



# Agenda

Meeting: **Overview and Scrutiny Committee**  
Date: **19 February 2019**  
Time: **7.00 pm**  
Place: **Council Chamber - Civic Centre, Folkestone**

To: **All members of the Overview and Scrutiny Committee**

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

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

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

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

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website  
[www.folkestone-hythe.gov.uk](http://www.folkestone-hythe.gov.uk)

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

To consider and approve, as a correct record, the minutes of the meeting held on 29 January 2019.

4. **Housing Revenue Account Revenue and Capital Original Budget 2019/20 (Pages 11 - 26)**

Report C/18/73 sets out the Housing Revenue Account Revenue and Capital Budget for 2019/20 and proposes a decrease in weekly rents and an increase in service charges for 2019/20.

5. **Treasury Management Strategy Statement 2019/20 (Pages 27 - 48)**

Report C/18/71 sets out the proposed strategy for treasury management for 2019/20 including the Treasury Management Indicators.

6. **Capital Strategy 2019/20 (Pages 49 - 62)**

Report C/18/75 sets out the council's proposed strategy in relation to capital expenditure, financing and treasury management in 2019/20 to be approved by Full Council.

7. **General Fund Budget and Council Tax 2019/20 (Pages 63 - 74)**

Report C/18/74 recommends and sets out the General Fund budget and council tax requirement for 2019/20, including that part of the local tax covering the district and parish services

8. **Update to the General Fund Medium Term Capital Programme and Budget Monitoring 2018/19 (Pages 75 - 106)**

Report C/18/72 updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2024. The report provides a projected outturn for the General Fund capital programme in 2018/19, based on expenditure to 30 November 2018. The General Fund Medium Term Capital Programme is required to be submitted to full Council for consideration and approval as part of the budget process. This report also sets out both the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement for 2019/20 to be approved by full Council.

9. **Biggins Wood - Acceptance of Grant (Pages 107 - 110)**

Report C/18/70 recommends the acceptance of the grant offered by the Government under its Accelerated Construction Programme for work to the site.

\*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).

## Overview and Scrutiny Committee - 19 February 2019

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

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

- membership of outside bodies that have made representations on agenda items, or
- where a member knows a person involved, but does not have a close association with that person, or
- where an item would affect the well-being of a member, relative, close associate, employer, etc. but not his/her financial position.

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

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## Minutes

### Overview and Scrutiny Committee

Held at:	Council Chamber - Civic Centre, Folkestone
Date	Tuesday, 29 January 2019
Present	Councillors Miss Susan Carey, Peter Gane (Chairman), Clive Goddard, Ms Janet Holben (Vice-Chair), Mrs Mary Lawes, Michael Lyons, Ian Meyers, Russell Tillson and Mrs Rodica Wheeler
Apologies for Absence	Councillor Mrs Claire Jeffrey
Officers Present:	Andy Blaszkowicz (Assistant Director), Kate Clark (Committee Services Officer), James Hammond (Strategic Policy Officer), Katharine Harvey (Chief Economic Development Officer), Andrew Hatcher (Revenues and Benefits Strategic Manager), Sue Lewis (Committee Services Officer), Tim Madden (Corporate Director - Customer, Support and Specialist Services), Lisette Patching (Development Management Manager), Susan Priest (Head of Paid Service), Sarah Robson (Assistant Director), Andrew Rush (Corporate Contracts Manager), Charlotte Spendley (Assistant Director), Adrian Tofts (Planning Policy Manager) and Lee Walker (Group Accountant)
Others Present:	Councillors Alan Ewart-James, Dick Pascoe, Len Laws and Mrs Carol Sacre

#### 152. **Declarations of Interest**

There were no declarations of interest.

#### 153. **Minutes**

The minutes of the meeting held on 11 December 2018 were submitted, approved and signed by the Chairman.

#### 154. **Council Tax Empty Homes Premium**

From 1 April 2019, billing authorities will be given the ability to amend long term empty home Council Tax premiums. Report C/18/63 reviewed these

proposals and recommended that some changes are introduced from the new financial year 2019/20.

Mr Andrew Hatcher, Revenues and Benefits Manager, gave a brief explanation of the policy.

Members commented on Exemptions to this policy and Mr Hatcher advised that any possible exemption circumstance would be looked at as a discretionary local decision.

A spelling error was noted on Page 13 (2.4); should read 'Royal Assent'.

Proposed by Councillor Clive Goddard  
Seconded by Councillor Russell Tillson and

**RESOLVED:**

**1. To receive and note report C/18/63**

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

**155. Investment Strategy**

Report C/18/65 set out the council's proposed strategy for its service and commercial investments in 2019/20 to be approved by full Council.

Members comments included:

- Benchmarking. At present there are no comparison statistics with other Local Authorities.
- Credit rating checks. At present these are not applicable as current loans made are to Oportunitas and Private Sector Housing. If use of loans is widened then credit ratings could become applicable.
- Investments and Properties are acquired through prudential borrowing, eg Otterpool.
- An investment assets list to be provided to the Committee.
- Training. A Treasury Management training session was provided approximately one year ago to members. Further training will be given as part of the induction process post May 2019 elections.
- As part of property held for investment purposes, a loss is shown on land acquired since April 2014. This land is Biggins Wood which is planned for development.

Proposed by Councillor Russell Tillson  
Seconded by Councillor Rodica Wheeler and

**RESOLVED:**

**1. To receive and note report C/18/65.**

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

**156. Folkestone Sports Centre Trust Grant**

The grant funding agreement with Folkestone Sports Centre Trust (the Trust) ends in 2020. The Trust, in advance of the end of this agreement, has made a request for a new grant. Report C/18/61 summarised this request, reviewed performance of the current grant agreement and made recommendations on a future grant reward.

Members referred to the options for a new grant and questioned the reasons for not providing a sliding scale option. A sliding scale option was considered, however this was not considered appropriate with regard to sustainability and economy.

Members agreed that the grant ultimately provided services and wellbeing to the local community

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

**RESOLVED**

**1. To receive and note report C18/61.**

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

**157. Royal Military Canal Rowing Boats**

Report C/18/60 summarised the requirement to replace the Council's rowing boats on the Royal Military Canal in Hythe.

Members agreed this historical service is a vital tourist attraction, however it is important that the District Council looks carefully at the purchase of good value boats that are durable and safe.

Depreciation of assets was a consideration, but Mr Andy Blaszkowicz, Assistant Director, assured members that pro-active management of all physical assets is in place.

Proposed by Councillor Clive Goddard  
Seconded by Councillor Michael Lyons and

**RESOLVED:**

**1. To receive and note report C/18/60.**

(Voting: For 8; Against 0; Abstentions 1)

**158. 'Spirit of the Leas' Folkestone Coastal Park Heritage Lottery Fund Stage Two Grant Application**

Following Cabinet approval in September 2016, a Stage One grant application was submitted to the Heritage Lottery Fund (HLF) for a project

to improve access to Folkestone's Coastal Park. The Stage One application was successful and the HLF awarded FHDC a development grant of up to £40,300 to support a Stage Two submission. Report C/18/67 seeks Cabinet approval for the submission of a Stage Two application and to agree to underwrite the match funding contribution from FHDC that will come from s106 Folkestone Seafront funding.

Members were advised that FHDC needs to underwrite the s106 funds as these are not expected to come forward in time to deliver the project, but will be ultimately available to meet FHDC's match funding commitments.

Proposed by Councillor Russell Tillson  
Seconded by Councillor Mrs Mary Lawes and

**RESOLVED:**

**1. To receive and note report C/18/67.**

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

**159. Local Development Scheme 2019 update**

Report C/18/68 presents a draft updated Local Development Scheme to Cabinet. The Local Development Scheme (LDS) sets out the timetable for preparing the council's development plan documents and outlines their purpose and general content. If approved by Cabinet, the LDS will be published on the council's website.

Proposed by Councillor Ms Susan Carey  
Seconded by Councillor Clive Goddard and

**RESOLVED:**

**1. To receive and note report C/18/68.**

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

**160. Funding for direct action to secure compliance with enforcement notices at Whitehall Farm, Romney Road, Lydd**

In March 2017 Corporate Management Team (CMT) agreed funding for direct action to secure compliance with enforcement notices at Whitehall Farm. Report C/18/62 provided an update on the attempts made to secure direct action within the budget agreed and seeks agreement for further funds to be released so that direct action can be secured to achieve compliance with the enforcement notices.

Members noted there was a significant increase of costs with £14,100 already allocated and a further £86,000 required.



Although there had been enforcement breaches and notices issued to the landowner over a long period, the current breaches are more recent and have worsened in the last few years.

It was confirmed to members that the Council would look to place charge on the land and the successful outcome of this would depend on any further earlier charges on the land.

Proposed by Councillor Clive Goddard  
Seconded by Councillor Michael Lyons and

**RESOLVED:**

**1. To receive and note report C/18/62.**

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

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This Report will be made  
public on 12 February  
2019

Report Number **C/18/73**

**To:** Cabinet  
**Date:** 20 February 2019  
**Status:** Non-Key Decision  
**Head of Service:** Charlotte Spendley, Assistant Director – Finance,  
Customer and Support Services  
**Cabinet Members:** Councillor Malcolm Dearden, Portfolio Holder for  
Finance and  
Councillor Alan Ewart-James, Portfolio Holder for  
Housing

**SUBJECT:** HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL  
ORIGINAL BUDGET 2019/20

**SUMMARY:** This report sets out the Housing Revenue Account Revenue and Capital Budget for 2019/20 and proposes a decrease in weekly rents and an increase in service charges for 2019/20.

**REASONS FOR RECOMMENDATION:**

Cabinet is requested to agree the recommendations set out below as the Local Government Housing Act 1989 requires the Council, as a Local Housing Authority, to keep a separate Housing Revenue Account and to produce estimates to ensure that the account does not go into deficit. The authority also has a duty to set and approve rents in accordance with government guidelines that are outlined in the self-financing determination. The Constitution requires that the annual Budget and any variations to the Budget are approved by Council.

**RECOMMENDATIONS:**

1. To receive and note Report C/18/73.
2. To recommend to Full Council the Housing Revenue Account Budget for 2019/20. (Refer to paragraph 2.1 and Appendix 1)
3. To recommend to Full Council the decrease in rents of dwellings within the HRA on average by £0.83 per week, representing a 1.0% decrease with effect from 1 April 2019. (Refer to paragraph 3.2)
4. To recommend to Full Council the increase in service charges. (Refer to section 3.5)
5. To approve the Housing Revenue Account Capital Programme budget 2019/20. (Refer to paragraph 4.1 and Appendix 2)

## 1. INTRODUCTION

- 1.1 The Housing Revenue Account (HRA) is a ring-fenced account and is outlined and projected within the HRA Business Plan. The HRA Business Plan determines HRA budget setting, as estimates need to be closely aligned to the model to ensure that the HRA remains financially viable.
- 1.2 The Reform of Council Housing Finance came into effect from 1 April 2012, and significantly brought an end to the subsidy system where authorities such as Folkestone & Hythe made a contribution to the national pot. Instead, authorities are now part of the self-financing arrangements following a re-distribution of the national housing debt and the abolition of rent restructuring.
- 1.3 In October 2018, Government announced the removal of the HRA borrowing cap to enable local authorities to build more homes. This has provided an opportunity for the Council to review its current New Build Programme and this will be considered as part of the HRA Business Plan refresh due to be presented to Cabinet in March 2019.

## 2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

### 2.1 Original Budget 2019/20

The proposed HRA Budget for 2019/20, at Appendix 1, shows a forecast surplus of £308k. This is in line with the agreed HRA Business Plan which will continue to fluctuate from year to year, depending on the profile of the stock, size of the new build programme and the resources available. The year end HRA revenue reserve balance as at 31 March 2020 is expected to be £7.900m as shown at Table 1 below.

Table 1	£000's
<b>Original estimate of balance at 31 March 2019</b>	<b>(7,592)</b>
<b>Movement from Original to Original budgets</b>	
Decrease in depreciation costs (see 2.1.2)	(1,014)
Increase in rents and other service charges due to annual rent setting (see 2.1.3)	(406)
Decrease in provision for bad or doubtful debts (see 2.1.4)	(50)
Increase in revenue contribution to capital expenditure (see 2.1.5)	295
Increase in repairs and maintenance (see 2.1.6)	216
Increase in general management costs – EKH Management Fee (see 2.1.7)	189
Other net movements	6
	<b>(764)</b>
<b>Deficit 2018/19</b>	456
<b>Original estimate of balance at 31 March 2020</b>	<b>(7,900)</b>

### **2.1.1 HRA Revenue budget**

The HRA revenue budgets are reflected in the HRA business plan. The business plan sets out the Council's income and expenditure plans for its landlord service over a 30 year period, including the capital costs of maintaining the decent homes standard and of any additional improvements agreed with tenants.

### **2.1.2 Depreciation costs**

The decrease in depreciation costs relates to the combined decreases of depreciation on HRA dwellings and non-HRA dwellings. This is mainly due to having to charge the real depreciation cost to the HRA instead of using the Major Repairs Allowance as a proxy for depreciation which has been allowed and used in previous years.

### **2.1.3 Rents**

The increase in dwelling rents is due to the additional homes provided through the Council's New Build and Acquisitions programme as well as 2019/20 being a 53 week year generating an additional week's rental income.

As part of the Summer Budget 2015 the Chancellor announced that rents in social housing would be reduced by an average of 1% a year for four years from April 2016. 2019/20 is the final year of this initiative and the HRA revenue budget includes the 1% reduction (see 3.2 below).

### **2.1.4 Provision for bad or doubtful debts**

The decrease in bad debt provision relates to there being minimal expected impact during 2019/20. The phased implementation of Universal Credit commenced in January 2016 however it has been announced that a slower more phased rollout is to be completed by June 2024.

### **2.1.5 Revenue Contribution to Capital**

The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisition programme. This is reflected within the HRA Business Plan which was agreed by Cabinet on 23 March 2016.

### **2.1.6 Repairs and maintenance**

The increase in repairs and maintenance is largely due to contract inflation.

### **2.1.7 East Kent Housing (EKH) Management Fee**

EKH have proposed several increases to the 2019/20 management fee as shown below and these are included within the proposed HRA Budget.

• Salaries – annual cost of living/pension payments	£42,500
• Procurement Officer post	£8,750
• Improved contract management	£20,000
• Additional resource - Universal Credit impact	£111,000
<b>Total</b>	<b>£182,250</b>

Therefore, the total budget for the management fee in 2019/20 is £2,165,810.

The proposed increase in the Management Fee is intended to improve the overall performance and financial resilience of East Kent Housing. The Management fee has remained unchanged over the last 3 years. The additional resources will enable EKH to fully respond to the additional impacts of Universal Credit and to protect the Council's rental income from its HRA housing stock. It will also ensure that EKH remains on a secure financial footing and will strengthen its performance in terms of contract procurement and contract management.

It is proposed that the additional resources will be provided for an 18 month period from 2019/20 and the performance of EKH will continue to be closely monitored and reported to members.

## 2.2 HRA Reserve Balances

**HRA Reserve** – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan. The actual reserve balance on the HRA at the start of 2018/19 was £8.048m, this has increased due to the planned accumulation of balances to help fund the future new build programme.

Table 2 below shows the estimated HRA balances to 31 March 2020.

<i>Table 2</i>	<b>2018/19</b>	<b>2019/20</b>
	£000's	£000's
Balance as at 1 April	8,048	7,592
Balance as at 31 March	7,592	7,900

The HRA reserve is expected to increase by £308k from the close of 2018/19 and the end of the financial year 2019/20.

The changes with the introduction of Self-Financing have significantly increased the flexibility for the Council to manage the resources and debts within the HRA to best meet the needs of existing and future tenants. The estimated HRA balances, set out in table 2, are above the revised recommended minimum balance, which is £2m.

**Major Repair Reserve (MRR)** – This reserve is derived from the transfer of the depreciation charge from the revenue account and can be used to fund major repairs for capital expenditure or debt repayment. The Council's Business Plan requires that the reserve is allocated to fund capital expenditure. The proposed HRA capital programme should leave the Major

Repairs Reserve with a nil balance. This is in line with the practice adopted by the Council in previous years, of using the Major Repairs Reserve in the year it is received.

### **3. RENT SETTING GUIDANCE & RENTS**

#### **3.1 Rent Guidance – National context**

The purpose of this Government initiative, re-introduced in 2015/16, is to provide a consistent basis for the setting of local authority and Registered Social Landlords (RSLs) rents at an affordable level. Government rent policy aims to provide a closer link between the rent and the qualities tenants value in a property, and to reduce unjustifiable differences between rents set by Councils and by RSLs. The current self-financing business plan is based on continuing to adopt the government's rent policy.

#### **3.2 Rent Decrease – Local context**

In line with last years approved report, Housing Services will be charging the 'formula rent'<sup>1</sup> when a property is re-let to a new tenant and service charges that fall under utilities will be charged at the 'actual' cost on new lets.

