh. **Licence Obligations**

The council will determine address changes in accordance with the PSMA and the Data Entry Conventions and Best Practice.

8 Naming / Renaming an Existing Street

ii. An application for an existing street to be named/re-named must originate from a resident(s) of the street concerned.

jj. The Council will normally consult the Council Tax paying residents in the street and the Town/Parish Council with details of the application.

kk. The consultation process will run for 28 days from the date that notification of the application is issued to Council Tax paying residents in the street.

ll. The Council will require two thirds of all Council Tax paying residents to be in agreement with the application for the street naming/renaming to be determined successful.

mm. If agreement cannot be reached by two thirds of Council Tax paying residents, the street will not be named/renamed and the application will be determined unsuccessful.

nn. The cost associated with providing and erecting street nameplates when a street is renamed should normally be met by the originator(s) of the request.

9 Distribution of Monthly Address Schedules

oo. When a proposed Naming and Numbering Scheme meets the requirements made in policy and the relevant processes completed the application is deemed approved.

pp. All approved addressing is entered on a Monthly Address Schedule for electronic distribution to various Independent Data Custodians to update and amend their databases accordingly.

qq. Only after distribution of the Monthly Address Schedule are applicants informed that the proposed address has been accepted as an official address.

rr. Independent Data Custodians include:

- Emergency Services
- Folkestone & Hythe District Council internal departments:
    - Revenue and Benefits
    - Electoral Services
    - GIS (Steria to update NLPG)
    - Planning
    - Building Control
    - Refuse Collection
- Land Charges
- Highways

- Kent County Council Highways
- Valuation Office
- Land Registry
- Royal Mail
- Folkestone and Hythe Sorting Offices
- Contacts responsible for Folkestone, Hythe and New Romney address development
- British Telecom
- Utility providers for the area

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Folkestone & Hythe District Council

This Report will be made public on 9 October 2018

Report Number **C/18/35**

To: **Cabinet**
Date: **17 October 2018**
Status: **Key Decision**
Head of Service: **Amandeep Khroud, Democratic Services and Law**
Cabinet Member: **Councillor David Godfrey, Special Projects**

SUBJECT: **WASTE & STREET CLEANSING PROJECT 2021**

SUMMARY: The report provides an update on the Waste 2021 Project now that the options appraisal stage of the project has been completed. The report sets out recommendations about the future collection scheme and how the service could be delivered.

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

a) The options appraisal exercise has been completed and has identified the next steps in order to progress the project.
b) Due to the lead in times for procurement, the project needs to advance to the procurement and delivery stages in order to have the new service arrangements in place for January 2021.

RECOMMENDATIONS:
1. **To receive and note report C/18/35.**

2. **To approve the following recommendations: –**

   a. **FHDC to continue with the same refuse collection methodology/scheme as presently implemented across the district when the new service arrangements start in 2021. Food will be collected in a separate dedicated vehicle for the recycling round.**

   b. **FHDC to proceed with the procurement of the next waste, recycling and refuse collection contract to be placed with an outsourced service provider and to be operational from the end of the current contract on 15/01/21.**

   c. **FHDC to continue to work in partnership with DDC for the provision of a joint contract waste, recycling and refuse collection contract and joint client management team.**

d. **FHDC to complete an options appraisal exercise to consider the operational costs, risks and benefits of insourcing the street cleansing service.**

e. **The Corporate Director for Place and Commercial to be authorised to negotiate and conclude with KCC a new performance payment mechanism to operate from 2021 that takes into account the current level of payments and the need to incentivise improving recycling rates.**

f. **The Corporate Director for Place and Commercial to continue to engage with KCC and other East Kent Authorities to seek improvements to the waste infrastructure in particular the transfer station arrangements.**

g. **To agree to establish a project budget of £100K to cover additional consultancy support notably preparation of the new contract specification, new contact and new partnership agreements.**

1. BACKGROUND

1.1 The current waste, recycling and street cleansing contract with Veolia Ltd ends in January 2021. It is a joint contract with DDC. The CCC contract ends with Serco Ltd on 31 March 2021. TDC operate an in-house service.

1.2 A report was taken to Cabinet (15/11/17) that proposed that FHDC worked with the other authorities in the East Kent Waste Partnership to complete the following: -

- Review of the current service operating model with recommendations that will form East Kent Waste Strategy from 2021 onwards, or before if practicable.

