Public Document Pack

Folkestone & Hythe District Council

Agenda

Meeting:	**Cabinet**
Date:	**22 January 2020**
Time:	**5.00 pm**
Place:	**Council Chamber - Civic Centre Folkestone**
To:	**All members of the Cabinet**
	All Councillors for information

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

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

1. **Apologies for Absence**

2. **Declarations of Interest (Pages 5 - 6)**

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

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

3. **Minutes (Pages 7 - 16)**

   To consider and approve, as a correct record, the minutes of the meetings held on 11 and 20 December 2019.

Queries about the agenda? Need a different format?

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

Date of Publication: Tuesday, 14 January 2020

4. **Quarter 2 performance report 2019/20 (Pages 17 - 44)**

This report provides an update on the Council's performance for the second quarter of 2019/20, covering 1st July 2019 to 30th September 2019. The report enables the Council to assess progress against the approved key performance indicators for each service area.

Key performance indicators will be monitored during 2019/20 and reported to CLT and Members quarterly.

5. **The Step Short commemoration Memorial Arch (Pages 45 - 48)**

This report seeks Cabinet agreement to take on the responsibility for maintaining the Step Short commemoration Memorial Arch, including paying for its maintenance.

6. **Proposed Disposal Of Fernfield Lane (Pages 49 - 54)**

In December 2018, Folkestone & Hythe District Council ("FHDC" / "the Council") was granted outline planning permission for 19 houses at its development site at Fernfield Lane, Hawkinge. This report is seeking approval for the disposal of the whole of the site, recommending that marketing of the site commences at the start of 2020 aiming to obtain capital receipts in the 2020/21 financial year.

7. **Draft Housing Revenue Account Revenue and Capital Budget 2020/21 (Pages 55 - 70)**

This report sets out the draft Housing Revenue Account Revenue and Capital Budget for 2020/21 and proposes an increase in weekly rents and an increase in service charges for 2020/21.

8. **HRA Budget Monitoring Quarter 3 (Pages 71 - 80)**

This monitoring report provides a projection of the end of year financial position for the Housing Revenue Account (HRA) revenue expenditure and HRA capital programme based on net expenditure to 30 November 2019.

9. **Update to General Fund Medium-Term Capital Programme and Budget Monitoring 19/20 (Pages 81 - 104)**

This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2025. The report provides an updated projected outturn for the General Fund capital programme in 2019/20, based on expenditure to 30 November 2019. 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 the Minimum Revenue Provision Statement for 2020/21 to be approved by full Council.

10. **General Fund Revenue Budget Monitoring - 3rd Quarter 2019/20 (Pages 105 - 112)**

This monitoring report provides a projection of the end of year financial position of the General Fund revenue budget, based on expenditure to the 30 November 2019.

11. **Treasury Management Strategy Statement 20/21 (Pages 113 - 134)**

This report sets out the proposed strategy for treasury management for 2020/21 including Treasury Management Indicators.

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Declarations of Interest

Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:
Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; 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. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

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Folkestone & Hythe District Council

Minutes

Cabinet

Held at:	Council Chamber - Civic Centre Folkestone
Date	Wednesday, 11 December 2019
Present	Councillors John Collier, David Godfrey, Mrs Jennifer Hollingsbee (Vice-Chair), Ian Meyers, David Monk (Chairman) and David Wimble
Apologies for Absence	Councillors Stuart Peall
Officers Present:	Tim Bailey (Planning Policy Specialist), Andy Blaszkowicz (Assistant Director), Amandeep Khroud (Assistant Director), Tim Madden (Corporate Director - Customer, Support and Specialist Services), Charlotte Spendley (Assistant Director), Adrian Tofts (Strategy, Policy & Performance Lead Specialist), Jemma West (Committee Service Specialist) and David Whittington (Strategy & Policy Senior Specialist)
Others Present:	Councillor Rebecca Shoob, Councillor Lesley Whybrow (Leader of the Green Party) and Councillor John Wing

NOTE: All decisions are subject to call-in arrangements. The deadline for call-in is Friday 20 December at 5pm Decisions not called in may be implemented on Monday 23 December 2019.

44. **Declarations of Interest**

A Cabinet Member sought clarity from the Monitoring Officer as to whether or not an interest should be declared in respect of the item relating to the Play Area Strategy if they were a Member of a Town or Parish Council. The Monitoring Officer confirmed this was not necessary.

There were no declarations of interest at the meeting.

45. **Minutes**

The minutes of the meetings held on 13 and 20 November were submitted, approved and signed by the Chairman.

46. **Quarter One performance report 2019/20**

The report provided an update on the Council's performance for the first quarter of 2019/20, covering 1st April 2019 to 30th June 2019. The report enabled the Council to assess progress against the approved key performance indicators for each service area. Key performance indicators were monitored during 2019/20 and reported to CLT and Members quarterly.

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

RESOLVED:
1. **That report C/19/49 be received and noted.**
2. **That the performance information for Quarter 1 2019/20 be noted.**

(Voting figures: 6 for, 0 against, 0 abstentions).