The proposed decrease of 1%, in line with Government guidelines, equates to a decrease of £0.83 per week or £42.33 per annum. This gives an average rent of £85.43 (over 51 weeks) in 2019/20 (average rent in 2018/19 is £86.35). This decrease in rents is a reduction of approximately £144k in 2019/20 and has been factored into the latest approved HRA business plan.

The proposed decrease will keep our average rent below the Limit Rent set by the Government, therefore avoiding any Housing Benefit rebate costs.

2019/20 is the final year of the Government's rent policy which enforced rents to be reduced by 1% each year. From 2020/21 the current MHCLG proposal is to increase rents by CPI plus 1% for a period of 5 years.

#### **3.3 New Build rents**

In line with proposals set out in the Council's current HRA Business Plan, the rents for any new homes will be set at affordable rent levels. Affordable rents are defined as being a maximum of 80% of the prevailing average market rent for the area and should be no more than the prevailing local housing allowance (LHA) rates for the area to ensure that properties remain affordable.

The local housing allowances rates for 2019/20 will not be available until late January/February 2019. LHA rates for the area have not changed

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<sup>1</sup> The 'formula rent' is the amount an individual rent can be set at before taking into account the rent restructuring restrictions and maximises the rental income received without penalising any individual.

significantly over the last two years. The indicative 2019/20 affordable rents for the Folkestone & Hythe area are as follows:

Bedsits	£59.68per week
1 bedroom houses	£87.16 per week
2 bedroom houses	£116.22 per week
3 bedroom houses	£145.27 per week
4 bedroom houses	£169.68 per week

### 3.4 Rent Comparisons

The table below compares Folkestone & Hythe's average weekly rent to that of other authorities in Kent.

<i>Table 3</i>	<b>Average weekly rent over 53 weeks (2019/20)</b>	<b>Difference between FHDC and other authorities</b>
	<b>£</b>	<b>£</b>
Folkestone & Hythe	82.21	-
Dover	83.27	1.07
Canterbury	88.93	6.73
Thanet	79.52	(2.68)

- Subject to Dover, Canterbury and Thanet's approval at their own Council meetings.

### 3.5 Service Charges

#### 3.5.1 General Service Charges

The general principle for service charges for tenants is that they are set to recover the costs of the service they fund. However, the government also limits increases in service charges to the Consumer Price Index (CPI) plus 1.0% per annum as part of rent setting guidance. The CPI for September 2018 was 2.4%, CPI plus 1.0% is therefore 3.4%. As a result general service charges within the HRA will increase by 3.4% with effect from 1 April 2019.

Local authorities can increase charges above this level where costs are increased that are beyond the authorities' control. Utility charges, such as heating and hot water in sheltered housing schemes are an example where this applies. Proposals for these charges for 2019/20 are set out in 3.5.2 below.



### **3.5.2 Heating charges in Sheltered Housing**

Residents in 12 of the Council's sheltered housing schemes have heating and hot water provided to their flats by communal systems. Charges are made for this service based on the floor area of each flat.

As set out within last year's report, over time fuel costs have increased significantly above the rate of inflation, so that the charges raised for this service no longer cover the costs. Therefore, the proposed charges for this service towards the actual cost of providing the service are in line with those agreed last year. This continued move to full cost recovery would result in some tenants facing significant increases and it is therefore proposed to set charges that provide some interim protection against the highest increases.

Following the same approach as previous years it is recommended that the 2019/20 service charges for heating and hot water in sheltered housing schemes should be set at actual cost or 10% increase, subject to the following limits:

- Bedsit flats £19.14 per week (£976.14 per year)
- 1 bed flats £21.34 per week (£1,088.34 per year)
- 2 bed flats £23.43 per week (£1,194.93 per year)

A few charges are already set above these levels, and these should be frozen at current levels for 2019/20.

These changes will reduce the amount the HRA subsidises tenants' heating charges to £2,000 in 2019/20 compared to £4,000 in 2018/19.

## **4. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES**

### **4.1 Original Budget 2019/20**

The proposed HRA Capital Budget for 2019/20, shown in Appendix 2, is £9.028m. Table 4 below shows the movements in the programme from the 2018/19 original budget to the original budget for 2019/20.

<i>Table 4</i>	<b>£000's</b>
<b>Original estimate 2018/19</b>	<b>8,574</b>
<b>Reductions in programme</b>	
Fire Protection works (see 4.1.1)	(904)
Replacement Windows and Doors (see 4.1.2)	(140)
Thermal Insulations (see 4.1.3)	(40)
Bathroom Improvements (see 4.1.4)	(30)
<b>Increases in programme</b>	
External Enveloping (see 4.1.2)	438
New Build programme (see 4.1.5)	421
Heating Improvements (see 4.1.6)	203
Re-roofing (see 4.1.2)	187
Re-wiring (see 4.1.7)	105
Kitchen Replacements (see 4.1.8)	103
Contract Specifications (see 4.1.9)	61
Lift Replacement (see 4.1.10)	50
<b>Total increase in expenditure</b>	<b>454</b>
<b>Original estimate 2019/20</b>	<b>9,028</b>

#### 4.1.1 Fire Protection Works

The decrease in fire protection works is due to the fire precaution programme completing by the end of March 2019.

#### 4.1.2 Stock Asset Management (SAM)

A programme of works has been identified in 2019/20 using SAM data for replacement windows and doors, external enveloping and re-roofing, these are subject to change when surveys are completed in more detail.

#### 4.1.3 Thermal Insulations

The budget requirement for 2019/20 allows for some upgrades which have been identified in year whilst a new contract is procured.

#### 4.1.4 Bathroom Improvements

The decrease in bathroom improvements is based on the housing stock number and the life cycle of the bathrooms with 113 identified to be replaced in 2019/20.

#### 4.1.5 New Build programme

The budget required for the new build programme will vary from year-to-year depending on the profile of the programme. This is reflected within the HRA Business Plan which was agreed by Cabinet on 23 March 2016 and stated that 200 new homes would be delivered over a 10 year period.

Table 5 below shows the approved profile of the new build/acquisitions programme over a 10 year period and the actual progress to date.

<i>Table 5</i>	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
New builds/acquisitions	-	Year 1	Year 2	Year 3	Year 4	Year 5
Target	-	30	30	30	30	30
Delivered / <b>Forecast</b>	16	10	38	28	<b>9</b>	<b>60</b>

	2021/22	2022/23	2023/24	2024/25	2025/26	<b>TOTAL</b>
New builds/acquisitions	Year 6	Year 7	Year 8	Year 9	Year 10	
Target	10	10	10	10	10	<b>200</b>
<b>Forecast</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>20</b>	<b>0</b>	<b>221</b>

This shows that 92 units have been delivered to date against a target of 90 and a total of 221 units against the targeted 200 are forecast to be delivered by 2025/26.

All of the new build options will be subject to a detailed viability appraisal to ensure they meet the requirements of the HRA Business Plan.

#### 4.1.6 Heating Improvements

The increase in heating improvements is based on stock numbers and the life cycle of the current boilers, also there is a requirement for two commercial boiler replacement/upgrades in 2019/20.

#### 4.1.7 Re-wiring

The increase in re-wiring is due to the electrical inspections that will be carried out going forward which will raise category 1, 2 and 3 electrical works with category 3 works being the larger rewiring works.

#### 4.1.8 Kitchen Replacements

The increase is based on the number of kitchens needing to be replaced due to the life cycle of the kitchen.

#### 4.1.9 Contract Specifications

Additional budget for the external writing and production of detailed technical specifications of work and tender documentation for capital contracts to improve contract management. This forms part of the EKH funding proposal for 2019/20 with additional resources provided for 18 months from 2019/20 and performance will be monitored closely.

#### 4.1.10 Lift Replacements

It has been identified that a new lift is required at Philippa House to be replaced in 2019/20.

- 4.1.11 The HRA capital programme budgets are reflected in the HRA Business Plan, including the capital costs of maintaining the decent homes standard and of any additional improvements agreed with tenants.

## 4.2 HRA Reserve Balances

**HRA Reserve** – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan.

The following table shows the required resources to finance the original budget for 2018/19 and original budget for 2019/20 for the HRA capital programme.

<i>Table 6</i>	<b>Major Repairs Reserve</b>	<b>Use of RTB Capital Receipts</b>	<b>Revenue Contribution</b>	<b>Total</b>
	£000's	£000's	£000's	£000's
Original budget 2018/19	3,500	1,507	3,567	8,574
Original budget 2019/20	3,532	1,634	3,862	9,028

## 5. RISK MANAGEMENT ISSUES

- 5.1 A summary of the perceived risks follows:

<b>Perceived risk</b>	<b>Seriousness</b>	<b>Likelihood</b>	<b>Preventative action</b>
East Kent Housing management fee variation	Medium	Low	Officers are ensuring that the rules laid out in the management agreement are followed.
Budget not achieved	High	Low-Medium	Stringent budget monitoring during 2019/20 enabling early corrective action

## 6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

### 6.1 Legal Officer's Comments (DK)

There are no legal implications arising directly out of this report other than as already stated therein. (Following the coming into force of Schedule 15 of the Localism Act 2011, English local authorities are required to be self-financing in relation to their housing stock, financing their housing stock from their own rents.)

### 6.2 Finance Officer's Comments (LW)

All financial effects are included in this report.

### 6.3 Diversities and Equalities Implications

This report is in line with the Council's Diversity and Equality policies.

## 7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

This report has been prepared by:

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

None

### **Appendices:**

Appendix 1 - HRA Revenue Budgets

Appendix 2 - HRA Capital Programme

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**Appendix 1**  
**HOUSING SERVICES**

**ANNUAL ESTIMATES 2019/20**

Actual 2017/18 £	<u><b>HOUSING REVENUE ACCOUNT</b></u>	Original 2018/19 £	Estimate 2019/20 £
	<b><u>INCOME</u></b>		
14,715,576	Dwelling rents	14,436,600	<b>14,843,000</b>
418,443	Non-dwelling rents	357,160	<b>355,020</b>
955,220	Other charges for services and facilities	983,170	<b>985,430</b>
52,200	Contributions from general fund	52,200	<b>52,200</b>
16,141,440	<b>TOTAL INCOME</b>	15,829,130	<b>16,235,650</b>
	<b><u>EXPENDITURE</u></b>		
2,981,478	Repairs and maintenance	3,332,530	<b>3,548,480</b>
3,084,802	General management *	3,118,610	<b>3,307,630</b>
1,007,878	Special management *	1,044,910	<b>1,054,940</b>
24,655	Rents, rates & taxes	21,750	<b>21,750</b>
31,445	Increase provision for bad or doubtful debts	140,000	<b>90,000</b>
	<b><u>Capital Financing Costs</u></b>		
6,730,887	Depreciation charges	3,540,700	<b>2,526,850</b>
24,540	Debt management expenses	20,940	<b>21,920</b>
13,885,684	<b>TOTAL EXPENDITURE</b>	11,219,440	<b>10,571,570</b>
-2,255,755	<b>NET COST OF SERVICES</b>	-4,609,690	<b>-5,664,080</b>
1,677,431	Loan charges - Interest	1,597,000	<b>1,569,000</b>
	<b><u>Investment Income</u></b>		
-95,973	Interest on notional cash balances	-83,490	<b>-75,000</b>
-23,045	Premiums & discounts	-14,740	<b>0</b>
-697,342	<b>NET OPERATING INCOME</b>	-3,110,920	<b>-4,170,080</b>
-4,214,107	Any other item of income & expenditure	0	<b>0</b>
4,282,665	Revenue Contribution to Capital Expenditure	3,566,720	<b>3,861,833</b>
-39,000	Pensions Interest costs	0	<b>0</b>
-667,784	<b>TOTAL DEFICIT/SURPLUS(-) FOR YEAR</b>	455,800	<b>-308,247</b>
7,380,146	Balance as at 1st April	8,047,930	<b>7,592,130</b>
8,047,930	Balance as at 31st March	7,592,130	<b>7,900,377</b>

\* General Management - relates to costs for the whole of the housing stock or all tenants such as EKH Management Fee and support costs.

\* Special Management - relates to only some of the tenants such as cleaning communal areas of flats and maintenance of open spaces.

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**Appendix 2**
**HOUSING SERVICES**
**ANNUAL ESTIMATES 2019/20**

Actual 2017/18 £	<b><u>HRA CAPITAL PROGRAMME</u></b>	Original 2018/19 £	Estimate 2019/20 £
	<b><u>EXPENDITURE</u></b>		
	<b><u>Decent Homes Standard</u></b>		
167,942	Replacement Doors & Windows	370,000	<b>230,100</b>
142,022	Re-roofing	200,000	<b>387,100</b>
351,594	Heating Improvements	315,000	<b>518,450</b>
311,944	Kitchen Replacement	300,000	<b>403,000</b>
185,705	Bathroom Improvements	200,000	<b>170,000</b>
212,227	Voids Capital Works	250,000	<b>250,000</b>
57,319	External Enveloping	120,000	<b>557,500</b>
216,534	Fire Protection Works	924,000	<b>20,000</b>
1,409	Thermal Insulations	50,000	<b>10,000</b>
0	Contract Specifications	0	<b>61,000</b>
<b>1,646,696</b>	<b>Sub-Total</b>	<b>2,729,000</b>	<b>2,607,150</b>
	<b><u>Non Decent Homes Standard</u></b>		
0	Treatment Works	10,000	<b>10,000</b>
316,696	Disabled Adaptations	350,000	<b>350,000</b>
30,360	Rewiring	300,000	<b>405,000</b>
185	Sheltered Scheme upgrades	80,000	<b>80,000</b>
19,330	Garages Improvements	30,000	<b>30,000</b>
27,045	Lift Replacements	0	<b>50,000</b>
<b>393,616</b>	<b>Sub-Total</b>	<b>770,000</b>	<b>925,000</b>
	<b><u>New Build Programme</u></b>		
6,979,742	New Builds	5,025,310	<b>5,445,476</b>
<b>6,979,742</b>	<b>Sub-Total</b>	<b>5,025,310</b>	<b>5,445,476</b>
	<b><u>Environment/Estate Improvement</u></b>		
103,713	Environmental Works	25,000	<b>25,000</b>
9,101	New Paths	15,000	<b>15,000</b>
0	Play Areas	10,000	<b>10,000</b>
<b>112,815</b>	<b>Sub-Total</b>	<b>50,000</b>	<b>50,000</b>
<b>9,132,869</b>	<b>TOTAL EXPENDITURE</b>	<b>8,574,310</b>	<b>9,027,626</b>
	<b><u>FINANCING</u></b>		
2,040,312	Major Repairs Reserve	3,500,000	<b>3,532,150</b>
1,568,923	Capital Receipts	1,507,590	<b>1,633,643</b>
1,240,969	Section 106	0	<b>0</b>
4,282,665	Revenue Contribution	3,566,720	<b>3,861,833</b>
<b>9,132,869</b>	<b>TOTAL FINANCING</b>	<b>8,574,310</b>	<b>9,027,626</b>
<b>0</b>	<b>SHORTFALL IN FINANCING</b>	<b>0</b>	<b>0</b>

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This Report will be made public on 12 February 2019



Report Number **C/18/71**

**To:** Cabinet  
**Date:** 20 February 2019  
**Status:** Key Decision  
**Head of service:** Charlotte Spendley, Assistant Director – Finance, Customer and Support Services  
**Cabinet Member:** Malcolm Dearden, Finance

**Subject:** TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20

**SUMMARY:** This report sets out the proposed strategy for treasury management for 2019/20 including Treasury Management Indicators.

#### **REASONS FOR RECOMMENDATION:**

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

- a) The Council must have regard to CIPFA's Code of Practice for Treasury Management in the Public Services when carrying out its duties under Part 1 of the Local Government Act 2003, including approving an annual Treasury Management Strategy Statement in advance of the financial year.
- b) The Council's Financial Procedure Rules require an annual plan and strategy for treasury management to be approved in advance of the financial year.

#### **RECOMMENDATIONS:**

1. To receive and note report C/18/71.
2. To approve the strategy for treasury management in 2019/20 set out in the report is adopted.
3. To approve the Treasury Management Indicators for 2019/20 set out in the report.

## **1. INTRODUCTION**

- 1.1 Treasury management is the management of the authority's cash flows, borrowing and investments, and the associated risks. 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. The successful identification, monitoring and control of risk are therefore central to the authority's treasury management strategy and its prudent financial management.
- 1.2 Treasury risk management at the authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the authority to approve a treasury management strategy before the start of each financial year. This report fulfils the authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code. The authority's own Financial Procedure Rules also require an annual plan and strategy for treasury management to be approved in advance of the each financial year.
- 1.3 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy. On 30 January Cabinet agreed to submit the proposed Investment Strategy for 2019/20 to full Council for consideration and approval which is due to take place as part of its agenda for the meeting due on 20 February 2019.