- Review of options to develop the waste management infrastructure in East Kent.

- Review of service delivery options for in-house service, local authority owned company and outsourced service.

1.3 The brief also included the requirement to consider the future working relationship between the District Councils and Kent County Council when the current 5-way Inter-Authority Agreement ends in January 2021. This included the successor to the annual Enabling Payment paid by KCC to each council in lieu of recycling income and the new waste processing arrangements.

1.4 The project team engaged the waste consultants Ricardo Energy & Environment to assist with the options appraisals exercise. This work has now been completed and this report provides a summary of the outcomes and makes recommendation on how to proceed.

2. WASTE COLLECTION SCHEME

2.1. In 2010, the council agreed along with the other East Kent Authorities to implement the nominated operational model (NOM) for refuse/recycling collection. This led to the introduction of the current two-weekly collection scheme alternating between a residual refuse collection, separate recycling paper/card and plastics/glass collection and supported by a weekly food recycling collection.

2.2. The project considered the merits of changing this collection methodology looking at the financial benefits in terms of either reducing servicing costs or potentially increasing recycling volumes and incomes in the process. The consultants were tasked with modelling a range of different schemes including three-weekly collections, fortnightly co-mingled and multi-stream/kerbside sort.

2.3. The financial cost of each scheme was considered from the perspective of the districts as the Waste Collection Authorities, KCC as the Waste

Disposal Authority and the 'whole system' combined cost. The outcomes of this modelling are detailed in the 'East Kent Collection Modelling Report' prepared by Ricardo.[1]

2.4. The financials outcomes for the districts for each collection option are summarised in table below.[2] Please note that the costs represented here are the base operational costs (i.e. without profit or overheads) based on a set of assumptions for the purposes of comparison.

Description		Net Collection cost (including Garden Waste Income) - S1			
		Canterbury	Dover	FHDC	Thanet
Opt 0	Current service	£4,115,000	£2,599,000	£2,276,000	£3,295,000
Opt 1a	Current service & no food	£3,281,000	£2,021,000	£1,674,000	£3,069,000
Opt 1b	Twin stream: wk 1 - DMR+food; wk2 - P&C+food	£4,483,000	£2,629,000	£2,448,000	£3,856,000
Opt 1c	Twin stream: fortnightly paper & card + dedicated food	£3,938,000	£2,474,000	£1,992,000	£3,695,000
Opt 2a	3 weekly residual; fortnightly twin stream & dedicated food	£3,944,000	£2,865,000	£2,505,000	£4,056,000
Opt 2b	3 weekly twin stream on separate weeks & dedicated food	£4,298,000	£3,171,000	£2,854,000	£4,065,000
Opt 2c	3 weekly twin stream with food in twin pack	£4,047,000	£2,533,000	£2,486,000	£3,430,000
Opt 3	Glass separate as current	£3,860,000	£2,605,000	£2,238,000	£3,280,000
Opt 4a	Commingled + food in pod	£3,721,000	£2,851,000	£2,333,000	£2,943,000
Opt 4b	Commingled + food in dedicated vehicle	£3,796,000	£2,957,000	£2,528,000	£3,914,000
Opt 5a	Weekly multi-stream	£5,626,000	£3,614,000	£3,810,000	£4,750,000
Opt 5b	Weekly multi-stream with no food	£5,861,000	£3,829,000	£3,230,000	£4,856,000

2.5. The report concludes that for FHDC option 1a, which is the current fortnightly scheme without a separate weekly food collection, would be the most cost effective system. However this option was discounted as the reduction in service involved by removing the food recycling option, was likely to create hygiene concerns about food only be collected fortnightly and the expected increase in residual waste makes it marginally less cost effective in terms of whole system costs.[3]

2.6. The recommended option is therefore 1c, which is the existing collection scheme with a small variation involving the food being collected by a separate dedicated vehicle on the recycling week. This is supported for the following reasons: -

- Operationally it is the next most cost effective option. The flexibility offered by a separate food collection vehicle means that the recycling rounds can be carried out by twin pack vehicles rather than triple pack with reduced capacity and removes the current inefficiencies of single pass recycling vehicles needing to tip both at Ross Depot (for bulk recycling) and Ashford (for food). This system has already been partly implemented by the current contractor.