REASONS FOR DECISION:
Cabinet was asked to agree the recommendations because:

a) The Council is committed to monitoring performance across all of its service areas to ensure progress and improvement is maintained.
b) The Council needs to ensure that performance is measured, monitored and the results are used to identify where services are working well and where there are failings and appropriate action needs to be taken.

47. **Fair Tax Declaration**

The report set out the background for Cabinet to consider adopting the Fair Tax Declaration on behalf of the Council.

Proposed by Councillor Monk,
Seconded by Councillor Collier; and

RESOLVED:
1. **That report C/19/47 be received and noted, and no further action be taken.**

(Voting figures: 6 for, 0 against, 0 abstentions).

REASONS FOR DECISION:

Council was asked to agree the recommendations because it had been requested to consider the item by Council.

48. **Draft General Fund Revenue Budget 2020/21**

The report set out the Council's Draft General Fund budget for 2020/21.

The report had also been considered by the Overview and Scrutiny Committee at their meeting held on 10 December 2019. The minutes of the meeting had been circulated to the Cabinet Members at the meeting.

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

RESOLVED:
1. **That report C/19/50 be received and noted.**
2. **That the budget estimates, as detailed in the report, be approved as the basis for preparing the final 2020/21 budget and council tax recommendations for approval by Full Council in February 2020.**

(Voting figures: 6 for, 0 against, 0 abstentions).

REASONS FOR DECISION:
Cabinet was asked to agree the recommendations because they form part of the budget-setting process which will culminate in Full Council approving the budget and council tax for 2020/21 on 19 February 2020, in accordance with the Local Government Finance Act 1992.

49. **Risk Management update**

This report presented an updated Risk Management Policy & Strategy for adoption by Cabinet which would provide a framework for Members and officers in the management of risk.

The report also provided Cabinet with an updated Risk Register, as considered by the Audit and Governance Committee on 4 December.

Proposed by Councillor Meyers,
Seconded by Councillor Godfrey; and

RESOLVED:
1. **That report C/19/51 be received and noted.**
2. **That proposed Risk Management Strategy & Process be adopted.**
3. **That current Risk Register be noted.**

(Voting figures: 6 for, 0 against, 0 abstentions).

REASONS FOR DECISION:
A clear framework as outlined within the strategy will ensure consistency in approach across the organisation, provide clarity of roles with respect to Risk Management and enable progress towards an embedded Risk Management culture within the organisation.

50. **The Play Area Strategy 2020-2030**

The Play Area Strategy 2020-2030 detailed how high quality play areas would be provided and maintained throughout the District over the next ten years. The Strategy outlined how Folkestone and Hythe District Council would work with

Town and Parish Councils, Community Groups and other stakeholders to provide a network of Priority and Strategic Play Areas across the district that provide high quality play space, are well maintained, have good access and are financially sustainable.

The report had also been considered by the Overview and Scrutiny Committee at their meeting held on 10 December 2019. The minutes of the meeting had been circulated to the Cabinet Members at the meeting.

Councillor Wimble made a voluntary declaration in that he was a Member of New Romney Parish Council who were going to take responsibility for one of the play areas.

Proposed by Councillor Collier;
Seconded by Councillor Meyers; and

RESOLVED:
1. **That report C/19/48 be received and noted.**
2. **That the suggestion of sites to be sold in respect of non-strategic play areas be removed.**
3. **That the principles of the draft Play Area Strategy 2020-2030 and associated action plan be approved.**
4. **To proceed to formal consultation.**
5. **That a report be brought back to Cabinet following formal consultation with a view to approving the Strategy from 1st April 2020.**

(Voting figures: 6 in favour, 0 against, 0 abstentions).

REASONS FOR DECISION:

Current play area provision across the district is unsustainable. The Play Area Strategy 2020-2030 outlines how the Council will work with partners to provide a sustainable network of Priority and Strategic Play Areas across the District. Cabinet are asked to consider and approve the principles of the draft strategy which sets out clear direction of how these important community facilities will be managed, maintained and enhanced over the next ten years.

51. **Places and Policies Local Plan - Consultation on Main Modifications**

The report updated Cabinet on progress with the Places and Policies Local Plan (PPLP), following consultation on a proposed site for gypsies and travellers (see C/19/13). The report sought Cabinet’s approval to publish and consult on main modifications to the plan, the final stage before the planning Inspector issues his report and the PPLP can be taken forward for adoption.

The report had also been considered by the Overview and Scrutiny Committee at their meeting held on 10 December 2019. The minutes of the meeting had been circulated to the Cabinet Members at the meeting.

Proposed by Councillor Wimble,

Seconded by Councillor Mrs Hollingsbee; and

RESOLVED:

1. **To receive and note report C/19/45 be received and noted.**
2. **That the main modifications to the Places and Policies Local Plan set out in Appendix 1 be approved for publication and consultation;**
3. **That the submission of the consultation comments on the main modifications to the Planning Inspector at the end of the consultation period be approved; and**
4. **That the publication of the changes to the Policies Map set out in Appendix 1 be approved.**

(Voting figures: 6 for, 0 against, 0 abstentions).

REASONS FOR DECISION:

To allow the Places and Policies Local Plan to progress to adoption. On adoption the PPLP will have full weight in planning decisions.