## **2. ECONOMIC OUTLOOK AND PROSPECT FOR INTEREST RATES**

(Commentary supplied by the council's Treasury Adviser, Arlingclose).

### **2.1 Economic Background**

- 2.1.1 The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, continue to be a major influence on the UK's economic background. The ongoing uncertainty over Brexit weighs heavily on sterling and UK markets.
- 2.1.2 UK Consumer Price Inflation (CPI) for December was up 2.1% year on year, in line with the consensus forecast and broadly in line with the Bank of England's (BoE) November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.
- 2.1.3 The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues

to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

2.1.4 Following the BoE's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee (MPC) continues to reiterate that any further increases will be at a gradual pace and limited in extent.

2.1.5 While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2.25%-2.50% in December while lowering its forecast of rate rises in 2019 to two from the three previously projected.

## **2.2 Credit Outlook**

2.2.1 The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

2.2.2 The BoE released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

2.2.3 European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

## **2.3 Interest Rate Forecast**

2.3.1 Following the increase in Bank Rate to 0.75% in August 2018, the authority's treasury management adviser, Arlingclose, is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The BoE's Monetary Policy Committee has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push

interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

- 2.3.2 The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is still struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.
- 2.3.3 Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the European Central Bank's (ECB) forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.
- 2.3.4 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 1.
- 2.3.5 For the purpose of setting the budget for 2019/20, it has been assumed that new investments will be made at an average rate of 1.0%, No new long-term loans have been anticipated in the budget for 2019/20.

### 3. THE COUNCIL'S FORECAST BORROWING AND INVESTMENT POSITION

- 3.1 On 31 December 2018 the authority held £56.8m of borrowing and £49.8m of investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

**Table 1: Balance Sheet Summary and Forecast**

	<b>31.3.18 Actual £m</b>	<b>31.3.19 Estimate £m</b>	<b>31.3.20 Forecast £m</b>	<b>31.3.21 Forecast £m</b>	<b>31.3.22 Forecast £m</b>
General Fund CFR	18.1	21.3	32.6	45.6	45.3
HRA CFR	47.4	47.4	47.4	47.6	48.1
<b>Total CFR</b>	<b>65.5</b>	<b>68.7</b>	<b>80.0</b>	<b>93.2</b>	<b>93.4</b>
Less: External borrowing	57.8	55.9	54.8	53.5	52.2
<b>Internal borrowing</b>	<b>7.7</b>	<b>12.8</b>	<b>25.2</b>	<b>39.7</b>	<b>41.2</b>
Less: Usable reserves	(41.0)	(39.1)	(34.8)	(29.9)	(26.0)
Less: Working capital	(4.0)	(4.6)	(4.6)	(4.6)	(4.6)
<b>Investments (-) / New Borrowing (+)</b>	<b>(37.3)</b>	<b>(30.9)</b>	<b>(14.2)</b>	<b>+5.2</b>	<b>+10.6</b>

- 3.2 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. The authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 3.3 The movement in table 1 is based on the projected outturn for the current financial year, the draft revenue and capital budgets being proposed for 2019/20, the proposed Medium Term Capital Programme, the HRA Business Plan and information taken from the latest approved Medium Term Financial Strategy for 2020/21 and 2021/22. The authority has an increasing CFR arising from its planned capital investment and, although no new borrowing is likely in 2019/20, up to £11m of new borrowing is forecast to be required by the end of 2021/22.
- 3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the authority expects to comply with this recommendation during 2019/20.

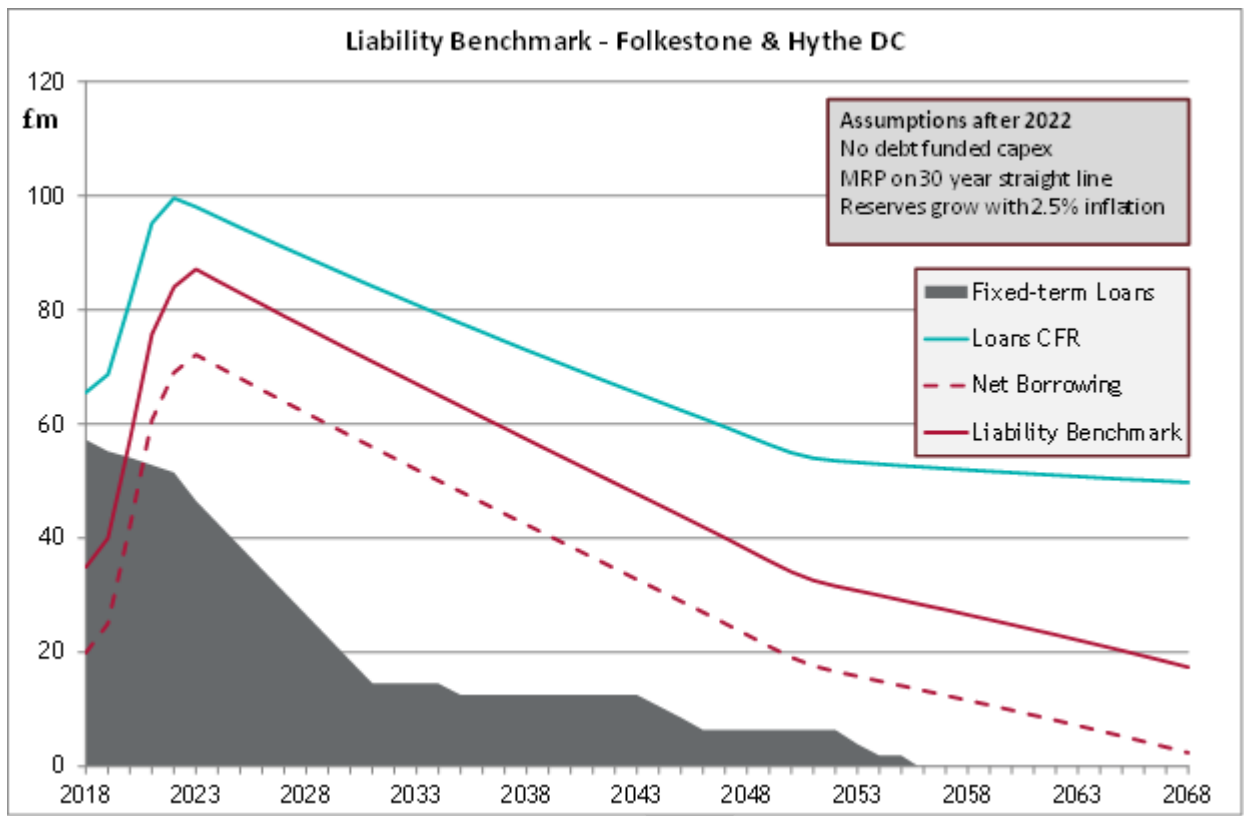
### 3.5 Liability Benchmark

- 3.5.1 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £15m at each year-end, in line with strategic investment objectives.

**Table 2: Liability benchmark**

	<b>31.3.18 Actual £m</b>	<b>31.3.19 Estimate £m</b>	<b>31.3.20 Forecast £m</b>	<b>31.3.21 Forecast £m</b>	<b>31.3.22 Forecast £m</b>
CFR	65.5	68.7	80.0	93.2	93.4
Less: Usable reserves	-41.0	(39.1)	(34.8)	(29.9)	(26.0)
Less: Working capital	-4.0	(4.6)	(4.6)	(4.6)	(4.6)
Plus: Minimum investments	15.0	15.0	15.0	15.0	15.0
<b>Liability Benchmark</b>	<b>35.5</b>	<b>40.0</b>	<b>55.6</b>	<b>73.7</b>	<b>77.8</b>

- 3.5.2 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes no capital expenditure funded by borrowing after 31 March 2022, minimum revenue provision on new capital expenditure based on a 30 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below:



#### 4. BORROWING STRATEGY

4.1 The authority currently holds £56.8 million of loans, a reduction of £1 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the authority currently does not expect to need to borrow in 2019/20. The authority may however borrow to pre-fund future years' requirements, providing this does not exceed the proposed authorised limit for borrowing of £96.5 million for 2019/20.

#### 4.2 Objectives

4.2.1 The authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the authority's long-term plans change is a secondary objective.

#### 4.3 Strategy

4.3.1 Given the significant reductions to public expenditure and in particular to local government funding, the authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.3.2 By doing so, the authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits



of both internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the authority borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.3.3 Alternatively, the authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.3.4 In addition, the authority may borrow further short-term loans to cover unplanned cash flow shortages.

#### **4.4 Sources of Borrowing**

4.4.1 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Kent County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

4.4.2 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

4.4.3 The authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

#### **4.5 Short-term and Variable Rate Loans**

4.5.1 These loans leave the authority exposed to the risk of short-term interest rate rises and are therefore subject to interest rate exposure limits in the treasury management indicators below.

#### **4.6 Debt Rescheduling**

- 4.6.1 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

## **5. INVESTMENT STRATEGY**

- 5.1 The authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19 until 31 December, the authority's investment balance has ranged between £38 and £50 million with the average being £45.5 million. The average investment balance held is expected to reduce to around £37 million in the coming year as the council uses its reserves to meet its approved capital expenditure plans in particular. The authority has about £15m invested in a range of professionally managed pooled property and diversified income funds. These are seen as longer term strategic investments which aim to provide returns in excess of inflation and have the potential for some limited capital growth, thereby helping to protect the value of the authority's cash reserves. Maintaining these pooled funds is seen as an important part of the authority's proposed investment strategy for 2019/20.

### **5.2 Objectives**

- 5.2.1 The CIPFA Code requires 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. Where balances are expected to be invested for more than one year, the authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 5.2.2 **Negative Interest Rates** - If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

### **5.3 Strategy**

- 5.3.1 Given the increasing risk and very low returns from short-term unsecured bank investments, the authority aims to further diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated £30m that is available for longer-term investment. A significant proportion of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the strategy already adopted.

## 5.4 Business Models

5.4.1 Under the new IFRS 9 standard, the accounting for certain investments depends on the authority's "business model" for managing them. The authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

## 5.5 Approved Counterparties

5.5.1 The authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown. On the advice of Arlingclose, real estate investment trusts are proposed to added to the authority's counterparty types for the first time and will be treated on the same basis as pooled funds.

**Table 3: Approved Investment Counterparties and Limits for New Investments effective from 1 April 2019**

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£5m 20 years	£5m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£5m 10 years	£5m 25 years	£3m 10 years	£3m 10 years
AA	£3m 4 years	£5m 5 years	£5m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 3 years	£5m 4 years	£5m 10 years	£3m 4 years	£3m 10 years
A+	£3m 2 years	£5m 3 years	£5m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£5m 2 years	£5m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£5m 13 months	£5m 5 years	£3m 13 months	£3m 5 years
None	£1m 6 months	n/a	£5m 25 years	£50,000 5 years	£3m 5 years
<b>Pooled funds and real estate investment trusts</b>	£5m per fund or trust				

This table must be read in conjunction with the notes below

- 5.5.2 **Credit Rating** - Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
- 5.5.3 **Banks Unsecured** - Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.
- 5.5.4 **Banks Secured** - Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
- 5.5.5 **Government** - Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 5.5.6 **Corporates** - Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.
- 5.5.7 **Registered Providers** - Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
- 5.5.8 **Pooled Funds** - Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer

same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

5.5.9 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the authority's investment objectives will be monitored regularly.

5.5.10 **Real estate investment trusts** - Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

5.5.11 **Operational bank accounts:** The authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and end of day balances will therefore be kept below £500,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the authority maintaining operational continuity.

## 5.6 Risk Assessment and Credit Ratings

5.6.1 Credit ratings are obtained and monitored by the authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.6.2 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

## 5.7 Other Information on the Security of Investments

- 5.7.1 The authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the credit rating criteria.
- 5.7.2 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

## **5.8 Investment Limits**

- 5.8.1 The authority's revenue reserves available to cover investment losses are forecast to be £16 million 31st March 2019. In order that no more than 35% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

**Table 4: Investment Limits**

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£5m per country
Registered Providers and Registered Social Landlords	£10m in total
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£25m in total
Real estate investment trusts	£10m in total

## 5.9 Liquidity Management

- 5.9.1 The authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the authority's medium term financial plan and cash flow forecast.

## 6. TREASURY MANAGEMENT INDICATORS

- 6.1 The authority measures and manages its exposures to treasury management risks using the following indicators.
- 6.2 **Security** - The authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating 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.

	<b>Target</b>
Portfolio average credit rating	A

- 6.3 **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.

	<b>Target</b>
Total cash available within 3 months	£5m

- 6.4 **Interest Rate Exposures** - This indicator is set to control the authority's exposure to interest rate risk. The upper limits of a 1% rise or fall in interest rates will be:

	<b>Limit</b>
Upper limit on one year revenue impact of a 1% <b>rise</b> in interest rates	£265,000
Upper limit on one year revenue impact of a 1% <b>fall</b> in interest rates	£215,000

- 6.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

- 6.6 **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 will be:

	<b>Upper</b>	<b>Lower</b>
Under 12 months	30%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

- 6.7 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.

- 6.8 **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 will be:

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Limit on principal invested beyond year end	£15m	£5m	£5m

## 7. OTHER ITEMS

- 7.1 The CIPFA Code requires the authority to include the following in its Treasury Management Strategy.

### 7.2 Policy on Use of Financial Derivatives



- 7.2.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 7.2.2 The authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 7.2.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

### **7.3 Policy on Apportioning Interest to the HRA**

- 7.3.1 On 1st April 2012, the authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

### **7.4 Markets in Financial Instruments Directive**

- 7.4.1 The authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the authority's treasury management activities, the Corporate Director for Customer, Support and Specialist Services believes this to be the most appropriate status.

## 8. FINANCIAL IMPLICATIONS

- 8.1 The net revenue cost of the council's treasury management borrowing and investment activity based on information at budget setting time is estimated to be:

£'000	2018/19 Estimate	2018/19 <i>Latest Projection</i>	2019/20 Estimate	Variance 2018/19 to 2019/20
<b>Revenue Budgets</b>	£'000	£'000	£'000	£'000
Interest on Borrowing	<b>1,961</b>	1,961	<b>1,912</b>	<b>(49)</b>
HRA Element	<b>(1,596)</b>	(1,596)	<b>(1,569)</b>	<b>27</b>
GF Borrowing Cost	<b>365</b>	365	<b>343</b>	<b>(22)</b>
Investment income	<b>(535)</b>	(698)	<b>(713)</b>	<b>(178)</b>
HRA Element	<b>75</b>	75	<b>75</b>	-
GF Investment income	<b>(460)</b>	(623)	<b>(638)</b>	<b>(178)</b>
<b>Net Cost (GF)</b>	<b>(95)</b>	(258)	<b>(295)</b>	<b>(200)</b>

- 8.2 The main reason for the welcome projected net reduction in General Fund borrowing costs of £200k in 2019/20 compared to 2018/19 is due to the full year's impact of additional investment income forecast to be received from the council's decision to invest £10m in four diversified income funds, made midway during the current financial year.

## 9. OTHER OPTIONS CONSIDERED

- 9.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Corporate Director for Customer, Support and Specialist Services, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however

		long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## 10. RISK MANAGEMENT ISSUES

10.1 Inherently treasury management is concerned with the management of risk, e.g. interest rate risk, market risk, credit risk and liquidity risk. The strategies in this Report are developed to minimise the impact of risk changes whilst at the same time providing a framework for the council to reduce its net interest costs.

10.2 Specific risks to be addressed are as follows:

PERCEIVED RISK	SERIOUSNESS	LIKELIHOOD	PREVENTATIVE ACTION
Interest Rate Risk (rates moving significantly different to expectations)	High	Medium	Rate rises would be beneficial but if rates fall the council would need to consider further fixed rate investments or debt rescheduling to mitigate impact.
Market Risk (adverse market fluctuations affect value of investment capital)	Medium	Low	A limit is placed on the value of principal exposed to changes in market value.
Credit Risk (risk to repayment of Capital)	High	Medium	The council's investment criteria restricts counterparties to those of the highest quality and security.

Liquidity Risk  (risk that cash will not be available when needed)	Medium	Medium	Council's investment portfolio structured to reflect future liquidity needs. Temporary borrowing is also available to meet short term liquidity issues.
Changes to the Capital Programme and/or revenue streams	High	Medium	Cash flows are calculated monthly and regular projections are made to identify changes to the council's funding requirements. Prudential borrowing to support capital expenditure can be used for schemes expected to provide a financial benefit to the council. Otherwise only realised capital receipts are used to fund the approved capital programme. There may be some slippage in capital expenditure between years and the impact will be monitored.

## **11. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **11.1 Legal Officer's Comments (David Kelly)**

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. Generally the Council must take into account its fiduciary duties to local tax payers and its continuing obligation to ensure it has the funding required to perform its statutory undertakings.

## **11.2 Finance Officer's Comments (Lee Walker)**

The report has been prepared by Financial Services and the relevant financial implications are contained within it.