- From the residents' perspective, the collection scheme essentially remains the same. Scheme consistency and familiarity is important to

[1] Ricardo report available on request.
[2] EK Collections Modelling Report – Table ES1 page iv
[3] EK Collection Modelling Report – Page 46 – 4.7.6.1 (Figure 56)

maintaining recycling levels. There is no need for a transition period to a new scheme or the cost of new containerisation.

2.7. The recommendation is that the Council continues with the same refuse collection methodology/scheme as presently implemented across the district with the new service arrangements in 2021. Food will be collected in a separate vehicle for the recycling round.

3. SERVICE DELIVERY ARRANGEMENTS

3.1. The council's waste, recycling and street cleansing contract with Veolia Ltd currently costs £3.5m per annum. This is broadly split £1.2 m for the street cleansing service and £2.3m for the refuse and recycling collection service. The options appraisal exercise conducted by Ricardo looked at the future refuse and recycling collections service delivery arrangements. Street cleansing is considered later in this report in part 4.

3.2. Overall, the contracted service has worked well for the past seven years. Key performance indicators for missed bins and load contamination have been met and there has been a constructive working relationship with the contractor. Veolia Ltd have however advised that the contract is loss-making. In entering the project, it was anticipated that the next service delivery arrangements would cost more than present and this has been reflected in the Medium Term Financial Strategy with £1.5m per annum increase in the waste collection and street cleansing budget from 2021 onwards. The cost analysis now carried out by Ricardo as part of the options appraisal exercise supports the view that future service delivery costs will almost certainly see an increase.

3.3. Three service delivery options were considered – in-house, outsourced and a local authority owned waste company also described as a 'Teckal' company.[4] The options were firstly considered in terms of cost and then in terms the risk and benefits.

3.4. The Ricardo final report on this stage of the options appraisal exercise is still being prepared. They have however presented their conclusions to the project group. The key slide is included as Appendix 1. For FHDC the estimated cost with profit, pensions and central support assumptions for each option are as follows: -

- Outsourced - £2,835,000 (pension 3%/profit 6%/central support 2%)
- 'Teckal' Company - £3,096,700 (pension 3%/central support 10%)
- Insourced/In-house - £3,230,900 (pension 23%/central support 7%)

[4] 'Teckal' company or sometimes known as the 'Teckal exemption' after the 1999 ECJ case *Teckal Srl v Comune di Viano and Azienda Gas-Acqua Consorziale (AGAC) di Reggio Emilia*. The judgement allowed an exemption to procurement regulations that allows public authorities to directly award contracts to a separate legal entity provided certain conditions are met in terms of the authority's direction and control over the legal entity and the 'essential' services provided. The 'Teckal' exemption has subsequently been incorporated in UK law in the Public Contract Regulations (Reg. 12).

3.5. The above costs are assessed on the baseline option (i.e. the current collection scheme) which is on an operational level comparable to option 1c as discussed previously. As expected the assessment is based on a number of assumptions and includes caveats as to future costs, market conditions, inflationary pressures and regulatory changes. The best way of looking at the figures is how they rank the options rather than necessarily a guide to future costs. It is however noted that all options exceed the current contract cost.

3.6. In terms of the risks and benefits of each service delivery options these can be summarised as followed: -

- **Outsourced** – For FHDC this is the option that we have most experience of managing. It would allow us to access private sector expertise for what is a complex service as well as the economies of scale of a large supplier. Service performance risk is often dependent on the quality of the contractor, the contractual remedies that can be actioned and the financial viability of the bid/operating model if it can be sustained over the length of the contract.

- **Insourced** – The principal benefit of operating the service in-house is having direct control over the operations. In-house costs are generally expected to be higher mainly due to pension on-costs and central support costs. For FHDC the main risk would be in building the new service from the ground up including the major capital outlay and procurement of new vehicles and plants, attracting experienced management staff and the steep learning curve of operating the new service.