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Folkestone & Hythe District Council

Minutes

Cabinet

Held at:	Council Chamber - Civic Centre Folkestone
Date	Friday, 20 December 2019
Present	Councillors John Collier, David Godfrey, Mrs Jennifer Hollingsbee (Vice-Chair), David Monk (Chairman), Stuart Peall and David Wimble
Apologies for Absence	None.
Officers Present:	Adrian Hammond (Housing Strategy Manager), Andy Jarrett (Chief Strategic Development Officer), John Bunnett (Corporate Director - Place and Commercial Services), Amandeep Khroud (Assistant Director), Tim Madden (Corporate Director - Customer, Support and Specialist Services), Susan Priest (Head of Paid Service), Andrew Rush (Corporate Contracts Manager), Julia Wallace (Masterplanning Project Manager) and Jemma West (Committee Service Specialist)

NOTE: The decisions at Minute No 53 and 55 are not subject to call-in arrangements, due to the urgency of these items, as per paragraph 7 of Part 7.3 of the Council's constitution.

52. Declarations of Interest

Councillor Mrs Hollingsbee declared an Other Significant Interest (OSI) in respect of minute number 55 (Otterpool Park) and indicated that she would not take part in the vote or debate, and would leave the chamber during consideration of the report.

53. East Kent Housing

Concerns had been raised about the performance of East Kent Housing. This has culminated in a censure from the Regulator of Social Housing which is an arm's length body sponsored by the Ministry of Housing, Communities and Local Government.

An independent report had been commissioned by the Councils who "own" East Kent Housing through an Owners' Agreement. The Councils are: Canterbury City Council and the District Councils of Dover; Folkestone and Hythe; and Thanet. The report known as the Pennington Report identified a number of serious concerns. It was recommended that all matters identified form the basis of a Voluntary Undertaking required by the Regulator of Social Housing.

Proposed by Councillor Godfrey,
Seconded by Councillor Peall; and

RESOLVED:

1. **That report C/19/54 be received and noted.**
2. **That the contents of the Pennington Report be noted, and endorses the production of an Action Plan to implement all the recommendations in the report be endorsed.**
3. **That the content of the Notice from the Regulator for Social Housing dated September 2019 be noted.**
4. **That the Action Plan derived from the Pennington Report be used as the template to bring about improvements in the operation and performance of East Kent Housing such that the Regulator for Social Housing is in a position to remove the Notices served on the 4 East Kent Councils.**
5. **That the completion of the Action Plan and the response to the Regulator be delegated to the Head of Paid Service in consultation with the Leader of the Council.**
6. **That it be noted that the Board Membership of East Kent Housing has been changed such that the 4 East Kent Chief Officers now exclusively form the Board membership namely: Colin Carmichael, Chief Executive, Canterbury City Council; Nadeem Aziz, Chief Executive, Dover District Council; Dr Susan Priest, Head of Paid Service, Folkestone and Hythe District Council; and Madeline Homer, Chief Executive, Thanet District Council.**

(Voting figures: 6 for, 0 against, 0 abstentions).

REASONS FOR DECISION:

Following serious compliance failures identified across the housing stock managed by East Kent Housing in East Kent, Pennington Choices were commissioned to investigate the circumstances leading to the failures, the main underlying causes, the effectiveness of the recovery action plans put in place and to make recommendations to ensure that the identified compliance failures do not happen again. The report made clear recommendations which the Council (and the other East Kent Council partners) must action in order to put an effective recovery plan in place to ensure that all of the Council's homes are compliant and safe.

54. **Exclusion of the Public**

Proposed by Councillor Monk,
Seconded by Councillor Wimble; and

RESOLVED:

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

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

(Voting figures: 5 for, 0 against, 0 abstentions).

Councillor Mrs Hollingsbee did not take part in the vote, and moved to the public area of the chamber during the consideration of this item, remaining there for the rest of the meeting.

55. **Otterpool Park**

This report recommended the acquisition of further interests at Otterpool Park.

Proposed by Councillor Monk,
Seconded by Councillor Godfrey; and

RESOLVED:
1. **That report C/19/53 be received and noted.**
2. **That the interests and assets identified in the report be acquired on the terms reported orally to the meeting.**

(Voting figures: 5 for, 0 against, 0 abstentions).

REASONS FOR DECISION:
Cabinet needed to decide whether to acquire interests and assets in order to move the Otterpool Park project forward and the report gave reasons why the acquisition should proceed.

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This Report will be made public on 14 January 2020

Report Number **C/19/62**

To: Cabinet
Date: 22nd January 2020
Status: Non-Key Decision
Head of service: Charlotte Spendley, Director for Corporate Services
Cabinet Member: Councillor David Monk

SUBJECT: QUARTER 2 PERFORMANCE REPORT 2019/20

SUMMARY:

This report provides an update on the Council's performance for the second quarter of 2019/20, covering 1st July 2019 to 30th September 2019. The report enables the Council to assess progress against the approved key performance indicators for each service area.

Key performance indicators will be monitored during 2019/20 and reported to CLT and Members quarterly.