## **12. CONTACT OFFICER AND BACKGROUND DOCUMENTS**

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

*Lee Walker – Group Accountant*

*Tel: 01303 853593 Email: [lee.walker@folkestone-hythe.gov.uk](mailto:lee.walker@folkestone-hythe.gov.uk)*

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

Arlingclose's Treasury Management Strategy Statement Template 2019/20.

### Appendices

Appendix 1 – Arlingclose Economic and Interest Rate Forecast

## **Appendix 1 – Arlingclose Economic & Interest Rate Forecast December 2018**

### **Underlying assumptions:**

- Our central interest rate forecasts are predicated on there being a transitional period following the UK's official exit from the EU.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.
- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.
- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

### **Forecast:**

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitional period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
Arlingclose Central Case	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.13
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-0.85
<b>3-mth money market rate</b>														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.17
Arlingclose Central Case	0.90	0.95	1.10	1.30	1.40	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35	1.27
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.76
<b>1-yr money market rate</b>														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.33
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.70	1.60	1.50	1.40	1.35	1.35	1.35	1.35	1.35	1.40
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.77
<b>5-yr gilt yield</b>														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.50	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.33
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.66
<b>10-yr gilt yield</b>														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.50	1.65	1.70	1.80	1.80	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.71
<b>20-yr gilt yield</b>														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	2.00	2.10	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.18
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
<b>50-yr gilt yield</b>														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.90	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.99
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

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This Report will be made public on 12 February 2019



Report Number **C/18/75**

**To:** Cabinet  
**Date:** 20 February 2019  
**Status:** Key decision  
**Head of service:** Charlotte Spendley, Assistant Director – Finance, Customer and Support Services  
**Cabinet Member:** Councillor Malcolm Dearden, Finance

**SUBJECT:** CAPITAL STRATEGY 2019/20

**SUMMARY:** This report sets out the council's proposed strategy in relation to capital expenditure, financing and treasury management in 2019/20 to be approved by full Council.

**REASONS FOR RECOMMENDATIONS:**

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

- a) The Council must have regard to both CIPFA's Prudential Code for Capital Finance in Local Authorities and the Ministry for Housing Communities and Local Government Investment Guidance when carrying out its duties under Part 1 of the Local Government Act 2003.
- b) The Council is required to approve a Capital Strategy for the forthcoming year.

**RECOMMENDATIONS:**

1. To receive and note report C/18/75.
2. To recommend to Council that the 2019/20 Capital Strategy set out in the appendix to this report is approved.

## **1. INTRODUCTION AND BACKGROUND**

1.1 The Capital Strategy is a new report introduced by the 2017 edition of the Prudential Code. The Prudential Code is a framework which should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

1.2 The main purpose of the new capital strategy is to provide a high level summary of how capital expenditure, capital financing and treasury management activities contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. It is intended to be written in a way to enhance stakeholders understanding of these sometimes technical areas.

The areas to be covered in this strategy are:

- Capital expenditure;
- Borrowing;
- Minimum revenue provision;
- Investments (treasury, service and commercial);
- Guarantees and loan commitments;
- Knowledge and skills.

1.3 The capital strategy should be considered alongside the investment strategy which was considered by Cabinet on 30 January 2019, and recommended to Council on 20 February for adoption.

1.4 Being a new requirement on the authority, it is anticipated that the capital strategy will develop and evolve over time in line with the council's own aspirations and plans. The intention is to review the capital strategy annually as part of the authority's budget setting process. However, if the nature and structure of the authority's proposed capital expenditure and financing was to change significantly during the year it may be necessary to revise the strategy at the same time.

1.5 It is anticipated that in future years the Capital Strategy will be considered alongside the Medium Term Financial Strategy, at an early stage of the Budget planning cycle. This will aid our approach to capital planning and more closely align the revenue and capital plans for the council.

1.6 The document contains a number of links to other documents. Several of these will also be considered at this committee (& adopted at Full Council on the same night). It is therefore proposed to add these links to a dedicated web page once adopted in February.

## **2. RISK MANAGEMENT ISSUES**

- 2.1 A key element of the capital strategy is to consider the risks associated with our approach to the capital programme, capital financing and treasury management activity. These issues have been addressed in the body of the appendix and no other risk management issues have been identified as relevant to this report.

## **3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **3.1 Legal Officer's Comments (AK)**

There are no legal implications arising directly out of this report other than those already stated. For each financial year, the council should prepare at least one Capital Strategy which should contain the disclosures and reporting requirements specified Prudential Code. The Strategy should be approved by full Council.

### **3.2 Finance Officer's Comments (CS)**

This report has been prepared by Financial Services and there are no direct financial implications arising from it.

### **3.3 Diversities and Equalities Implications (CS)**

There are no direct diversities or equalities issues arising from this report.

## **4. 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 – Assistant Director – Finance, Customer & Support Services

Telephone: 07935 517986

Email: [charlotte.spendley@folkestone-hythe.gov.uk](mailto:charlotte.spendley@folkestone-hythe.gov.uk)

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

Arlingclose Ltd – Capital Strategy Report 2019/20 Template  
20 February 2109 - Update to Medium Term Capital Programme 2018/19-2022/23  
20 February 2019 – Treasury Management Strategy 2019/20  
31 January 2019 – Investment Strategy 2019/20  
Audited Statement of Accounts 2017/18

### **Appendices:**

Appendix 1: Capital Strategy 2019/20

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## Capital Strategy 2019/20

### Introduction

This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

### Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

- For details of the Council's policy on capitalisation, see: [https://www.folkestone-hythe.gov.uk/media/5151/Audited-Statement-of-Accounts-2017-18/pdf/Audited Statement of Accounts 2017-181.pdf](https://www.folkestone-hythe.gov.uk/media/5151/Audited-Statement-of-Accounts-2017-18/pdf/Audited%20Statement%20of%20Accounts%202017-18.pdf)
- Additionally further clarification can be found within the Councils Financial Procedure rules

In 2019/20, the Council is planning capital expenditure of £24.93m as summarised below:

*Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions*

	<b>2017/18 actual</b>	<b>2018/19 forecast</b>	<b>2019/20 budget</b>	<b>2020/21 budget</b>	<b>2021/22 budget</b>
General Fund services	2.465	4.430	4.898	8.979	16.742
Council housing (HRA)	9.133	6.476	8.325	7.838	6.908
Capital investments	0.062	3.286	11.707	9.259	0
<b>TOTAL</b>	11.660	14.192	24.930	26.076	23.650

The main General Fund capital projects include Coast Protection works at Coronation Parade, Hythe (£2.39m), Disabled Facilities Grants (£1m) and an invest to save initiative for Temporary Accommodation (£500k). The Council also plans to incur £8.325m of capital expenditure on investments, which are detailed later in this report.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, the Council has plans to build 200 new homes over the period of the HRA business plan, and the coming financial year includes £5.445m within the HRA Capital programme towards the delivery of this ambition.

## Appendix 1

**Governance:** Service managers bid annually in September through the growth proposals to include projects in the Council's capital programme. Bids are collated by Accountancy who review the bids including consideration of the available funding (including external funding). Over the coming 12 months we will be exploring more formal project appraisal and evaluation options to add strength to this process. The Corporate Leadership Team appraises all bids, supported by Accountancy, based on an evaluation of the projects against corporate priorities and funding availability and makes recommendations to the Cabinet for consideration initially through the Budget Strategy in November. The final capital programme is then presented to Cabinet in January or February and to Council in February each year.

- For full details of the Council's capital programme, see: [\[MTCP link\]](#)

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

*Table 2: Capital financing in £ millions*

	<b>2017/18 actual</b>	<b>2018/19 forecast</b>	<b>2019/20 budget</b>	<b>2020/21 budget</b>	<b>2021/22 budget</b>
External sources	2.250	1.006	3.656	4.669	1.269
Own resources	9.348	9.636	9.645	7.893	21.124
Debt	0.062	3.550	11.629	13.514	1.257
<b>TOTAL</b>	<b>11.660</b>	<b>14.192</b>	<b>24.950</b>	<b>26.076</b>	<b>23.650</b>

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The authority currently does not anticipate using capital receipts to replace debt finance so the planned MRP is as follows:

*Table 3: Replacement of debt finance in £ millions*

	<b>2017/18 actual</b>	<b>2018/19 forecast</b>	<b>2019/20 budget</b>	<b>2020/21 budget</b>	<b>2021/22 budget</b>
Own resources	0.4	0.4	0.4	0.3	1.0

- The Council's full minimum revenue provision statement is available here: [\[link Appendix 3 MTCP paper\]](#)

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £11.271m during 2019/20. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

## Appendix 1

*Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions*

	<b>31.3.2018 actual</b>	<b>31.3.2019 forecast</b>	<b>31.3.2020 budget</b>	<b>31.3.2021 budget</b>	<b>31.3.2022 budget</b>
General Fund services	11.690	12.342	12.484	16.192	16.557
Council housing (HRA)	47.416	47.416	47.416	47.619	48.161
Capital investments	6.436	8.961	20.090	29.349	28.705
<b>TOTAL CFR</b>	<b>65.542</b>	<b>68.719</b>	<b>79.990</b>	<b>93.160</b>	<b>93.423</b>

**Asset management:** To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. This strategy was adopted in July 2017 by Cabinet and sets out how property asset management is delivered for the Council to meet its long term objectives and goals. It outlines how the long term objectives for managing the asset portfolio are met, including statutory obligations, stakeholder needs & the overall performance of property within the context of any constraints such as funding. The strategy is supported by the Asset Management Policy & Asset Management Plan also adopted by Cabinet in July 2017.

- The Council's asset management strategy can be read here: <http://www.folkestone-hythe.gov.uk/moderngov/documents/g3223/Public%20reports%20pack%2019th-Jul-2017%2017.00%20Cabinet.pdf?T=10>

**Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £4.23m capital receipts in the coming financial year as follows:

*Table 5: Capital receipts in £ millions*

	<b>2017/18 actual</b>	<b>2018/19 forecast</b>	<b>2019/20 budget</b>	<b>2020/21 budget</b>	<b>2021/22 budget</b>
Asset sales	2.42	2.63	4.13	1.50	1.50
Loans repaid	0.42	0.48	0.10	0.35	0.35
<b>TOTAL</b>	<b>2.84</b>	<b>3.11</b>	<b>4.23</b>	<b>1.85</b>	<b>1.85</b>

- Further details of planned asset disposals are outlined in Appendix 2 of the MTCP report [\[link – Appendix 2 MTCP\]](#)
- The Council's Flexible Use of Capital Receipts Policy is available here: <http://www.folkestone-hythe.gov.uk/moderngov/documents/g3161/Public%20reports%20pack%2014th-Sep-2016%2017.00%20Cabinet.pdf?T=10>

## Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Council currently has £56.8m borrowing at an average interest rate of 3.38% and £43.1m treasury investments at an average rate of 1.16%.

**Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above).

*Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions*

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Debt (incl. PFI & leases)	57.8	55.8	60.2	78.3	82.4
Capital Financing Requirement	65.5	68.7	80.0	93.2	93.4

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

**Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £15m at each year-end. This benchmark is currently projected to be £40.0m at 31.3.19 and is forecast to rise to £77.8m over the next three years.

*Table 7: Borrowing and the Liability Benchmark in £ millions*

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Outstanding borrowing	57.8	55.8	60.2	78.3	82.4
Liability benchmark	35.5	40.0	55.6	73.7	77.8



## Appendix 1

The table shows that the Council expects to remain borrowed above its liability benchmark. This is because the council intends to continue holding £15m of strategic investments in pooled funds over the medium term which should provide returns greater than the expected cost of new borrowing over the same period.

**Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

*Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m*

	2018/19 limit	2019/20 limit	2020/21 limit	2021/22 limit
Authorised limit – borrowing	90.0	96.5	97.4	96.4
Authorised limit – PFI and leases	-	-	-	-
Authorised limit – total external debt	90.0	96.5	97.4	96.4
Operational boundary – borrowing	83.3	94.0	94.9	93.9
Operational boundary – PFI and leases	-	-	-	-
Operational boundary – total external debt	83.3	94.0	94.9	93.9

- Further details on borrowing are in pages 6 to 8 of the treasury management strategy [\[link TMS\]](#)

**Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

*Table 8: Treasury management investments in £millions*

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Near-term investments	(23.4)	(15.8)	(4.6)	(4.6)	(4.6)
Longer-term investments	(13.9)	(15.0)	(15.0)	(15.0)	(15.0)
<b>TOTAL</b>	<b>(37.3)</b>	<b>(30.8)</b>	<b>(19.6)</b>	<b>(19.6)</b>	<b>(19.6)</b>

- Further details on treasury investments are in pages 8 to 13 of the treasury management strategy [\[link\]](#) TMS

## Appendix 1

**Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director –Customer, Support & Specialist Services and staff, who must act in line with the treasury management strategy approved by Council. Half yearly reports on treasury management activity are presented to Cabinet. The Overview & Scrutiny Committee are responsible for scrutinising treasury management decisions.

### **Investments for Service Purposes**

The council can lend money to its subsidiaries, its charities where the council is the trustee, its external service providers, local residents and its employees to support local public services and stimulate local economic growth. In the future the council may also lend money to joint ventures it decides to enter into to help deliver its major corporate investment initiatives.

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the authority, upper limits on the outstanding loans to each category of borrower have been set

Additionally the council can invest in share equity, it currently only does so for its wholly owned Housing and Regeneration subsidiary company, Oportunitas Limited. In the future the council may also acquire shares in either other subsidiaries companies it may choose to establish or joint venture companies it decides to enter into to help deliver its major corporate investment initiatives.

**Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Corporate Director – Customer Support & Specialist Services and must meet the criteria and limits laid down in the Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on service investments are in sections 3 & 4 Investment Strategy C/18/65 <http://www.folkestone-hythe.gov.uk/moderngov/documents/g4464/Public%20reports%20pack%2030th-Jan-2019%2017.00%20Cabinet.pdf?T=10>

### **Commercial Activities**

With central government financial support for local public services declining, the Council has started to explore opportunities to invest in commercial property purely or mainly for financial gain. Total commercial investments are currently projected to be valued at £9.383m with the largest being Otterpool Park land, the majority of these holdings are commercial or residential land and property being held with the intention of making a capital gain or generating a new revenue stream that will be spent on local public services. Returns have therefore yet to be made on this land to date.

## Appendix 1

With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include fluctuations in future demand of the market including competition, risk of void tenancies, fall in capital values etc. These risks are managed by the project lead as well as assessed through the corporate risk register. The council has an established a proactive risk management framework, which incorporates key projects, and reports quarterly to the Audit & Governance Committee as well as annually to the Cabinet. The council is also working on a council wide transformation programme to support the needs of the medium term revenue position so as to not place sole reliance on the investment plans providing the expected yields within the anticipated timeframes.

**Governance:** Decisions on commercial investments are made by Cabinet and / or Full Council in line with the criteria and limits outlined within the Constitution, in specific circumstances the Executive have delegated authority to progress certain projects to the the Corporate Director - Commercial in consultation with the relevant Portfolio Holder. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on commercial investments and limits on their use are in pages 36 to 39 of the Investment Strategy: C/18/65 <http://www.folkestone-hythe.gov.uk/moderngov/documents/g4464/Public%20reports%20pack%2030th-Jan-2019%2017.00%20Cabinet.pdf?T=10>
- Further details on the risk management of commercial investments are in the non-treasury management investment practices available here: [\[link\]](#)

## **Liabilities**

In addition to debt of £60.2m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £70.7m at 31.3.18). It has also set aside £1.8m to cover risks of the business rates appeals.

**Governance:** Decisions on incurring new discretionary liabilities are taken by the Corporate Director – Customer, Support & Specialist Services in liaison with service managers. The risk of liabilities crystallising and requiring payment is monitored by Accountancy and reported through the regular budget monitoring/projected outturn cycle to Cabinet if identified or through the Statement of Accounts process to the Audit & Governance Committee. New liabilities exceeding the auditors materiality threshold would be reported to full council for approval/notification as appropriate.

- Further details on liabilities and guarantees are on pages 34, and 38 to 41 of the 2017/18 statement of accounts [https://www.folkestone-hythe.gov.uk/media/5151/Audited-Statement-of-Accounts-2017-18/pdf/Audited\\_Statement\\_of\\_Accounts\\_2017-181.pdf](https://www.folkestone-hythe.gov.uk/media/5151/Audited-Statement-of-Accounts-2017-18/pdf/Audited_Statement_of_Accounts_2017-181.pdf)

## Appendix 1

### **Revenue Budget Implications**

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

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

	<b>2017/18 actual</b>	<b>2018/19 forecast</b>	<b>2019/20 budget</b>	<b>2020/21 budget</b>	<b>2021/22 budget</b>
<b>Non-HRA</b> Financing costs (£m)	1.37	1.09	0.65	0.35	1.05
Proportion of net revenue stream	8.2%	6.6%	3.9%	2.1%	5.8%
<b>HRA</b> Financing costs (£m)	5.70	4.26	4.91	5.68	4.45
Proportion of net revenue stream	35.3%	26.7%	30.2%	34.3%	25.9%

- Further details on the revenue implications of capital expenditure are on page 4 of the 2019/20 revenue budget [\[link\]](#)

**Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Corporate Director – Customer, Support Specialists of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable because it has been evaluated and risk assessed, it is considered to be a balanced portfolio with minimal risks.