- **Teckal or Local Authority Owned Waste Company** – The number of Teckal waste companies has grown in recent years possibly due to concerns around limited competition in the market. It should be noted these can take different forms ranging from a joint company that commissions and procures its own service contracts; through to a joint waste collection and waste reprocessing company that directly delivers the services in-house, as well as offering its own services to the commercial sector. Teckal companies are often represented as a 'best of both worlds' options where the authority retains control but operates a private sector cost model. The nearest equivalent we have in terms of an operating model would be East Kent Housing, although a jointly owned waste company would be a much larger undertaking. In terms of risks these are similar to an insourced service in terms of establishing the new service with the added legal complexity of operating within a company structure. It should be remembered that the service is still outsourced albeit to a company would be wholly or partly owned (in a joint project) by the authority and especially with a shared arrangement the working relationship would risk becoming similar to that between a client and outsourced provider. There is therefore the risk of a 'worst of both worlds' situation where the council bears all the financial and operational risks but has only limited control and influence over a jointly owned company.

3.7. The recommendation therefore is to proceed with the procurement of the next waste, recycling and refuse collection contract to be placed with an outsourced service provider. The reasons are that this would appear to be the most cost effective option, the service delivery option we have the most understanding and experience of managing and the successful operation of the current contract.

3.8. The other East Kent authorities are still determining their position with regards to their own service delivery arrangements and continue to explore the potential of a Teckal company. The reason why it is felt FHDC needs to commit to a procurement option at this stage relates to the original project plan (cabinet report 15/11/17), which set out the following procurement timeline: -

Oct 2018	Final approval of EK Waste Strategy and Action Plan
Nov 2018	Strategy implementation work begins
Jan – Jun 2019	Approval of tender/service specification
Jun – Mar 2020	Procurement processes.
July 2020	Approval of tender award for contract t
Jan 2021	Start of new services

It was always planned that the strategic decision on how to proceed would be taken at this point and there is a risk by delaying further that there would be an adverse impact on the procurement preparation and tendering stages. It should be noted that the original project timeline for forming a waste company had similar milestones; with a company being formed in the spring of 2019 and the recruitment of senior staff and procurement of plant and vehicles taking place from the summer 2019 onwards.

3.9. Whilst the recommendation to outsource the waste collection arrangements is made on the basis that this is the best option for FHDC and can be sustained as a standalone operation for this Council, the current service is a joint operation with Dover District Council (DDC). DDC have indicated their a willingness to maintain the current shared contract arrangement but have also been exploring the possible benefits of the Teckal option and are yet to take a formal decision on this issue.

3.10. The joint contract with DDC due to the location of the main urban areas offers limited opportunities for cross border efficiencies. However there are clearly savings derived from shared management costs in terms of the contractor's senior management and administration staff. The shared client management via the Waste Contract Team also brings efficiencies. There is also an additional benefit from a joint contract in that it helps enhance our influence in the working relationship with the waste contractor.

3.11. On this basis, the recommendation is that FHDC continues to work jointly with DDC in procuring and operating a joint contract for the waste collection service. This includes the continuation of the joint contract management arrangements via the Waste Services Team based at DDC and the strategic client arrangements. This is subject to agreement being reached with DDC. If this is not possible, then we can proceed on a single authority basis and develop our own operational contract management arrangements for the new contract.

4. STREET CLEANSING

4.1. The current contract with Veolia Ltd covers both waste refuse and recycling collections and street cleansing. The options appraisal process intentionally looked only at the waste collection aspect. Decisions however also need to be taken about how we operate our future street cleansing service when the contract ends in January 2021.

4.2. The council has the corporate objective of ‘Appearance Matters’ and street cleansing is a high profile service. Overall the contractor has provided a good service in line with the contracted standard. However the growth in visitor numbers to the district has at times put the existing arrangements under strain. There is a need to consider for any future service arrangements the following issues: -

- What are the expectations of the future service?
- How will these expectations be incorporated into operational service standards?
- How will these services be provided?
- Would an in-house option provide improved direction and control?
- What would the new service arrangements cost?
- How would the depot arrangements work and/or is there a need for investment in a new site?
- Are there benefits of continuing to link service provision with DDC?

4.3. The recommendation is that a standalone project is started to report by February 2019 that looks at the above issues and completes an options appraisal exercise into the operational costs, risks and benefits of insourcing the street cleansing service.

4.4. The February 2019 reporting date is linked to the main Waste 2021 procurement project plan, as this would still allow the street cleansing service to be incorporated in the specification for the waste collection service if this was considered the best approach or would allow a good lead in time for the procurement of plant and vehicles if the service was insourced.