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

a) The Council is committed to monitoring performance across all of its service areas to ensure progress and improvement is maintained.
b) The Council needs to ensure that performance is measured, monitored and the results are used to identify where services are working well and where there are failings and appropriate action needs to be taken.

RECOMMENDATIONS:
1. **To receive and note report C/19/62.**
2. **To note the performance information for Quarter 2 2019/20.**

1. BACKGROUND

1.1 The Council's Corporate Plan (2017-20) for the district, introduced six new strategic objectives:

- More homes
- More jobs
- Health Matters
- Appearance Matters
- Achieving Stability
- Delivery Excellence

1.2 Underpinning each strategic objective is a set of priorities that explain how each objective will be achieved.

2. INTRODUCTION

2.1 Quarterly Performance Reports enable the Cabinet, other Members of the Council and the public to scrutinise the performance of the Council against strategic deliverables and key indicators in accordance with the approved Corporate Plan.

2.2 The Quarterly Performance Report (Appendix 1) has been produced to summarise the Council's performance for the second quarter of 2019/20 (1st July to 30th September 2019). It captures how the Council is performing against its agreed Key Performance Indicators.

2.3 Where the performance indicator is not being achieved, explanations have been sought from the relevant Service Manager's and noted in the report.

2.4 The performance indicators which have fallen below target are monitored by the Council's Performance & Improvement Specialist who will work with the relevant Service Manager to identify appropriate action that can be taken to resolve the situation.

3. PERFORMANCE – EXCEPTION REPORTING

3.1 The Council has performed well in Quarter 2, with 61 of the 80 indicators meeting/exceeding target or on track at the end of the quarter.

3.2 **More Homes**

- The Council determined 81.8% of major planning applications within the statutory period helping to support the delivery of new housing and employment sites in the district.
- 13 additional affordable homes were delivered by the Council and its partner agencies.
- 51 private sector homes were improved as a result of intervention by the Council and its partner agencies.

- 4 additional affordable homes for low cost ownership in the district during the quarter. Over the next 6-9 months, the Housing Strategy team will support the delivery of a further 57 Council and housing association homes for rent and shared ownership purchase on sites in Cheriton, Folkestone, New Romney, Sellindge and Stelling Minnis, therefore aiming to exceed its annual target of 32 affordable homes by the end of 2019/20 year.

To monitor

- Number of homelessness approaches continues to remain high reaching 357 in quarter compared with 325 in the same period last year. The Council along with all other local authorities in the UK has seen a marked increase in the number of approaches from clients seeking Housing Advice following the introduction of the Homelessness Reduction Act 2017. The Act introduced a new statutory obligation upon a wide range of public sector agencies to refer potential homeless households to the council, leading to a continuing marked increase in the number of homeless approaches. The Housing Options team continues to respond to the challenge by providing a coherent and marked increase in the number of positive outcomes for our clients, resulting in more households being able to maintain their existing accommodation, fewer households living in temporary accommodation, and significant reduction in the number of those sleeping or living rough as homeless in the district.
- The percentage of ‘non-major’ and ‘other’ applications to be determined within the statutory period have not met their quarterly targets of 70% and 85% in Quarter 2 compared with the same period last year. Since Quarter 2, there has been a successful recruitment of two new validation officers that are helping ensure performance times for determining applications are improved in the remaining two quarters of 2019/20. Additional expertise for the team has also been successfully secured in the form of four new planning specialists roles due to start in early 2020 to provide further resilience. Early indications are that performance through the rest of the year show a marked improvement.

3.3 More Jobs

- The annual target of 12 engagement visits delivered to key employers is on track with a further 3 visits being completed with the follow businesses in the district: Saga, Church & Dwight, and London Ashford Airport, bringing the total to 8 in the first half of 2019/20**.** The meetings identify areas where the council can support the growth of these important companies, including meeting their future expansion (or consolidation) needs in order to retain jobs in the district. Opportunities are also identified to link with other organisations such as Folkestone College regarding training and skills development. These companies are also encouraged to use the Folkestone Works website (www.folkestone.works) to promote their success stories, thereby also providing third party validation of Folkestone & Hythe District as a business location.

3.4 Appearance Matters

- We know the appearance of the district is important to local residents and businesses. In Quarter 2:
    - More than 415 hours were spent by officers tackling environmental crime, helping to achieve 37 Fixed Penalty Notices for issues relating to fly tipping, litter and dog control.
    - Number of days to remove fly tipped waste on public land once reported has improved, decreasing to 1 day during the quarter when compared with 2 days in the same period last year.
    - Returns to empty missed bins reported by our residents has shown improvement in Quarter 2 with 99% being emptied the next working day compared with 91% in the same period last year.
- Our Area Officer team continues to actively work with local Elected Members, businesses and community groups to improve the appearance of the district. In Quarter 2, the team completed 3,258 'See it, Own it, Do it' jobs across the district to ensure it remains a welcoming and attractive place to live, work and visit.
- A total of 303 community volunteers helped to collect 442 bags of litter as part of 21 Council supported community environmental events.
- The district's local businesses also played a part in supporting local areas, with more than 328 corporate social responsibility hours being undertaken in the quarter to support community environmental events. Participating businesses and organisations included Balfour Beatty, McDonalds, The Environment Agency and Holiday Extras.