### **Knowledge and Skills**

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Corporate Director – Customer, Support & Specialist Services is a qualified accountant with 30 years' experience, and Corporate Director - Commercial has a degree in Estate Management, is RICS qualified and has 30 years experience in both the private and public sector. The Council pays for staff to study towards relevant professional qualifications including ACCA, ACT (treasury).

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, Savills and Montague Evans as property consultants as well as other bodies on an ad hoc basis. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

## Appendix 1

- Further details on staff training can be found within the People Strategy which was considered by Personnel Committee in September  
<http://www.folkestone-hythe.gov.uk/moderngov/documents/g4480/Public%20reports%20pack%2027th-Sep-2018%2014.00%20Personnel%20Committee.pdf?T=10>  
and adopted by CLT (Corporate Leadership Team) in November 2018.

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This Report will be made  
public on 12 February  
2019

Report Number **C/18/74**

**To:** Cabinet  
**Date:** 20 February 2019  
**Status:** Key Decision  
**Head of Service:** Charlotte Spendley, Assistant Director – Finance,  
Customer & Support Services  
**Cabinet Member:** Councillor David Monk, Leader and Councillor  
Malcolm Dearden, Cabinet Member for Finance

**SUBJECT: GENERAL FUND BUDGET AND COUNCIL TAX 2019/20**

**SUMMARY:** This report sets out the final General Fund budget and council tax requirement for 2019/20, including that part of the local tax covering district and parish services.

**REASONS FOR RECOMMENDATIONS:**

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

- a) The District Council's General Fund budget and council tax requirement must be approved to enable Full Council to set the budget and the council taxes for 2019/20 in accordance with the Local Government Finance Act 1992.

**RECOMMENDATIONS:**

1. To receive and note Report C/18/74.
2. To recommend to Council to approve the final 2019/20 General Fund budget, as set out at paragraph 4.
3. To recommend to Council to approve a council tax requirement for 2019/20 of £12,605,380.
4. To approve growth of 3 Area Officer posts funded through savings identified on existing budgets, as outlined in section 4.3.

## **1. BACKGROUND**

- 1.1 This report sets out the final general fund budget and council tax requirement for 2019/20, including that part of the local tax covering district and parish services. The council tax requirement determines the transfer from the Collection Fund in accordance with the Local Government Finance Act 1988.
- 1.2 It follows on from previous reports approved by Cabinet:
- 17 October 2018 - Medium Term Financial Strategy for the period 2019 /20 to 2022/23
  - 14 November 2018 - Budget Strategy 2019/20 and Fees & Charges 2019/20
  - 12 December 2018 - Draft General Fund Original Revenue Budget 2019/20
  - 20 February 2019 - Update to the General Fund Medium Term Capital Programme
- 1.3 Areas of the budget that remained to be confirmed when the Draft Budget was approved by Cabinet in December 2018 included:
- The Local Government Finance Settlement for 2019/20
  - The council's share of the Collection Fund surplus or deficit
  - Town and parish precepts, and
  - The council tax base and business rates income forecast.
- 1.4 Cabinet's budget recommendation for 2019/20 will be considered at a meeting of Full Council (also taking place on 20 February 2019) when it will set the 2019/20 council tax after taking into account:
- Precepts from Kent County Council, Kent Police & Crime Commissioner and Kent & Medway Fire & Rescue Service
  - The special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity
  - Individual town and parish council precepts.
- 1.5 The budget proposals have been subject to public consultation and review by Overview and Scrutiny Committee.

## **2. COUNCIL TAX 2019/20**

- 2.1 The budget has been prepared on the basis that the District Council's element of council tax (including the special expenses for Folkestone Parks and Pleasure Grounds) is increased by 1.92%. This is the increase that is monitored by the Government when determining whether any increase in council tax is excessive, and would require a referendum. The maximum increase permitted for the financial year 2019/20 without referendum is 2.99%, therefore the proposed increase of 1.92% is well below this threshold.



### 3. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2019/20

- 3.1 The provisional 2019/20 settlement was announced on 13 December 2018. The announcement covered a range of proposals affecting both the short term (2019/20) and the medium term (to 2020/21). The main changes are outlined below.

#### Local Government Funding Reform

- 3.2 The government has published a further consultation paper on the “Fair Funding Review” seeking views on the approach to measuring the relative needs and resources of local authorities. Other consultations are to follow and the results of this review will be introduced in 2020/21.

#### Folkestone & Hythe Core Spending Power

- 3.3 Core Spending Power is a headline figure used by Government to represent the key revenue resources available to local authorities; it includes an estimate of actual and potential council tax.

	2018/19 £M	2019/20 £M
<b>Core Spending Power</b>	<b>15.239</b>	<b>15.807</b>
Comprising:		
Settlement Funding Assessment	3.896	3.673
Council Tax	9.899	10.472
Other Grants	1.444	1.662
<b>Change in Core Spending Power</b>		
Annual Change		3.7%
<b>Other (not part of Core Spending Power)</b>		
Levy Surplus Returned		0.056

#### Folkestone & Hythe Settlement Funding Assessment

- 3.4 Settlement Funding Assessment (SFA) is the revenue received by local authorities in the form of (i) Revenue Support Grant from Government and (ii) the share of business rates retained locally.

	2018/19 £M	2019/20 £M
<b>Settlement Funding Assessment</b>	<b>3.896</b>	<b>3.673</b>
Comprising:		
Revenue Support Grant	0.000	0.000
Baseline Funding Level	3.896	3.673
<b>Change in Settlement Funding Assessment</b>		
Annual Change		-5.7%

Nationally, the cumulative SFA decrease for district councils between 2015/16 and 2019/20 is 38.8%.

#### Folkestone & Hythe Retained Business Rates

- 3.5 The Baseline Funding Level is the share of the Settlement Funding Assessment that Government intends to be funded via locally retained

business rates. The remainder would have come through Revenue Support Grant which ceased at the end of 2017/18 for Kent Business Rates Pilots. It is Government's projection of the authority's share of business rates assuming there has been no change in the taxbase since the start of the scheme. It increases each year in line with the small business rates multiplier.

The Provisional settlement announcement reconfirmed that there will be a business rates baseline reset in 2020/21, and from 2020/21 business rates retention will be at 75%. The settlement also confirmed £180 million additional funding nationally from the surplus on the Business Rates Retention levy/safety net account.

	2018/19	2019/20
Baseline Funding Level (£M)	3.896	3.673
Baseline Business Rates (£M)	9.264	9.777
Tariff/Top Up (£M)	-5.368	-6.105
Levy Rate (pence in the pound)	0	50
Levy Surplus Returned (£M)		0.056

#### Kent Business Rates Pilots

- 3.6 The settlement announced that the Kent and Medway business rates pilot application for 2019/20 was unsuccessful meaning the Kent and Medway Business Rates Pool will revert to the 50% retention scheme. The budget does not anticipate any additional funds that may have been received as a consequence of being in the pilot so this announcement has no financial impact on the 2019/20 budget for Folkestone & Hythe.

#### Folkestone & Hythe New Homes Bonus

- 3.7 The provisional settlement announcement included no changes to the New Homes Bonus scheme methodology or distribution. A prudent approach had been taken regarding this funding in the draft budget, so this announcement has had a positive impact on the budget for 2019/20, and will be incorporated in future medium term financial planning.

#### Council Tax

Local Authorities were able to apply an increase of less than 3% or up to £5, whichever was higher for the authority, in 2018/19. The settlement announced that this referendum limit would be maintained for 2019/20. The government also announced that it will continue to defer the setting of referendum principles for town and parish councils.

#### Negative Revenue Support Grant

The Government has provided additional funding to remove negative Revenue Support Grant in 2019/20. Folkestone & Hythe are not directly impacted by this.

#### 3.10 Final Local Government Finance Settlement 2019/20

The final local government finance settlement has recently been released and at the time of submitting this report for approval no significant changes have been identified from the provisional settlement position.

#### 4. GENERAL FUND REVENUE BUDGET 2019/20

4.1 Cabinet considered and approved the Draft General Fund Original Revenue Budget for 2019/20 on 12 December 2018. This took into account the £556k savings proposals, £27k from fees & charges, £594k growth and use of Reserves for one-off growth items of £440k as detailed in the Budget Strategy report that was approved in November 2018, along with the forecast 2019/20 budget changes from the Medium Term Financial Strategy.

4.2 Following the provisional settlement and final budget updates the revised Original Budget is set out below.

2018/19		2019/20 Draft	2019/20 Updated
Original Budget £		Original Budget December 2018 £	Original Budget February 2019 £
<b>SUMMARY OF NET EXPENDITURE</b>			
<b>Service Heads</b>			
759,060	Corporate Director – Strategy	639,630	<b>616,140</b>
4,745,080	Governance, Law & Regulatory Services	5,084,900	<b>5,107,600</b>
569,930	Human Resources	597,040	<b>597,040</b>
5,800,490	Finance, Customer & Support Services	6,358,120	<b>6,358,120</b>
2,402,100	Strategy, Performance & Communications	2,170,070	<b>2,141,020</b>
1,321,470	Strategic Development	925,840	<b>925,840</b>
293,540	Economic Development	588,040	<b>588,040</b>
687,860	Planning	825,200	<b>915,200</b>
2,483,170	Environment & Corporate Assets	2,437,720	<b>2,544,140</b>
-1,980,500	Recharges	-1,980,500	<b>-1,980,500</b>
-6,000	Vacancy Target (not included above)	-340,000	<b>-340,000</b>
<b>17,076,200</b>	<b>TOTAL HEAD OF SERVICE NET EXPENDITURE</b>	<b>17,306,060</b>	<b>17,472,640</b>
452,770	Internal Drainage Board Levies	461,830	<b>461,830</b>
452,210	Interest Payable and Similar Charges	431,000	<b>431,000</b>
-678,430	Interest and Investment Income	-848,000	<b>-848,000</b>
-1,361,670	New Homes Bonus Grant	-1,349,460	<b>-1,542,740</b>
-1,240,020	Other non-service related Government Grants	-1,240,020	<b>-1,815,160</b>
<b>14,701,060</b>	<b>TOTAL GENERAL FUND NET OPERATING EXPENDITURE</b>	<b>14,761,410</b>	<b>14,159,570</b>
-906,650	Net Transfers to/(from) Earmarked Reserves	-800,440	<b>-889,753</b>
373,370	Minimum Revenue Provision	373,370	<b>373,370</b>
197,000	Financing of Fixed Assets	138,000	<b>138,000</b>
<b>14,364,780</b>	<b>TOTAL TO BE MET FROM REVENUE SUPPORT GRANT AND LOCAL TAXPAYERS</b>	<b>14,472,340</b>	<b>13,781,187</b>
2,283,450	Town and Parish Council Precepts	2,329,130	<b>2,313,103</b>
-100,000	Transfer to/(from) the Collection Fund	0	<b>0</b>
-4,244,100	Business Rates Income	-4,015,400	<b>-3,495,940</b>
0	Revenue Support Grant	0	<b>-</b>

<b>12,304,130</b>	<b>TOTAL TO BE MET FROM DEMAND ON THE COLLECTION FUND AND GENERAL RESERVE</b>	<b>12,786,070</b>	<b>12,598,350</b>
<u>-12,183,130</u>	<u>Council Tax - Demand on Collection Fund</u>	<u>-12,578,070</u>	<u>-12,598,350</u>
<u>121,000</u>	<b>(SURPLUS) / DEFICIT FOR YEAR</b>	<b>208,000</b>	<b>0</b>

#### Final Budget Changes

4.3 Reasons for changes since the draft budget was reported in December 2018 include:

- (i) Head of Service Budgets - final updates, the impact of the decisions on the budget by the Folkestone Parks & Pleasure Grounds Charity for 2019/20 and emerging issues
- (ii) New Homes Bonus income - updated for the provisional settlement notification
- (iii) Other non-service related Government Grants - updated for the provisional settlement notification and the latest business rates forecasts
- (iv) Updates for town and parish precepts which had not been confirmed when the December report was prepared
- (v) Net transfers to/from earmarked reserves have been amended for the revised reserve release for the Medium Term Capital Programme and a review of planned earmarked reserve use
- (vi) Transfer to/from the Collection Fund and Business Rate Income - adjusted for latest revised business rates forecasts
- (vii) Council Tax Demand on the Collection Fund – updated for:
  - forecast income based on the council tax base for 2019/20
  - confirmation of the special expenses for the Folkestone Parks and Pleasure Grounds Charity and
  - a 1.92% increase in the district council's council tax in 2019/20 to keep in line with current inflation rates.
- (viii) Following the successful pilot it is proposed that the Area Officer posts are added to the base budget on a permanent basis from 2019/20 at a cost of £98k which has been funded through re-prioritisation and therefore has a net nil effect on the proposed budget for 2019/20.

#### Comparison with 2018/19

4.4 The general fund budget requirement for 2019/20 is £13.781m, £0.584m lower than the 2018/19 original estimate. This reduction is primarily due to:

	<b>£000</b>
Increase in Head of Service Net Expenditure	397
Increase in Drainage Board levy	9

Net decrease in treasury management costs	(192)
Increase in New Homes Bonus income received	(181)
Net increase in Other Government Grants	(575)
Increased transfers from Earmarked Reserves	17
Reduced contribution to financing of Fixed Assets from revenue	(59)

**Total Reduction** **(584)**

**5. FOLKESTONE & HYTHE BAND D EQUIVALENT COUNCIL TAX 2019/20**

- 5.1 The Local Government Finance Act 1992 (as amended) requires the Council to determine its council tax requirement for 2019/20.
- 5.2 The legal determinations in respect of the budget and council tax setting are set out in the General Fund Budget and Council Tax 2019/20 Report that is being considered at the 20 February 2019 meeting of Full Council, following this Cabinet meeting.
- 5.3 The amount to be raised by this authority from council tax payers comprises the council tax - demand on collection fund of £12,598,350.
- 5.4 This is divided by the tax base (39,057.21 Band D equivalent properties) to calculate the average district council tax, including town and parish precepts. The council tax base was approved by Corporate Director – Customers, Support and Specialist Services on 11 December 2018 via delegated authority through the constitution and is recommended to Full Council as part of the General Fund Budget and Council Tax 2019/20 Report that is being considered on 20 February 2019, following this Cabinet meeting.
- $£12,598,350 \div 39,057.21 = £322.56$
- 5.5 The average District council tax for Band D properties, including an amount for town and parish councils, will be £322.56. This is an increase of £4.57 (1.44%) over 2018/19. This sum will vary by parish and only represents an average, there is no referendum limit placed on town or parish councils by central government.
- 5.6 The impact of town and parish precepts is excluded when comparing the increase against what the Government regards as an excessive increase.

	<b>2019/20 £</b>	<b>2018/19 £</b>	<b>Increase / (Decrease) %</b>
Band D Council Tax - including town and parish precepts	<b>322.56</b>	317.99	<b>1.44%</b>
Band D equivalent of town and parish precepts	<b>(59.22)</b>	(59.60)	<b>0.63%</b>
Band D Council Tax - excluding town and parish precepts	<b>263.34</b>	258.39	<b>1.92%</b>

The average council tax to finance Folkestone & Hythe's net spending plans in 2019/20, including special expenses, is proposed to be increased by 1.92% to £263.34. The Council is therefore not at risk of having to hold a referendum because the increase falls well below the Government threshold.

Excluding the special expenses, Folkestone & Hythe's council tax rate is £249.21; an increase of 1.91% from the 2018/19 rate.

## **6. SPECIAL EXPENSES – FOLKESTONE PARKS AND PLEASURE GROUNDS CHARITY**

- 6.1 The average 2019/20 council tax for Folkestone & Hythe District Council of £263.34 includes an amount that the Council has identified is in respect of special expenses i.e. the Folkestone Parks and Pleasure Grounds Charity.
- 6.2 When council tax bills are issued, the council tax (and % change in tax) for special expenses is disclosed separately from the council tax (and % change in tax) for Folkestone & Hythe District Council excluding special expenses.
- 6.3 Subject to Full Council's consideration and final approval of the budget and council tax, the following amounts will be disclosed separately on the council tax bill for a Band D property.