5. PERFORMANCE PAYMENT MECHANISM

5.1. KCC are a project partner and the options appraisal exercise considered the future working relationship between the East Kent districts, acting as Waste Collection Authorities and KCC, acting as the Waste Disposal Authorities. This looked at the future process arrangements for recycling and the future performance payment mechanism.

5.2. Currently, the recycling processing arrangements are covered in the 5-Way Inter Authority Agreement and also contracted to Veolia Ltd. This was tendered with the current waste collection contract. KCC have advised that when this contract ends in 2021 they will directly procure and contract the next processing agreements. This will not need to be included within any tenders completed by the districts.

5.3. The current agreement for the payment by KCC to the East Kent districts of an annual ‘Enabling Payment’ also ends in 2021. The enabling payment is in place of recycling credits and represents a payment for materials diverted and income generated from recyclate. The current enabling payment for FHDC is fixed at £797,160 and paid annually. There was the option that the districts could retain ownership of the materials, process and sell directly. This would be financially risky as well requiring administration. There was no appetite within the project group for this option.

5.4. The project group considered options for a new ‘performance payment’. The county’s stance was that the expected levels of diversion and revenue generated from recyclate sales anticipated under the current agreement had been achieved and the next agreement would need to be on more of a profit share basis based on actual performance. This is similar to agreements reached with other Kent districts.

5.5. The consultants modelled the new proposed performance payment mechanism based on current recycling performance. For FHDC this resulted in considerable drop to around £250,000 per annum. Further revisions to the modelling based on more accurate data increased this to £550,000, which still under the current payment and illustrates how reliant the new scheme would be on consistent data accuracy and the potential level of variance between financial years.

5.6. The present position is that KCC have offered to fix the performance payment subject to conditions calculated on recycling performance in 2019/20. This would help smooth the financial impact to annual budgets of price and performance variations. We still feel however that the performance payment mechanism uses too narrow a basis for calculation and does not reflect the full financial benefit of material diversion to recycling. Critically, the proposed formula does not provide in real terms an incentive to improve recycling performance. For these reasons, we are not in a position to recommend agreement to the proposed performance payment mechanism.

5.7. The recommendation is the Corporate Director for Place and Commercial is authorised to continue to negotiate and conclude with KCC a new performance payment mechanism to operate from 2021 that takes into account the current level of payments and the need to incentivise improving recycling rates.

6. INFRASTRUCTURE

6.1. The project considered options to develop the waste management infrastructure in East Kent. This centred on the feasibility of building and operating a local MRF and improved transfer station facilities. As part of the options appraisal exercise a high-level review of the MRF options was carried out looking at the feasibility of building a plant locally for the recycling materials collected by the districts.

6.2. The conclusions drawn from the high-level review were that building a local MRF was not feasible: -

- There was not sufficient volume of recycling materials collected solely by the East Kent districts to make the plant operation economically viable. The MRF would need to attract other sources of supply, which could not be guaranteed.

- Realistically the operation would probably need to be a joint venture between the districts, the county and potentially a private sector provider who would manage the operation. KCC were not able to commit to being an investment partner.

- There was a high level of business risk due to uncertainty over the future UK regulatory framework and significant market variations in gate fees.

6.3. The options appraisal exercise also looked at whether the locations of waste transfer stations could optimised across East Kent to reduce transportation costs and access/turnaround delays. The issues for this district were: -

- The cost and time in transporting waste to the Ashford Waste Transfer Station.

- Concerns over the capacity of the Ashford Waste Transfer Station with future housing growth.

- The long-term feasibility of the use of Ross Depot for bulking recycling materials.

6.4. The project looked at the feasibility of a waste transfer station being located in the Hawkinge area. The consultants state that there could be an operational saving of around £238,000 (assessed on the current collection methodology) if a transfer station was located at Hawkinge. It should be noted that FHDC does claim ‘tipping away’ costs from KCC for the cost of transportation outside the district’s borders so this would be a saving to the ‘whole system’ costs not to FHDC alone.

6.5. The main argument against a new transfer station would be the low rate of return on any capital investment with build costs estimated at around £2m. KCC advised they were not prepared to invest in a new site and the report also summarises KCC’s views on re-opening the old HWRC site at Hawkinge covering site contamination, costs of remediation and plans to sell this location.