<u>To monitor</u>

- The recycling rate has decreased slightly from 50% in Quarter 1 to 48% in Quarter 2 due to seasonality. All material streams, including paper and card collected and the container mix recycling remained the same during Quarter 1 and Quarter 2 with the exception of garden waste, which decreased by approximately 300 tonnes in Quarter 2, directly impacting on the overall recycling rate achieved; in addition the amount of refuse collected for incineration was up by around 250 tonnes in Quarter 2. Previous performance trends have identified the continued seasonality of garden waste with spring months (Quarter 1) being busiest time of the year, when residents are more likely to prepare their gardens for the summer months, which consequently leads to increased tonnage being collected during the period compared to the summer months (Quarter 2). Previous performance trends also suggest that household residual waste is consistently higher in August, which can be indirectly associated with factors including, people visiting their holiday homes, more outdoor eating and entertaining in the home environment and additional waste being generated by children at home during the school holidays.
- The percentage of street surveyed clear of litter within in the district reached 93% against a target of 97% during the quarter. A total of 848 inspections were carried out in Quarter 2 and 208 fell below the Defra code for cleansing standards and were rectified by Veolia within the contracted timeframe. Overall staff shortages within Veolia have

impacted on the litter score achieved during the quarter. To address the performance issue, the contactor has successfully recruited two supervisory positions that will be in post by the end of January 2020 and are temporarily using agency staff for operational duties (i.e. street cleaning and collections) to standards are improved.

- The British Vehicle PCN (Parking Contravention Notice) recovery rate has shown improvement Quarter 2 in comparison with the same period last year. The British Vehicle PCN recovery rate has increased to 64.6% compared with 61.64% in the same period last year. PCN recovery rates for British vehicles have continued to improve as a result of an increased number of staff making it possible to progress recovery cases more quickly and ensuring the continued pursuit of debtors through our enforcement agents.
- Foreign Vehicle PCN recovery rates have decreased to 41.9% compared with 48.47% in the in the same period last year. The owners of foreign registered vehicles continue to pose a difficulty to trace and, even when are successfully traced, there is no legal process by which they can be made to pay civil penalties. Debtors traced are still being actively pursued through our enforcement agents.

3.5 Health Matters

- A total of 200 people were engaged in education and prevention activity associated with Public Space Protection Order (PSPO) to help tackle anti-social behavior within the district's public spaces.
- A total of 20 disabled facilities grants were issued in the quarter to pay for essential housing adaptations to help disabled people stay in their own homes.

To monitor

- The number of visits and inspections to licensed premises has shown improvement during the quarter following a review of the team's working priorities, but remains under target, with a total of 24 being achieved against a target of 45. An extensive investigation into an unlicensed animal premises and preparation of associated evidence for a legal case has impacted on overall performance during the quarter. Performance will continue to be monitored.

3.6 Achieving Stability

- Both Business and Council Tax rates show positive cumulative trends towards their overall annual targets in Quarter 2.
- As part of the Council's commercialisation agenda, the corporate property portfolio generated over £434k of income in Quarter 2. The portfolio has so far successfully generated over £860k of income in the first half of 2019/20 and is currently on course to achieve its annual target of £1.6million.
- Over £57k in Community Infrastructure Levy receipts was received in Quarter 2 to help deliver the infrastructure needed to support housing development within the District.

3.7 Delivering Excellence

- The percentage of calls served reached 84.6% in the quarter compared with 77.58% in the same period last year.
- The webchat facility provides our customers with a quick and convenient way to get in contact with us regarding a range of essential services, including council tax, housing benefit and planning. The percentage of customers satisfied with the webchat facility continues to exceed target in the quarter reaching 90% against a target of 88%.
- The number of Lifeline Calls answered in 60 seconds exceeded target in the quarter reaching 98.2% against a target of 97.5%.
- The percentage of emergency repairs completed on time at East Kent Housing properties within the District exceeded target, reaching 99.28% against a target of 98%.
- Number of absence days per employee (per full time equivalent) has fallen to 0.9 days in the quarter compared with 1.33 days in the same period last year.

<u>To monitor</u>

- The number of Subject Access Request responses to be provided within the statutory period continues to remain below target during the quarter. Significant resources have been focused on governance and policy matters, FOI and SAR caseloads. More resource will be focused on this area for the remainder of the year.

4. RISK MANAGEMENT ISSUES

Perceived risk	Seriousness	Likelihood	Preventative action
The Council's strategic objectives are not met.	High	Medium	Monitor progress against performance indicators and take remedial action for those areas where targets and actions are unlikely to be achieved.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal (NE) – There are no legal implications or risks arising directly out of this report. The Key Performance Indicators (as amended) must continue to take account of both existing and new statutory duties and responsibilities that are imposed on the Council by the Government. Failure to do so will put the Council at risk of legal challenge by affected residents and/or businesses. Whilst reporting on performance is not a statutory requirement, it is considered best practice to review the Council's progress against the Corporate Plan and Service Plans on a regular basis.