<b>Based on a Band D average</b>	<b>Council Tax 2018/19 (Band D) £</b>	<b>Increase (Band D) £</b>	<b>Increase + /Decrease ( % )</b>	<b>Council Tax payers that receive this information</b>
Folkestone & Hythe District Council element of Council Tax - excluding Special Expenses	249.21	4.68	+1.91%	All Folkestone & Hythe District council tax payers
Special Expenses - Folkestone Parks and Pleasure Ground Charity	33.57	0.53	+1.60%	Folkestone and Sandgate council tax payers only

## **7. MAJOR PRECEPTS**

- 7.1 Local taxpayers will also receive information in their council tax bill regarding the amount payable in respect of:
- their town or parish council
  - Kent County Council
  - Kent Police & Crime Commissioner, and
  - Kent & Medway Fire and Rescue Service.
- 7.2 The Adult Social Care precept levied by Kent County Council will be itemised separately on council tax bills.

- 7.3 Precept details are set out in the General Fund Budget and Council Tax 2019/20 report to Full Council on 20 February 2019.

## 8. GENERAL FUND RESERVES

- 8.1 The forecast reserves position for 2018/19 and 2019/20 is shown below:

Reserve	1/4/2018 Balance £000	2018/19 Movement £000	31/3/2019 Balance £000	2019/20 Movement £000	31/3/2020 Balance £000
<b>Earmarked Reserves:</b>					
Business Rates	3,160	391	3,551	59	3,610
Carry Forward	420	(181)	239	(40)	199
Corporate Initiatives	379	26	405	260	665
IFRS <sup>1</sup> Reserve	49	(11)	38	(7)	31
Invest to Save	366	0	366	0	366
Leisure	197	0	197	0	197
New Homes Bonus (NHB)	2,713	(189)	2,524	(165)	2,359
VET <sup>2</sup> Reserve	654	(13)	641	24	665
Economic Development	2,194	(23)	2,171	(742)	1,429
Otterpool	2,232	(1,388)	844	(278)	566
Maintenance of Graves	12	0	12	0	12
Community Led Housing	437	0	437	0	437
Lydd Airport	9	0	9	0	9
Homelessness Prevention	215	0	215	0	215
<b>Total Earmarked Reserves</b>	<b>13,037</b>	<b>(1,388)</b>	<b>11,649</b>	<b>(889)</b>	<b>10,760</b>
<b>General Reserve</b>	<b>5,862</b>	<b>1,155</b>	<b>7,017</b>	<b>0</b>	<b>7,017</b>
<b>Total General Fund Reserves</b>	<b>18,899</b>	<b>(233)</b>	<b>18,666</b>	<b>(889)</b>	<b>17,777</b>

<sup>1</sup> IFRS = International Financial Reporting Standards

<sup>2</sup>VET = vehicles, equipment and technology

- 8.2 The General Reserve is forecast to be £7.0m by 31 March 2020 on the assumption that in-year budget variances are contained within the overall approved 2019/20 budget. Total General Fund Reserves (General Reserve plus Earmarked Reserves) are forecast to be £17.8m at 31 March 2020

## 9. BUDGET CONSULTATION

- 9.1 The objectives for consultation on the 2019/20 budget proposals were to:
- (i) Engage with key stakeholder groups and local residents;
  - (ii) Seek feedback on specific budget proposals for 2019/20; and
  - (iii) Seek feedback on general spending and income generation priorities
- 9.2 Information was placed on the website and feedback through email encouraged. Additionally some specific groups such as the Business Advisory Board and Joint Parish Council Committee received presentations.
- Budget Consultation Responses
- 9.3 Public budget consultation ran online during December and January. No direct feedback was received through these means. We will seek to explore over the coming year how other authorities undertake their

consultation with the public to explore options to obtain a more representative sample of residents' views.

- 9.4 In addition, in order to meet statutory responsibilities for consulting on the budget with the business community, feedback was noted following a presentation on the Council's financial strategy to members of the Business Advisory Board 22 November. The board felt that they would be able to more constructively contribute if they were consulted at an earlier stage in the process and officers have therefore undertaken to engage with the group during the budget strategy phase of the process to gain that early input for 2020/21.
- 9.5 Parish councils were also briefed and invited to participate in the consultation at the meeting of Folkestone & Hythe District and Parish Councils Joint Committee on 17 January 2019.

## **10. BUDGET SCRUTINY**

- 10.1 The 2019/20 budget reports that have been approved by Cabinet have been subject to review by the Overview and Scrutiny Committee at the following meetings:
- 16 October 2018 - Medium Term Financial Strategy for the period 2019/20 to 2022/23
  - 13 November 2017 - Budget Strategy 2019/20 and Fees & Charges 2019/20
  - 11 December 2018 - Draft General Fund Original Revenue Budget 2019/20
  - 19 February 2019 - Update to the General Fund Medium Term Capital Programme

Minutes of these discussions have been made available to Cabinet when considering the reports.

## **11. ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES**

- 11.1 The Local Government Act 2003 requires the Council's Chief Finance Officer to formally give an opinion on the robustness of the budget and adequacy of reserves.
- 11.2 The Chief Finance Officer's statement will be presented in the General Fund Budget and Council Tax 2019/20 report to Council on 20 February 2019.

## **12. CONCLUSION**

- 12.1 Cabinet is asked to recommend to Full Council the approval of the final General Fund budget for 2019/20 and to determine the District Council's council tax requirement as £12,598,350.

## **13. RISK MANAGEMENT ISSUES**



- 13.1 The risks in respect of the General Fund Budget 2019/20 have already been set out in detail in Report C/18/51 to Cabinet 12 December 2018 but are repeated below (and updated where applicable).

Perceived risk	Seriousness	Likelihood	Preventative action
Deteriorating economic climate	Medium	Medium	Setting of a prudential budget and continuing strong financial control in the Council's decision making.
Business Rates Localisation Scheme	High	Medium	Significant degree of uncertainty means close monitoring and modeling of the impact will be required. Budget has been reviewed in light of final NNDR1 claim in January.
Reduction in Government grant	High	High	Monitor closely Government announcements and identify early action to address any shortfall. Risk has been partially mitigated due shift away from reliance on government grants.
Budget strategy not achieved.	High	Low-medium	Close control of the budget making process and a prompt and decisive response to addressing budget issues. Stringent budget monitoring and reporting during 2019/20 and future years.
MTFS becomes out of date.	High	Low	The MTFS is reviewed annually through the budget process.
Assumptions may be inaccurate.	High	Medium	Budget monitoring is undertaken regularly and financial developments nationally are tracked. Assumptions are regularly reviewed.
Incorrect assessment of Local Government Finance Settlement impact.	High	Low	Current position is based on known information. Position will be updated before February report is presented.

#### 14. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

#### **14.1 Legal Officer's Comments (DK)**

The Council must consistently comply with the Local Government Finance Act 1992 (as amended) and associated legislation. All the legal issues have been covered in the body of this report.

#### **14.2 Finance Officer's Comments (CS)**

The Financial implications are detailed in the report.

#### **14.3 Diversities and Equalities Implications (CS)**

The Equality Impact Assessment will be presented in the 20 February 2019 Budget and Council Tax 2019/20 report to Council.

### **15. 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 – Assistant Director – Finance, Customer & Support Services*

*Telephone: 01303 853420  
07935 517986*

*Email [charlotte.spendley@folkestone-hythe.gov.uk](mailto:charlotte.spendley@folkestone-hythe.gov.uk)*

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

- Budget working papers
- 17 October 2018 - Report to Cabinet and Council - Medium Term Financial Strategy for the period 2019/20 to 2022/23
- 14 November 2018 - Reports to Cabinet - Budget Strategy 2019/20 and Fees & Charges 2019/20
- 12 December 2018 - Report to Cabinet - Draft General Fund Original Revenue Budget 2019/20
- 20 February 2019 - Report to Cabinet - Update to the General Fund Medium Term Capital Programme

This Report will be made public on 12 February 2019.



Report Number **C/18/72**

**To:** Cabinet  
**Date:** 20 February 2019  
**Status:** Key Decision  
**Head of Service:** Charlotte Spendley, Assistant Director – Finance, Customer and Support Services  
**Cabinet Member:** Councillor Malcolm Dearden, Finance

**SUBJECT: UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME AND BUDGET MONITORING 2018/19**

**SUMMARY:** This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2024. The report provides a projected outturn for the General Fund capital programme in 2018/19, based on expenditure to 30 November 2018. The General Fund Medium Term Capital Programme is required to be submitted to full Council for consideration and approval as part of the budget process. This report also sets out both the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement for 2019/20 to be approved by full Council.

## **REASONS FOR RECOMMENDATIONS:**

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

- a) It needs to be kept informed of the existing General Fund Medium Term Capital Programme position and take appropriate action to deal with any variance from the approved budget.
- b) Proposed extensions to existing schemes are required to be considered and approved before being included in the council's Medium Term Capital Programme.
- c) The proposed Medium Term Capital Programme needs to be considered before it is submitted to full Council for approval as part of the budget process.
- d) The Council must also have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities when carrying out its duties under Part 1 of the Local Government Act 2003.
- e) The Council is required to approve a Minimum Revenue Provision statement for 2019/20 in advance of the start of the financial year.

**RECOMMENDATIONS:**

- 1. To receive and note report C/18/72.**
- 2. To seek Council's approval to the updated General Fund Medium Term Capital Programme as set out in appendix 2 to this report.**
- 3. To seek Council's approval of the Prudential Indicators for capital and borrowing set out in the appendix 3 to this report.**
- 4. To seek Council's approval of the Minimum Revenue Provision (MRP) Policy Statement for 2019/20 set out in appendix 4 to this report.**

DRAFT

## **1. INTRODUCTION AND BACKGROUND**

- 1.1 In line with the council's approved Budget Strategy for 2019/20, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five year period ending 31 March 2024. The report;-
- i) provides the latest projection, as at 30 November 2018, of the planned expenditure in 2018/19 for the existing General Fund capital programme and explanations of the variances compared to the latest approved budget,
  - ii) reviews and updates the existing approved Medium Term Capital Programme and incorporates the capital investment proposals agreed by Cabinet during the budget process for 2019/20, including the proposed leisure centre and housing development at Princes Parade, Hythe due to be considered and agreed by Cabinet on 13 February 2019,
  - iii) provides details of those existing capital schemes proposed to be extended by one year into 2023/24,
  - iv) summarises the impact the proposed changes to the overall capital programme will have on the financing resources required to fund it, and
  - v) outlines further new capital schemes that may come forward for approval during the next 12 months.
- 1.2 The capital expenditure plans for the Housing Revenue Account (HRA) are due to be considered by Cabinet in a separate report on this agenda as part of the current budget process for 2019/20.
- 1.3 The overall capital expenditure plans for both the General Fund and HRA are required to be submitted to full Council for consideration and approval as part of the budget process.
- 1.4 This report also sets out both the Prudential Indicators for capital expenditure and the Minimum Revenue Provision Statement for 2019/20 required to be approved by full Council.

## **2. CAPITAL PROGRAMME 2018/19 – PROJECTED OUTTURN**

- 2.1 The planned expenditure on all General Fund capital schemes in 2018/19, based on expenditure to 30 November 2018, is anticipated to be £7,716,000 a reduction of £6,336,800 compared to the approved budget of £14,052,800. Full details are shown in **appendix 1**. The following table summarises the position across the council's service units and also outlines the impact on the capital resources required to fund the expenditure:

<b>General Fund Capital Programme</b>	<b>Latest Approved Budget</b>	<b>Latest Projection</b>	<b>Variance</b>
<b>General Fund - Service Units</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Environment & Corporate Assets	3,237	816	(2,421)
Strategic Development	2,754	3,223	469
Governance, Law & Regulatory Services	1,447	1,440	(7)
Finance, Customer & Support Services	4,589	611	(3,978)
Strategy, Performance & Communications	2,026	1,626	(400)
<b>Total General Fund Capital</b>	<b>14,053</b>	<b>7,716</b>	<b>(6,337)</b>
<b>Capital Funding</b>			
Grants	(2,789)	(1,004)	1,785
External Contributions	(1,002)	(2)	1,000
Capital Receipts	(1,451)	(2,119)	(668)
Revenue	(1,630)	(1,041)	589
Borrowing	(7,181)	(3,550)	3,631
<b>Total Funding</b>	<b>(14,053)</b>	<b>(7,716)</b>	<b>6,337</b>

2.2 The main reasons for the net reduction in the projected outturn compared to the latest approved budget for 2018/19 are summarised below:

		<b>£'000</b>	<b>£'000</b>
1	<u>Reprofiling of schemes to 2019/20</u>		
	i) GF Property Health & Safety Enhancements	(15)	
	ii) Coast Protection - Coronation Parade phases 2 & 3	(2,411)	
	iii) Pumping Stations - New Vehicle	(25)	
	iv) Biggins Wood Commercial Development	(59)	
	v) Greatstone Holiday Lets	(852)	
	vi) Oportunitas Loan & Share Capital Ph 1	(578)	
	vii) Oportunitas Loan & Share Capital Ph 2	(3,400)	
			(7,340)
2	Otterpool land acquisition scheme partly reprofiled from 2019/20 to 2018/19		1,380
3	Disabled Facilities Grants - current demand lower than anticipated		(400)
4	<u>Increases in scheme costs</u>		

	i) Coast Protection Beach Management 2015-2020 - increase entirely funded from Environment Agency grant	36	
	ii) Coast Protection - Coronation Parade Annual Monitoring funded from Environment Agency grant	4	
	iii) Lifeline Capitalisation - additional units to meet increased demand for service	<u>8</u>	48
5	<u>Other reductions in scheme costs</u>		
	i) Coast Protection - Greatstone Dune Management funded from Environment Agency grant	(14)	
	ii) Princes Parade On-Street Park	(3)	
	iii) Car Park Review	(1)	
	iv) Compactor Bins	<u>(7)</u>	
			<u>(25)</u>
	<b>Net reduction</b>		<b><u>(6,337)</u></b>

2.3 As highlighted above, the main reason for this significant reduction in the planned capital expenditure for the year is due the reprofiling of certain schemes to 2019/20. Notably, the planned capital funding to support the expansion and long term sustainability of the council's housing and regeneration company, Oportunitas Ltd, is now expected to commence in 2019/20. The company is currently in negotiations to acquire up to 30 residential units as part of a redevelopment opportunity in central Folkestone which would require most of the remaining investment earmarked for it.

2.4 The projections contained in this report are based on the most accurate information at the current time and every effort is made to ensure the capital programme is delivered on time and in budget. Some capital schemes are more difficult to project accurately in terms of both the timing of expenditure and the final cost. In particular it is difficult to accurately project the timing of expenditure for the Disabled Facilities Grants and Loans and the Private Sector Empty Homes Initiative.

### 3. **UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME**

3.1 The latest projection for the total cost and funding of the General Fund capital programme from 2018/19 to 2023/24 is £73,283,000. Compared to the latest approved budget of £40,021,800 this represents an increase of £33,261,000. Full details are shown in **appendix 2** to this report and the following table summarises the position across the service units and also outlines the impact on the capital resources required to fund the programme:

<b>General Fund Capital Programme</b>	<b>Latest Approved Budget</b>	<b>Latest Projection</b>	<b>Variance</b>
<b>General Fund - Service Units</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Environment & Corporate Assets	6,465	7,042	577
Strategic Development	16,711	45,776	29,065
Governance, Law & Regulatory Services	1,831	1,920	89
Finance, Customer & Support Services	8,089	8,089	0
Economic Development	0	2,530	2,530
Strategy, Performance & Communications	6,926	7,926	1,000
<b>Total General Fund Capital</b>	<b>40,022</b>	<b>73,283</b>	<b>33,261</b>
<b>Capital Funding</b>			
Grants	(9,849)	(10,736)	(887)
External Contributions	(1,002)	(2,846)	(1,844)
Capital Receipts	(1,851)	(23,827)	(21,976)
Revenue	(2,182)	(2,470)	(288)
Borrowing	(25,138)	(33,404)	(8,266)
<b>Total Funding</b>	<b>(40,022)</b>	<b>(73,283)</b>	<b>(33,261)</b>

3.2 The main changes from the approved budget to the latest projection for the medium term programme are summarised below:

	<b>£'000</b>	<b>£'000</b>
<b>1. Capital investments decisions approved by Cabinet</b>		
i) Civic Centre replace fire doors	36	
ii) Civic Centre security access system	34	
iii) Royal Military Canal - continuation of footpath enhancement programme (£20k per annum)	100	
iv) Hawkinge Cemetery expansion - access routes	28	
v) New Business Hub - Mountfield Road Industrial Estate, subject successful to external funding bid	2,530	
vi) Royal Military Canal - replace rowing boats	46	
vii) Princes Parade Leisure Centre and Housing Development	29,065	
		31,839
<b>2. Existing annual programmes extended by one year to 2023/24</b>		
i) Coast Protection - Greatstone Dunes Management and Study met from Environment	15	



## Agency grant

ii) Coast Protection - Hythe to Folkestone Beach Management met from Environment Agency grant	250	
iii) Lifeline units for customers	42	
iv) Replacement technology	96	
v) Disabled Facilities Grants, subject to Government funding	1,000	
vi) Home Safe Loans met from repaid Decent Homes Loans	<u>100</u>	
		1,503

### 3. Other Changes

i) Disabled Facilities Grants - demand for service lower than anticipated in 2018/19	(400)	
ii) Jointly funded scheme with KCC. Growth for 2019/20 met from recycling previous loans on this initiative that have been repaid.	300	
iii) Coast Protection Beach Management 2015-2020 - increase entirely funded from Environment Agency grant	36	
iv) Coast Protection - Greatstone Dune Management funded from Environment Agency grant	(14)	
v) Other minor net changes arising from 2018/19	<u>(3)</u>	
		(81)
<b>Total net increase</b>		<b><u>33,261</u></b>

- 3.3 The profiling of the capital programme budget is likely to be subject to some change over the medium term. As already mentioned in section 2 of this report, it can difficult to accurately project the timing of expenditure on capital schemes due to a variety of factors including identifying and being able to successfully negotiate to acquire property, being successful with external funding bids to support projects and targeting and encouraging local property owners to apply for housing improvement grants and loans.
- 3.4 All proposed changes to the council's General Fund MTCP are required to be approved by full Council as part of the budget setting process. The revenue implications of the of the MTCP are contained in either the proposed General Fund budget for 2019/20 or feature in the council's approved Medium Term Financial Strategy.