6.6. Despite the effective ruling out of any transfer station being located at Hawkinge, the issues around the future capacity of the Ashford Transfer Station remain. It is unlikely that further progress in the context of this project will be made. The recommendation is that the Corporate Director for Place and Commercial continues to engage with KCC and other East Kent Authorities to improve the waste infrastructure in particular the transfer station arrangements.

7. PROJECT SUPPORT

7.1. With the options appraisal exercise completed the project now moves into the procurement and delivery stages. Originally a budget for £50,000 for the options appraisal stage was approved. The final consultancy costs for this stage are expected to be less than £25,000.

7.2. For the next stage of the project consultancy support is expected to be required for the following: -

- Project support for the procurement programme from planning stage through to service transition.
- Preparation of the tender specification and supporting documents.
- Legal support for the preparation of contract documentation and inter-authority agreements (if required).
- Market expertise and advice for the tender evaluation process.
- Any additional consultancy required for the Street Cleansing options appraisal.

7.3. Estimating the level of support necessary is difficult but based on the previous project in 2010 a total budget of £100,000 is requested, which would start in financial year 18/19 run to the end of the project.

8. RISK MANAGEMENT ISSUES

8.1 At this stage, the main risks are: -

Perceived risk	Seriousness	Likelihood	Preventative action
Financial –a significant increase in costs for the next waste, recycling and street cleansing contract	High	High	• Early planning for the next service arrangements. • Joint working to create economies of scale and cost efficiencies across the collection and processing. • Review of waste collection methodology to drive cost efficiencies.
Service Failures – The waste, recycling and street cleansing service is a high profile customer facing service. It is logistically complex with many potential points of failure.	High	High	• Early planning for the next service arrangements • Robust client and contract monitoring arrangements to be established. • Agreed service plans and service level agreements. • Enforceable KPIs and SLAs with default mechanisms applicable to both an in-house or outsourced service.
Limitations of the Waste Infrastructure in East Kent.	High	High	• Continued engagement with KCC on improving the waste infrastructure.
Regulatory Uncertainty	High	High	• Regular monitoring of the national debate about

			regulatory standards and waste framework. • Additional consultancy support if needed to inform service options.
Lack of commercial competition	Medium	Medium	• Simplified procurement specification based on existing collection methodology. • Additional consultancy support to give a 'market view' and acts as an 'expert friend' in the process.
Project Not Delivered By January 2021	High	Medium	• Early planning for the next service arrangements • Project budget to obtain additional consultancy support if needed

9. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

9.1 Legal Officer's Comments (David Kelly)

There are no legal implications arising directly out of this report on the basis the Waste and Street Cleansing Project 2021 is competitively tendered for in accordance with the Public Contracts Regulations and the Council's Contract Standing Orders.

Legal Services will, upon instruction, advise on the terms and conditions of a partnering, consortium and/or shareholders' agreement (depending on the agreed way forward) with Dover DC (and potentially other councils) in order to facilitate the Project and to regulate each of the councils' respective responsibilities.

9.2 **Finance Officer's Comments (Charlotte Spendley)**

There are several financial issues contained within the body of this report. Firstly as outlined in section 3, in line with indications from the current contractor, there is anticipated to be a financial pressure for the Council, regardless of delivery mechanism when the current contract comes to an end in 2021. The scale of this financial pressure is unknown at this time but the work of the consultant indicates it could be in the range of £500k - £1 million per annum.

Section 5 of the report covers the Enabling or Performance payment. The current arrangements provide the Council with an income stream of around £800k annually. Discussions remain ongoing regarding the changing mechanism from 2021, however current indications are that a reduced level of income should be anticipated, potentially reducing the annual income to around £550k. The report seeks to delegate the negotiation to the Corporate Director to progress this position and obtain the best value for the authority.

The Medium Term Financial Strategy being presented to the October Cabinet meeting incorporates an overall indicative cost pressure of £1.5 million per annum from January 2021.

Further work is being undertaken on the Street Cleansing contract, and once a financial position is understood for this a further report will be required.

Finally the report outlines project resource requirement to deliver the procurement of this contract. £100k project resource funding is required. It is proposed that the funding during the current financial year is met from the saving to the previous consultancy budget of £25k, with any remaining sum needed in 2018/19 being met from the CLT contingency. Additionally it is proposed the remaining sum is identified as a growth item through the 2019/20 Budget Strategy being considered by Cabinet in November.