5.2 Finance (CS) – There are no direct financial implications arising from this report. There is a presumption that targets will be delivered within existing resources. Adverse performance for some indicators may have financial implications for the Council. In the event that targets cannot be achieved within the agreed envelope of resources officers are expected to raise the issue through the appropriate channels as the needs arise.

5.3 **Human Resources (RB)** – There are no direct Human Resource implications emanating from this report. The council has developed a People Strategy that has been designed to support the delivery of the corporate plan and the achievement of associated KPIs.

5.4 **Equalities (GE)** – Equality Impact Assessments (EIAs) are systematically carried out for any services, projects or other schemes that have the potential to impact on communities and / or staff on the grounds of particular protected characteristics or socio-economic disadvantage. Over the course of the year, performance against some indicators might potentially have equality and social inclusion implications, if performance is not at an acceptable level. These will be highlighted as necessary in the corporate performance reporting, along with details of the steps that will be taken to address these.

5.5 Communications (KA) – The quarterly performance report should be widely communicated internally and externally. Thought should be given to how this is communicated to our different audiences.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Gavin Edwards – Performance and Improvement Specialist
Tel: 01303 85 3436
Email: gavin.edwards@folkestone-hythe.gov.uk

Appendices:
Appendix 1: Quarter 2 Key Performance Indicators Report

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Folkestone and Hythe District Council
Quarter 2 Performance Report 2019/20 – July to September 2019

Folkestone & Hythe District Council

Your Cabinet Members

Cllr David Monk
Leader of the Council

Cllr Jenny Hollingsbee
Deputy Leader
Cabinet Member for Communities

Cllr John Collier
Cabinet Member for
Property Management & Grounds Maintenance

Cllr David Godfrey
Cabinet Member
for Housing, Transport & Special Projects

Cllr Ian Meyers
Cabinet Member for
Digital Transformation & Customer Services

Cllr Stuart Peall
Cabinet Member for Enforcement, Regulatory
Services, Waste & Building Control

Cllr David Wimble
Cabinet Member for the District Economy

Your district – an overview

Our district is situated on Kent's south east coast and covers an area of 140 square miles. It is a place of variety and contrast with a landscape characterised by rolling chalk downland, wooded valleys, wild marshes, and a 26-mile coastline. The district has a population of approximately 111,000 of which 58.2% (32,700) of female residents and 60.1% (33,000) of males are of working age. Folkestone & Hythe has a growing population in line with the growth for the county of Kent, with a projected population increase of 8.3% by 2036 (120,400). The proportion of older people in Folkestone & Hythe is 23.8% (26,500), higher than Kent, South East and England and Wales. The number of people aged 65 and over within the district is set to increase by about 14,000 (52.7%) by 2036. This has implications for a wide range of services provided by the district council including housing and health.

Our principal town, Folkestone, accounts for just under half the district's population. It is also the area's commercial hub, particularly for creative and digital media - one of the UK's fastest-growing sectors. The Creative Quarter in Folkestone's Old Town is home to a thriving collection of artists' studios and creative business and offers artists, retailers and business people the chance to become part of this lively and ever-growing community.

As well as its strong creative focus, the district attracts a variety of small and medium size businesses (SMEs) and is home to great brand names including Saga, Eurotunnel, Holiday Extras, the Aspinall Foundation and Church and Dwight.

The historic town of Hythe is the district's second centre of population and one of two ancient Cinque Ports in the district. Its central feature is the Royal Military Canal, built for defence against invasion in the Napoleonic wars with France. To the west are the wide open spaces of Romney Marsh, home to New Romney, our second Cinque Port; Lydd, a member of the Confederation of Cinque Ports as a 'limb' of New Romney, and a number of smaller coastal communities. Contrasting with the wild expanse of marshes are the North Downs, a ridge of chalk hills that stretch from Dover to Farnham. The Downs are home to pretty villages, including Elham, Lyminge and Postling, hidden valleys and thriving vineyards.

Although the district is rural and coastal in character, it is very well connected. The M20 offers easy access to London and other major motorway networks, London is under an hour away via High Speed 1 (HS1) from Folkestone and we have unrivalled access to mainland Europe via the Channel Tunnel.

We think our district is a great place to live, work and visit. It's where the past has made its mark and where a bright new future is unfolding. As the local authority for the district, we have a key role to play in that future.

Introduction

During 2017/18, the Council introduced its refreshed Corporate Plan, setting out its three year corporate plan vision of investing for the next generation ~ delivering more of what matters and outlining six new strategic objectives:

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

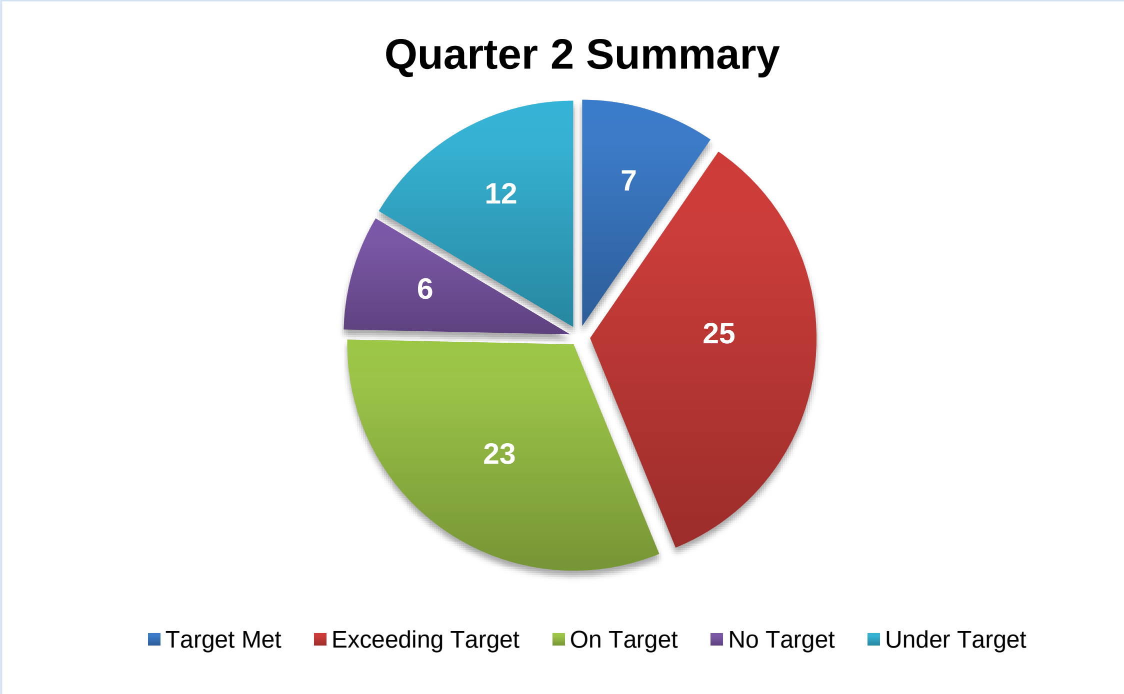
The first four objectives are externally focused and detail how the Council will contribute to the district and its communities. The last two objectives are internally focused to identify the priorities required for the Council to ensure its stability and excellence in service delivery. An accompanying Corporate Delivery Plan provides the detail of what the Council plans to achieve over the next three years to support the objectives and priorities of the Corporate Plan 2017-20.

As a district council with big ambitions, we will continue to deliver a range of major projects and initiatives ensuring we are progressive and innovative in our strategic approach by:

- Working with our businesses and communities to promote and invest in our assets - a beautiful coastal district with great connections to London and Europe
- Developing a thriving economy for our residents and attract new people; supporting activities to develop jobs, homes and healthy living
- Designing our services from our customers' perspective and using technology to best effect
- Using the next year to continue working together with customers and staff to further modernise the Council to help achieve our ambitions and continuously improve the way we do business

Summary of performance – Quarter 2 2019/20

The Council has performed well in Quarter 2, with 61 of the 80 indicators meeting/exceeding target or on track at the end of the quarter.



More Homes- *Provide and enable the right amount, type and range of housing*

Description	Q2 2018/19 Comparison	Q1 Actual 2019/20	Q2 Actual 2019/20	Q3 Actual 2019/20	Q4 Actual 2019/20	Target
Number of new homes built within the District	-	-	-			350 (Annual)
		This indicator is collated on an annual basis and not available quarterly. However, the district currently has 567 properties under construction, indicating that the annual target of 350 should be exceeded.				
Council new builds and acquisitions started on site	0	1	0			20 (Annual)
		Start/completion dates can be affected by a range of factors including land acquisition, planning consent and procurement. Although, no construction of Council new builds commenced in Quarter 2, the Council remains on track to meet its annual target. Subject to planning approval, work is due to start on site on the former High View School site, later in 2019/20. The site will deliver 35 Council homes for rent and shared ownership purchase.				
Additional affordable homes delivered in the District by the Council and its partner agencies	1	16	13			80 (Annual)
Affordable homes provided in the District for low cost home ownership	9	0	4			32 (Annual)
		Over the next 6-9 months, a further 57 Council and housing association homes for rent and shared ownership purchase are due to complete on sites in Cheriton, Folkestone, New Romney, Sellindge and Stelling Minnis.				
Long-term empty homes brought back into use	10	4	8			70 (Annual)
Private sector homes improved as a result of intervention by the Council and its partner agencies	145	48	51			150 (Annual)
% of major planning applications to be determined within statutory period	80%	83.3%	81.8%			60% (Quarterly)
% of non-major planning applications to be determined within statutory period	89.1%	50.9%	45.9%			70% (Quarterly)

Description	Q2 2018/19 Comparison	Q1 Actual 2019/20	Q2 Actual 2019/20	Q3 Actual 2019/20	Q4 Actual 2019/20	Target

Performance was below target again in Quarter 2 due to the ongoing staff resources issues and hence more applications being issued out of time. However, since the end of Quarter 2 the following steps have been initiated to improve performance moving forwards:

The team have been informed that all valid applications submitted after a certain date should be issued within the 56 days. Any delays needs to be agreed by their line manager first. In respect of older cases, the team have been instructed to seek Extensions of Time (EoTs) before the issue of any decision, subject to the agreement of the applicant. There are some agents who refuse to grant extensions of time as a matter of course. In these cases, we have collated their applications and they will receive renewed focus to avoid needing any EoTs.