## 4. IMPACT ON CAPITAL RESOURCES

- 4.1 One of the key principles underlying the council's Medium Term Financial Strategy is the capital programme is funded from available or realised capital resources and that new borrowing should only be used where it is prudent and affordable. The only exception to this is where a scheme is

subject to grant funding or external contributions in which case no commitment is made against these until the funding is confirmed. The latest forecast for the General Fund capital programme conforms to this key principle.

- 4.2 The latest position regarding the council's available capital receipts to fund capital expenditure is shown in the following table:

<b>General Fund Capital Receipts Position Statement</b>	<b>£'000</b>
Receipts in hand at 30 December 2018	(9,183)
Less,	
committed towards General Fund capital expenditure	3,042
committed towards HRA capital expenditure	5,334
Ring-fenced for specific purposes:	
i) Revenue efficiencies (flexible use of capital receipts)	53
ii) Home Safe Loans	44
iii) Other	78
Contingency for urgent or unforeseen capital expenditure	500
<b>Balance available to support new capital expenditure</b>	<b>(132)</b>

- 4.3 The council has previously adopted the government's Statutory Guidance on the Flexible Use of Capital Receipts. This allows the council to use capital receipts from General Fund asset disposals from 1 April 2016 to 31 March 2022 on revenue expenditure that is planned to generate ongoing efficiencies and savings. The council currently has about £753k of qualifying capital receipts in hand and plans to use £700k of this to support capital expenditure on the Transformation project during 2018/19. In line with the council's approved Budget Strategy, future capital receipts received from asset disposals up to 31 March 2022 will be prioritised towards qualifying revenue expenditure under the guidance unless it is agreed these receipts are required to support the authority's future major capital investment plans.

- 4.4 Additionally the council's continuing prudent financial management means it is in a position to use its other internal resources (cash reserves and balances) to fund the MTCP that is not already met from external grants and contributions without resorting to new borrowing. The table below summarises the council's revenue resources of £2.47m committed towards funding the MTCP.

<b>Revenue Resources to Fund the MTCP</b>	<b>£'000</b>
Vehicle, Equipment and Technology Reserve	607
Corporate Plans Initiative Reserve	64
Other Reserves	26
General Reserve	1,773

<b>Total</b>	<b>2,470</b>
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- 4.5 This level of capital investment will be a significant draw upon the council's available reserves and balances and it is unlikely this could be repeated in the future. For this reason it is important that a thorough and robust assessment is undertaken for the new major capital investment proposals to ensure best use of the councils limited financial resources.
- 4.6 The capital expenditure and funding analysis for the Princes Parade leisure centre and housing development, provided in the Business Case report due to be considered by Cabinet last week, shows that some of the contributions towards this are expected to be received after the main scheme is finished, being S.106 and Community Infrastructure Levy contributions. This means borrowing of about £6.4m will be required in the short term and is reflected in the capital resources required for the MTCP. This short term borrowing need will be extinguished once the contributions have been received.
- 4.7 The council has a number of corporate investment initiatives it is currently exploring where it is envisaged it may be possible to use prudential borrowing, at least in part, to generate future net capital receipts and/or an on-going new net revenue stream for the authority. These initiatives, including further investment in Otterpool Park and also the Biggins Wood Development, are likely to fall within the five year period of the proposed capital programme and will require reporting in full detail to Members for approval.

## 5 THE CAPITAL PRUDENTIAL INDICATORS

- 5.1 The Local Government Act 2003 requires local authorities to adopt the CIPFA Prudential Code and to produce prudential indicators. The Code promotes the freedom of a local authority to determine locally what it needs to borrow to finance its future capital spending. However, the Code requires the Council to have regard to the following matters when arriving at its decisions:
- i. affordability – eg implications for Council Tax and housing rents,
  - ii. prudence and sustainability – eg implications for external borrowing,
  - iii. value for money – eg options appraisal,
  - iv. stewardship of assets – eg asset management planning
  - v. service objectives, and
  - vi. practicality – eg achievability of the medium term financial plan.
- 5.2 The Council is asked to approve the prudential indicators set out in **appendix 3** for the period up to 2021/22. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the council's underlying capital appraisal system and approved

capital programme. The Prudential Code requires the Authority to monitor the prudential indicators each year.

## **6 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2019/20**

- 6.1 The council is required to pay off an element of the accumulated General Fund capital spend financed by borrowing each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments where it is seen to be in its best interests to do so.
- 6.2 Regulations have been issued by the MHCLG which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The Council is asked to approve the MRP Statement shown in **appendix 4** to be applicable for 2019/20.

## **7 CONCLUSIONS**

- 7.1 The council's MTCP has been reviewed and updated in accordance with the approved budget strategy for 2019/20.
- 7.2 The revenue consequences of the MTCP are reflected in the council's General Fund budget and Medium Term Financial Strategy.
- 7.3 The proposed General Fund MTCP already requires prudential borrowing to fund it.
- 7.4 The level of new capital investment in the proposed MTCP will be a significant draw upon on the council's available reserves and balances and is unlikely to be repeated in the future. Future major capital investment initiatives are likely to require further prudential borrowing to help fund them.
- 7.5 Cabinet is asked to recommend full Council to approve the changes to the MTCP outlined in this report to reflect the latest projected outturn shown in appendix 2 to this report.
- 7.6 Cabinet is asked to recommend full Council to approve the Capital Prudential Indicators and MRP Statement for 2019/20 shown respectively in appendices 3 and 4 to this report.

## 8 RISK MANAGEMENT ISSUES

8.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Capital resources not available to meet the cost of the new projects.	High	Low	The internal capital resources identified in this report have been realised.
Cost of new projects may exceed the estimate.	High	Low	Capital monitoring procedures in place allowing prompt early action to be taken to manage the risk effectively.
Expenditure planned to be met by grant is ineligible under the terms of the funding agreement	High	Low	Prior to commitments being made the project manager to agree in advance grant eligible expenditure with the funding body.

## 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. 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. Generally the Council must take into account its fiduciary duties to local tax payers and its continuing obligation to ensure it has the funding required to perform its statutory undertakings.

### 9.2 Finance Officer's Comments (Lee Walker)

This report has been prepared by Financial Services. There are no further comments to add.

## 10. 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*

*Tel: 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:

- 1) General Fund Capital Programme Projected Outturn 2018/19
- 2) Proposed General Fund MTCP to 2023/24
- 3) Capital Prudential Indicators 2019/20 to 2021/22
- 4) Minimum Revenue Provision Policy Statement for 2019/20

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GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2018/19					
Item Number	Service Area and Scheme	Latest Approved Budget	Projection at 30/11/18	Variance Budget to Projection	Comments
		£'000	£'000	£'000	
	<b>Andy Blaszkowicz - Environment &amp; Corporate Assets</b>				
1	GF Property Health & Safety Enhancements	70	55	-15	Includes fire safety improvements to the Civic Centre. Balance of £15k planned to be utilised in 2019/20
2	Royal Military Canal Enhancements	20	20	0	Work planned for first quarter of 2019
3	Hawkinge Cemetery Expansion	65	65	0	Main work planned for first quarter of 2019
4	Coronation Parade	2,446	35	-2,411	Scheme design costs only in 2018/19. Construction of phases 2 & 3 including new rock revetment delayed until 2019/20. Scheme entirely funded from external contributions
5	Greatstone Dune Management	29	15	-14	Funded by the Environment Agency. Saving as only one cycle of work will take place, planned for the winter.
6	Beach Management 2015-2020	314	350	36	Funded by the Environment Agency.
7	Coronation Parade Annual Monitoring	0	4	4	Funded by the Environment Agency.
8	Lifeline Capitalisation	42	50	8	Additional units required to meet increased customer demand for the service

GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2018/19					
Item Number	Service Area and Scheme	Latest Approved Budget	Projection at 30/11/18	Variance Budget to Projection	Comments
		£'000	£'000	£'000	
9	Princes Parade On-Street Park	15	12	-3	Scheme completed
10	Car Park Review	8	7	-1	Scheme completed
11	Grounds Maintenance Vehicle Replacement Programme	203	203	0	Main procurement process has commenced from Autumn 2018 with vehicles expected by March 2019
12	Pumping Stations - New Vehicle	25	0	-25	Vehicle intended to support HRA operations. Procurement delayed until 2019/20
	<b>Total - Environment &amp; Corporate Assets</b>	<b>3,237</b>	<b>816</b>	<b>-2,421</b>	
	<b>Andy Jarrett - Strategic Development</b>				
13	Land Otterpool Lane	620	2,000	1,380	Some of expenditure originally profiled for 2019/20 but now likely to fall in to 2018/19.
14	Hythe Environmental Imps	2	2	0	
15	Corporate Property Development Projects	161	161	0	Budget to help support new or existing initiatives
16	Princes Parade - Prep Costs	94	94	0	Costs to support the planning application process



GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2018/19					
Item Number	Service Area and Scheme	Latest Approved Budget	Projection at 30/11/18	Variance Budget to Projection	Comments
		£'000	£'000	£'000	
17	Biggins Wood Commercial Development	84	25	-59	Initial design work undertaken. Balance of budget expected to be reprofiled to 2019/20
18	Ship Street Site Folkestone	441	441	0	On hold while the viability of the site considered
19	Otterpool Park Garden Town Delivery Vehicle	350	350	0	Professional advice currently being sought on delivery mechanism options. Possibility some of the budget may require reprofiling to 2019/20
20	Greatstone Holiday Lets	1,002	150	-852	Design fees only in 2018/19. Construction phase planned to commence in 2019/20
	<b>Total - Strategic Development</b>	<b>2,754</b>	<b>3,223</b>	<b>469</b>	
	<b>Amandeep Khroud - Governance, Law &amp; Regulatory Services</b>				
21	Compactor Bins	83	76	-7	Installed and operational at the Coastal Park, Folkestone
22	New Vehicle Environmental Enforcement	14	14	0	Vehicle purchased
23	New Vehicle Dog Warden	29	29	0	Initial vehicle purchased for £17k.
24	Pc Replacement Programme	16	16	0	On target

## GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2018/19

Item Number	Service Area and Scheme	Latest Approved Budget	Projection at 30/11/18	Variance Budget to Projection	Comments
		£'000	£'000	£'000	
25	Server Replacement Prog.	60	60	0	On target
26	Virtual Desktop Technology	20	20	0	On target
27	FHDC Transformation	1,225	1,225	0	Scheme currently in progress
	<b>Total - Governance, Law &amp; Regulatory Services</b>	<b>1,447</b>	<b>1,440</b>	<b>-7</b>	
	<b>Charlotte Spendley - Finance, Customer &amp; Support Services</b>				
28	Oportunitas Loan & Share Capital Ph 2	3,400	0	-3,400	Although investment opportunities are currently being explored, the additional funding is not expected to be required until 2019/20
29	Oportunitas Loan & Share Capital Ph 1	1,178	600	-578	Invetsment opportunities continue to be sought, however it is likely that balance of budget will not be required until 2019/20
30	Bacas Burial Software System	11	11	0	Software acquired and testing taking place
	<b>Total - Finance, Customer &amp; Support Services</b>	<b>4,589</b>	<b>611</b>	<b>-3,978</b>	

GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2018/19					
Item Number	Service Area and Scheme	Latest Approved Budget	Projection at 30/11/18	Variance Budget to Projection	Comments
		£'000	£'000	£'000	
	<b>Sarah Robson - Strategy, Performance &amp; Communications</b>				
31	Empty Homes Initiative	350	350	0	Target properties for 2018/19 have been identified in partnership with KCC. This will result in at least 23 long-term empty being returned to use in the district during the year.
32	Temporary Accommodation	500	500	0	Suitable property identified. Purchase process is underway and is due to complete during the first quarter of 2019
33	Empty Home Initiatives	76	76	0	On target
34	Disabled Facilities Grants	1,000	600	-400	The new Housing Assistance policy is now in place and this is expected to improve the future level of DFG take up amongst vulnerable household in the district
35	Home Safe Loans	100	100	0	On target
	<b>Total - Strategy, Performance &amp; Communications</b>	<b>2,026</b>	<b>1,626</b>	<b>-400</b>	
	<b>Total General Fund Capital Expenditure</b>	<b>14,053</b>	<b>7,716</b>	<b>-6,337</b>	

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General Fund Medium Term Capital Programme to 2023/24													
		Latest Approved MTCP Budget		Latest Projection 2018/19	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Total Projection 2018/19 - 2023/24		Variance Budget to Projection	
Item No	Service Area and Scheme	£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	Comments
	Andy Blaszkowicz - Environment & Corporate Assets												
1	Coast Protection - Coronation Parade, Folkestone	2,446		35	2,387	0	0	0	0	2,422		-24	Budget covers delayed phases 2 & 3 - all externally funded.
2	Coast Protection - Coronation Parade annual monitoring	0		4	4	4	4	4	4	24		24	New annual monitoring programme following completion of phase 1 work - all externally funded by Environmnet Agency
3	Coast Protection - Greatstone Dunes Management & Study	89		15	15	15	15	15	15	90		1	Annual programme funded by Environment Agency extended by one year to 2023/24
4	Coast Protection - Hythe to Folkestone Beach Management (from 2015)	1,314		350	250	250	250	250	250	1,600		286	Annual programme funded by Environment Agency extended by one year to 2023/24
5	Coast Protection - Hythe to Folkestone Beach Recharge	2,000		0	0	2,000	0	0	0	2,000		0	Planned major recharge of beach levels to maintain the integrity of the existing coastal defences - externally funded by EA
6	General Fund Property - Health and Safety Enhancements	70		55	85	0	0	0	0	140		70	Growth item 2019/20 Civic Centre - replace fire doors £36k & new security access system £34k
7	Royal Military Canal footpath enhancements	20		20	20	20	20	20	20	120		100	Ongoing 10 year programme of improvements
8	Royal Military Canal Replacement Rowing Boats	0		0	46	0	0	0	0	46		46	Growth item agreed by Cabinet on 30/01/2019
9	Hawkinge Cemetery Expansion	65		65	28	0	0	0	0	93		28	Scheme commneced in 2018/19. Growth item2019/20 to resurface access routes across the site
10	Lifeline Capitalisation	210		50	42	42	42	42	42	260		50	Annual programme to purchase new/replacement units extended by one year to 2023/24
11	Princes Parade Parking Implementation	15		12	0	0	0	0	0	12		-3	0
12	Car Park Review	7.8		7.0	0	0	0	0	0	7.0		-1	0
13	Grounds Maintenance Vehicle and Equipment Replacement Programme	203		203	0	0	0	0	0	203		0	No replacement items required for 2019/20
14	Pumping Station - new vehicle	25		0	25	0	0	0	0	25		0	Subject to discussion with East Kent Housing
	Total - Environment & Corporate Assets	6,464.8		816.0	2,902	2,331	331	331	331	7,042.0		577	