9.3 **Diversities and Equalities Implications (AR)**

There no diversity and equalities issues at this stage.

10. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Andrew Rush, Corporate Contracts Manager
Telephone: 01303 853271
Email: andrew.rush@folkestone-hythe.gov.uk

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

East Kent Collections Options Modelling Report by Ricardo Energy & Management 2018

Appendices:

Appendix 1 -	‘Gross Operational Costs: Outsource to In-source’ Presented by Ricardo Energy and Environment to EK Leaders Briefing Meeting 27/6/18

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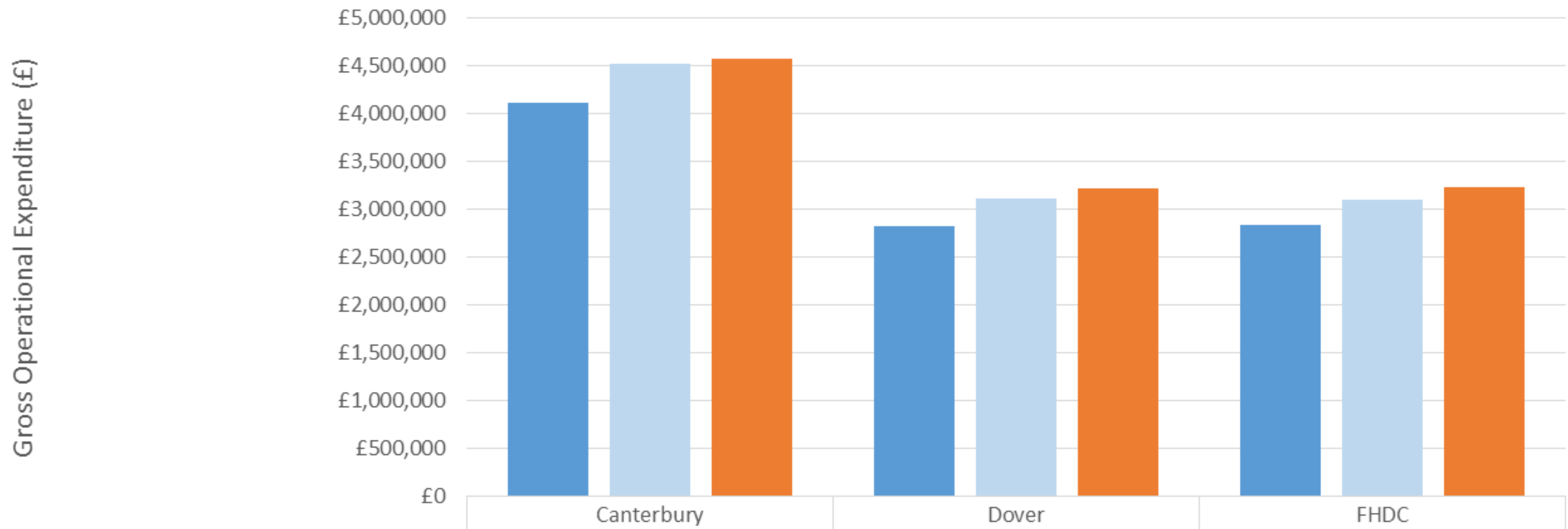
Appendix 2 - Gross Operational Costs: Out-source to In-house



	Canterbury	Dover	FHDC
Outsourcing (pension 3%; profit 6%; central support 2%)	£4,114,500	£2,830,100	£2,835,200
Tekal (pension 3%; central support charge 10%)	£4,526,000	£3,113,100	£3,096,700
Insourcing (pension 23%; central support (7%)	£4,569,700	£3,222,700	£3,230,900

- For Canterbury, Dover and FHDC modelled current private sector pensions of 3% and profit margins (6%); in-sourced pension of 23% and central recharge costs (7%); Teckal private sector 3% pension and higher overheads (central support) 10% reflecting less opportunity for economies of scale.
  - In-sourcing is likely to be more expensive due to pension impacts
  - Teckal likely to be cheaper than in-sourcing as private sector pensions can be paid
  - Extent to which out-sourcing delivers a saving depends on overheads and profit margin built into private sector cost model vs degree of additional resource required by the Council to bring services in-house

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