Item No	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2018/19	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Total Projection 2018/19 - 2023/24	Variance Budget to Projection	Comments
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	Andy Jarrett - Strategic Development										
15	Corporate Property Development Projects	161	161	0	0	0	0	0	161	0	Unallocated balance reprofiled to 2018/19
16	Biggins Wood Commercial Development	84	25	59	0	0	0	0	84	0	Share of site preparation costs
17	Otterpool Land Acquitision	3,620	2,000	1,620	0	0	0	0	3,620	0	Further investment for Otterpool Park development - additional budget being sought
18	Otterpool Park Garden Town Delivery Vehicle	350	350	0	0	0	0	0	350	0	Professional advice to create delivery mechanism for council's involvement with the project. Possibility some of the work will take place in 2019/20
19	Otterpool Further Investment (Council 28 Nov 2018)	10,000	0	5,000	5,000	0	0	0	10,000	0	Consider merging with land acquisition
20	Princes Parade - Preparartion Costs for Redevelopment Proposal	94	94	0	0	0	0	0	94	0	Professional advice to support the planning application process
21	Princes Parade - Leisure Centre and Housing Development	0	0	0	2,922	15,215	10,928	0	29,065	29,065	Per Business Case due to have been considered by Cabinet on 13/02/2019
22	Hythe Environmental Improvements	2	2	0	0	0	0	0	2	0	Residual expenditure only met from S106 income
23	Greatsone Varne Holiday Lets	1,959	150	1,000	809	0	0	0	1,959	0	Invest to save project expected to provide an ongoing net revenue stream to the council - proposed scheme subject to planning permission
24	Ship Street Site, Folkestone (GF Element)	441	441	0	0	0	0	0	441	0	Acquisition and pre-development costs for the site subject to a successful funding bid to the Housing Infrastructure Fund - on hold
	Total - Strategic Development	16,711	3,223	7,679	8,731	15,215	10,928	0	45,776	29,065	
	Amandeep Khroud - Governance, Law & Regulatory Services										
25	Compactor Bins	83	76	0	0	0	0	0	76	-7	8 bins installed at the Coastal Park
26	Replacement Vehicle - Environmental Enforcement	14	14	0	0	0	0	0	14	0	Vehicle purchased
27	Replacement Vehicle - Dog Warden	29	29	0	0	0	0	0	29	0	Initial vehicle purchased for £17k

		Latest Approved MTCP Budget		Latest Projection 2018/19	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Total Projection 2018/19 - 2023/24		Variance Budget to Projection	
Item No	Service Area and Scheme	£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	Comments
28	PC Replacement Programme	80		16	16	16	16	16	16	96		16	Annual programme extended by one year to 2023/24
29	Server Replacement Programme	300		60	60	60	60	60	60	360		60	Annual programme extended by one year to 2023/24
30	Virtual Desktop Technology	100		20	20	20	20	20	20	120		20	Annual programme extended by one year to 2023/24
31	FHDC Transformation	1,225		1,225	0	0	0	0	0	1,225		0	IT requirements
	Total - Governance, Law & Regulatory Services	1,831		1,440	96	96	96	96	96	1,920		89	

		Latest Approved MTCP Budget		Latest Projection 2018/19	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Total Projection 2018/19 - 2023/24		Variance Budget to Projection	
Item No	Service Area and Scheme	£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	Comments
	Charlotte Spendley - Finance, Customer & Support Services												
32	Burials Software (BACAS)	11		11	0	0	0	0	0	11		0	Software acquired and expected to go live in early 2019
33	Oportunitas Loan and Share Capital Phase 1	1,178		600	578	0	0	0	0	1,178		0	Invetsment opportunities continue to be sought, however it is likely that balance of budget will not be required until 2019/20
34	Oportunitas Loan and Share Capital Phase 2	6,900		0	3,450	3,450	0	0	0	6,900		0	Although investment opportunities are currently being explored, the additional funding is not expected to start to be utilised until 2019/20
	Total - Finance, Customer & Support Services	8,089		611	4,028	3,450	0	0	0	8,089		0	
	Katharine Harvey - Economic Development												
35	New Business Hub - Mountfield Road Industrial Estate	0		0	0	2,530	0	0	0	2,530		2,530	Growth item to support the development of the proposed new Business Hub. Subject to external grant funding bid being successful
	Total - Economic Development	0		0	0	2,530	0	0	0	2,530		2,530	



		Latest Approved MTCP Budget		Latest Projection 2018/19	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Total Projection 2018/19 - 2023/24		Variance Budget to Projection	
Item No	Service Area and Scheme	£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	Comments
	Sarah Robson - Strategy, Performance & Communications												
36	Empty Properties Initiative (KCC)	426		426	300	0	0	0	0	726		300	Jointly funded scheme with KCC. Growth for 2019/20 met from recycling previous loans on this initiative that have been repaid.
37	Temporary Accommodation (invest to save)	1,000		500	500	0	0	0	0	1,000		0	Capital investment provided from 2018/19 to acquire properties to help reduce the council's on-going revenue cost for homelessness provision
38	Disabled Facilities Grant	5,000		600	1,000	1,000	1,000	1,000	1,000	5,600		600	Annual programme subject to external funding through the government's Better Care Fund (KCC are lead partner for Kent DCs). Extended by one year to 2023/24
39	Home Safe Loans	500		100	100	100	100	100	100	600		100	Annual programme met extended by one year to 2023/24
	Total - Strategy, Performance & Communications	6,926		1,626	1,900	1,100	1,100	1,100	1,100	7,926		1,000	
	Total General Fund Medium Term Capital Programme	40,021.8		7,716.0	16,605	18,238	16,742	12,455	1,527	73,283.0		33,261	
40	Government Grant	-9,849		-1,004	-2,656	-3,269	-1,269	-1,269	-1,269	-10,736		-887	
41	Other External Contributions	-1,002		-2	-1,000	-1,400	0	-444	0	-2,846		-1,844	
42	Capital Receipts	-1,851		-2,119	-523	-100	-14,600	-6,385	-100	-23,827		-21,976	
43	Revenue Contributions	-2,181.8		-1,041.0	-797	-158	-158	-158	-158	-2,470		-288	
44	Borrowing	-25,138		-3,550	-11,629	-13,311	-715	-4,199	0	-33,404		-8,266	
	Total Funding	-40,021.8		-7,716.0	-16,605	-18,238	-16,742	-12,455	-1,527	-73,283		-33,261	

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## Appendix 3

### Prudential Indicators 2019/20 to 2021/22

#### 1. Capital Expenditure Plans

- 1.1 The council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. The plans are consistent with the latest Medium Term Capital Programmes (MTCP) for the General Fund, including the Princes Parade leisure centre scheme, and the Housing Revenue Account (HRA), being considered by Cabinet as part of the budget process for 2019/20 and to be submitted to full Council for approval on 20 February 2019. Both the General Fund and HRA capital programmes require some prudential borrowing to fund future capital expenditure plans and this is reflected in the borrowing limits being proposed as part of these indicators.
- 1.2 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some of the estimates for other sources of funding, such as future capital receipts and revenue resources to fund capital, may also be subject to change over this timescale. To mitigate this risk capital schemes to be funded from future capital resources will not be allowed to commence until these sums have been received or confirmed.
- 1.3 **The Council is asked to approve the summary capital expenditure projections below.** This forms the first prudential indicator:

#### Prudential Indicator 1 – Capital Expenditure Projections

£'000	2018/19 Projection	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
<b>Capital Expenditure</b>				
General Fund Services	4,430	4,898	8,979	16,742
Capital Investments	3,286	11,707	9,259	-
HRA	6,476	8,325	7,838	6,908
<b>Total</b>	<b>14,192</b>	<b>24,930</b>	<b>26,076</b>	<b>23,650</b>
<b>Funded by:</b>				
External Resources	(1,006)	(3,656)	(4,669)	(1,269)
Internal Resources	(9,636)	(9,645)	(7,893)	(21,124)
Debt	(3,550)	(11,629)	(13,514)	(1,257)
<b>Total</b>	<b>(14,192)</b>	<b>(24,930)</b>	<b>(26,076)</b>	<b>(23,650)</b>

## 2. The Council's Borrowing Need (The Capital Financing Requirement)

2.1 The second prudential indicator is the council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's underlying borrowing need. Any capital expenditure, above, which has not immediately been paid for will increase the CFR. The CFR projections now include the borrowing requirement identified in Prudential Indicator 1, above.

2.2 The CFR does not increase indefinitely as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

2.3 The Council is asked to approve the Capital Financing Requirement (CFR) projections below:

### Prudential Indicator 2 – CFR Projections

£'000 As at 31 <sup>st</sup> March	2018/19 Projection	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
CFR – Non Housing	21,303	32,574	45,541	45,262
CFR - Housing	47,416	47,416	47,619	48,161
<b>Total CFR</b>	<b>68,719</b>	<b>79,990</b>	<b>93,160</b>	<b>93,423</b>
<b>Movement in CFR</b>	<b>3,177</b>	<b>11,271</b>	<b>13,170</b>	<b>263</b>

Movement in CFR represented by				
Net financing need for the year (P.I. 1)	3,550	11,629	13,514	1,257
Less MRP	(373)	(358)	(344)	(994)
Less HRA financing movement	-	-	-	-
<b>Movement in CFR</b>	<b>3,177</b>	<b>11,271</b>	<b>13,170</b>	<b>263</b>

### 3. Gross Debt and the Capital Financing Requirement

- 3.1 In order to ensure that over the medium term debt will only be for a capital purpose, the authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement. In the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

#### Prudential Indicator 3 – Debt to CFR Projections

Debt	31.03.19 Revised £m	31.03.20 Estimate £m	31.03.21 Estimate £m	31.03.22 Estimate £m
Debt	55.8	60.2	78.3	82.4
CFR	68.7	80.0	93.2	93.4

- 3.2 Total debt is expected to remain below the CFR during the forecast period.

### 4. Borrowing Limits

- 4.1 **Operational Boundary for External Debt** - This is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

#### Prudential Indicator 4 – Operational Boundary Borrowing Limit

Operational Boundary	2018/19 Revised £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Borrowing	83.3	94.0	94.9	93.9
Other long-term liabilities	-	-	-	-
<b>Total Debt</b>	83.3	94.0	94.9	93.9

- 4.2 **Authorised Limit for External Debt:** This is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

#### Prudential Indicator 5 – Authorised Borrowing Limit

Authorised Limit	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m	2021/22 Limit £m
Borrowing	90.0	96.5	97.4	96.4
Other long-term liabilities	-	-	-	-
<b>Total Debt</b>	90.0	96.5	97.4	96.4

### 5. Affordability Prudential Indicators

5.1 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall council's finances. **The Council is asked to approve the following indicators:**

5.2 **Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The revenue stream for non-HRA is the amount to be met from government grant and council tax payers and for the HRA is rent and other income.

#### Prudential Indicator 6 - Ratio of financing costs to net revenue stream

%	2018/19 Projection	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Non-HRA	6.6%	3.9%	2.1%	5.8%
HRA	26.7%	30.2%	34.3%	25.9%

5.3 The estimates of financing costs include current commitments and the proposals in both the General Fund and HRA revenue and capital budget reports. The changes to the Non-HRA figures mainly reflect the planned reduction in the use of revenue resources to support the capital investment included in the Medium Term Capital Programme. The changes in the HRA's figures mainly reflect the revenue financing required to meet the cost of the planned capital investment on the 'new build' and acquisitions programme.

## 5.4 Local Indicators - HRA Debt Ratios

- 5.4.1 CIPFA's Prudential Code recommends the use of local indicators to measure the affordability and sustainability of the HRA's debt over the medium term. The following two local indicators consider the total level of HRA debt and how its proportion is changing over the next three year period. Both these indicators are consistent with the HRA Business Plan and the increase in borrowing required to fund its capital expenditure plans.

### i) HRA Debt to Revenue Ratio

	<b>2018/19 Projection</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
HRA debt £m	48.6	47.5	46.4	45.9
HRA revenues £m	16.0	16.3	16.5	17.2
<b>Ratio of debt to revenues</b>	<b>3.0</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>

### ii) HRA Debt per Dwelling

	<b>2018/19 Projection</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/21 Estimate</b>
HRA debt £m	48.6	47.5	46.4	45.9
Number of HRA dwellings	3,394	3,394	3,439	3,424
<b>Debt per dwelling £'000</b>	<b>14.3</b>	<b>14.0</b>	<b>13.5</b>	<b>13.4</b>

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## Appendix 4

### Minimum Revenue Provision (MRP) Policy Statement 2019/20

1. The council is required to pay off an element of the accumulated General Fund capital spend financed by borrowing each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments where it is seen to be in its best interests to do so.
2. Regulations have been issued by the Ministry of Housing, Communities and Local Government (MHCLG) which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. **The Council is recommended to approve the following MRP Statement to be applicable for 2019/20.**
  - i. **For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:**
    - **Existing practice** - MRP will follow the existing practice outlined in former DCLG Regulations (4% of balance of CFR at 31.3.08)
  - ii. **From 1 April 2008 for unsupported borrowing the MRP policy will be:**
    - **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the regulations.
  - iii. **For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.**
3. **Additionally the council is free to determine an alternative MRP approach provided that it is prudent. These alternatives may include a variation on the above options or may take other forms as determined by the Chief Finance Officer. For instance, where the council acquires assets funded from unsupported borrowing for the purpose of site assembly with the aim of disposing to developers in the future, then the council may determine a nil MRP charge is prudent on the understanding that the capital receipt from the disposal is used repay the borrowing and extinguish the CFR relating to it. Any unsupported borrowing falling on capital expenditure falling into this category will be reviewed annually and if for any reason a capital receipt will not be received within a specified timeframe as determined by the Chief**

**Finance Officer relating to the asset acquired then the unsupported borrowing will revert back to the normal MRP treatment applicable including an adjustment for MRP due for previous years that may not have been previously charged.**

4. No statutory revenue charge or MRP is required for the HRA. However, as part of the approved HRA Business Plan, Cabinet approved an affordable strategy to repay the HRA's total debt, represented by its capital financing requirement (HRACFR), currently over the next 30 years. No HRA debt is planned to repaid in 2019/20.
5. Any deviation from the approved policy in year will, as a minimum, be addressed in the MRP Policy Statement for the subsequent financial year.

This Report will be made public on 12 February 2019.



Report Number **C/18/70**

**To:** Cabinet  
**Date:** 20 February 2019  
**Status:** Key Decision  
**Responsible officer:** John Bunnett – Commercial Services  
**Cabinet Members:** Councillors David Monk, leader of the council, Dick Pascoe – Property and Environmental Health

**Subject:** **Biggins Wood – Acceptance of Grant**

**SUMMARY:** This report recommends the acceptance of the grant offered by the Government under its Accelerated Construction Programme for work to the site.

#### **REASONS FOR RECOMMENDATIONS:**

The council needs to decide whether to accept the grant offered.

#### **RECOMMENDATIONS:**

1. To receive and note report C/18/70.
2. To accept the grant offered by the Government under its Accelerated Construction Programme for work to the site.

## **1 BACKGROUND**

- 1.1 Members will recall that the Council purchased land at Bigginswood / Caesar's Way on 21<sup>st</sup> December 2016 to address the corporate plan objectives to deliver new homes and jobs. The scheme was purchased with existing planning permission for 77 homes, 54 light industrial units and one office building.
- 1.2 On 31 May 2017 Cabinet considered report C/17/06. That report, in part, stated that an application for grant funding was to be made to Homes England under the Government's Accelerated Construction Programme to support remediation and other development costs for the site.
- 1.3 This report concerns the outcome of the grant application.

## **2 GRANT APPLICATION OUTCOME**

- 2.1 The application for the grant was successful and the council has been awarded approximately one million pounds.
- 2.2 The Accelerated Construction programme is designed so that local authorities can bring forward and develop surplus and / or acquired sites which:-
  - Can begin to deliver housing starts within this Parliament, as part of a local authority's wider housing ambitions;
  - Can demonstrate clear additionality, for example by bringing forward sites that might otherwise not be sold for housing development, and in particular sites that are not currently in a local authority's Local Plan or 5 year land supply.
  - Respond to meeting housing needs locally by freeing up surplus land for housing where it is needed most;
  - Have capacity for 50 homes or more, or form part of a portfolio of smaller sites;
  - Are not, or, subject to successful application, will not be held in a Local Authority's Housing Revenue Account. However proposals for the delivery of mixed tenure sites were welcomed where they meet the Government's wider objectives as were proposals for the provision of serviced custom build plots.
- 2.3 The government were obviously satisfied that the site met the criteria. They were also satisfied that the scheme was commercially viable.
- 2.4 The offer of the grant is time limited. The council must decide whether to accept it or not. The recommendation is that it should be accepted.

## **3 RISK MANAGEMENT ISSUES**

- 3.1 The following risk management areas are highlighted

Risk	Seriousness	Likelihood	Preventative Action
Failure to deliver scheme on time.	Medium	Low	<ul style="list-style-type: none"> <li>Project manage scheme</li> </ul>

#### **4 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

##### **4.1 Legal Officer's comments (NE):**

There are no legal implications arising directly from this report. The Council will need to ensure that it complies and adheres to any terms and conditions which the government may impose in relation to the grant

##### **4.2 Finance Officer's Comments (CS)**

The acceptance of this grant will support the delivery of this scheme, it will contribute around £1 million towards the programme of works. The grant, if accepted, will be held within Earmarked Reserves until required.

#### **5 DIVERSITIES AND EQUALITIES IMPLICATIONS**

5.1 There are no diversity or equalities issues arising from this report.

#### **6 CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

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

Telephone: 07718 563295

Andy Jarrett, Chief Strategic Development Officer

Telephone: 01303 853 429

Email: [andy.jarrett@folkestone-hythe.gov.uk](mailto:andy.jarrett@folkestone-hythe.gov.uk)

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

None

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