In addition the creation of two Validation officer posts are now ensuring that applications are validated in a timely manner, reducing complaints in this area, in turn freeing up officer time. These posts have been in place for 3 months and we are already seeing an improvement in performance.

In light of the steps taken above, time to validate applications has dramatically reduced and the number of applications determined within statutory or agreed time frames has significantly improved as set out below:

	July	***August***	***September***	***October***	***November***
Major apps in 13 weeks	*100.00%*	*100.00%*	*66.67%*	*100%*	*100.00%*
Minor apps in 8 weeks	*22.73%*	*44.44%*	*47.62%*	*61.29%*	*72.41%*
Other apps in 8 weeks	*23.53%*	*48.44%*	*19.05%*	*70.00%*	*72.73%*

Following an extensive and challenging recruitment drive, 3 new permanent experienced planners have been recruited. Further one temporary agency planner has been secured to cover a member of staff who left mid- November. These posts will be in place in the first two months of 2020. This will provide further capacity to the team, which it is hoped will go some way towards offsetting the inevitable dip in performance that will result from implementing the new computer system in January as well as ensuring we are able to meet local and national targets.

Description	Q2 2018/19 Comparison	Q1 Actual 2019/20	Q2 Actual 2019/20	Q3 Actual 2019/20	Q4 Actual 2019/20	Target
% of other planning applications to be determined within statutory period	91.5%	46.6%	43.9%			85% (Quarterly)
		See commentary above.				
Number of homelessness approaches	325	396	357			75 (Monthly)
		The Council along with all other local authorities in the UK has seen a marked increase in the number of approaches from clients seeking Housing Advice following the introduction of the Homelessness Reduction Act 2017. The Housing Options team continues to respond to the challenge by providing a coherent and marked increase in the number of positive outcomes for our clients, resulting in more households being able to maintain their existing accommodation, fewer households living in temporary accommodation, and significant reduction in the number of those sleeping or living rough as homeless in the district.				
Number of homelessness preventions under Prevention Duty	78	157	54			550 (Annual)
Average number of households in temporary accommodation	26	25	24			35 (Quarterly)
Average number of households in Bed and Breakfast accommodation	0	1	1			0 (Quarterly)
		In Quarter 2, Bed and Breakfast accommodation was temporarily provided to a client, who had mental health issues and posed a risk to themselves if placed within self-contained accommodation. The client was monitored pending a Social Services Assessment.				
Number of private rental properties provided through the Social Lettings Agency	-	13	35			60 (Annual)
Number of people on the housing waiting list	-	1,255 (as at end of June 2019)	1,237 (as at the end of September 2019)			-

More Jobs - *Work with businesses to provide jobs in a vibrant local economy*

Description	Q2 2018/19 Comparison	Q1 Actual 2019/20	Q2 Actual 2019/20	Q3 Actual 2019/20	Q4 Actual 2019/20	Target
Number of employment sites or schemes where new employment space has been delivered	-	0	0			2 (Annual)
		No employment sites or schemes for new employment have been delivered in quarter two, however work continues to be progressed by the Economic Development and Strategic Development teams to bring forward the 3 employment sites with construction expected to commence in 2020: • *16 Bouverie Place – EKSDC has now acquired the leaseholder and has applied for funding for the refurbishment to the Folkestone Community Works CLLD programme. A decision is expected in December and work is due to commence in early 2020 with completion for first tenants expected Autumn 2020.* • *Mountfield Road – funding from FHDC and East Kent Spatial Development Company has now been agreed and the Magnox/NDA socio-economic fund application is being prepared for remainder is awaited with decision due in Feb 2020. Further work to meet the planning conditions is underway.* • *Biggins Wood – legal work continues to establish a joint venture with a development partner.*				
% Increase in employment or turnover for businesses that participate in the Scale Up Folkestone & Hythe programme	-	-	-			5% (Annual)
		This indicator is collated on an annual basis and not available quarterly. A figure will be available at the end of Quarter 4. The Economic Development team continues to support and monitor the progress of the following eight local business participating in Scale up Folkestone & Hythe Programme: BigJigs Toys; Hendricks of Hythe; Oak Creative; Sprink Construction; Cinque Ports Mobility; Fudge Kitchen; JC White and Solaris.				
External funding sources applied for to deliver better infrastructure or business accommodation within the district	-	0	0			3 (Annual)
		No external funding sources have been applied for in quarter two, however the Economic Development are continuing to progress with the following:				

		• *The submission of a funding application to the Magnox/NDA socio-economic fund for the Mountfield Road employment hub.* • *Development of a framework bid to the Magnox/NDA Socio-economic Fund in line with expected Economic Development Draft Strategy for 2020 to 2023.* • *Exploring Opportunities for East Kent Spatial Development Company investment within the district.*				
Number of key employers met and supported as part of the business engagement programme	5	5	3			12 (Annual)
Square metres of employment space granted permission	-	-	-			20ha (Accumulative over 20 years)
		This indicator is collated on an annual basis and not available quarterly. A figure will be available at the end of Quarter 4.				
Value of Grant Funding Agreements agreed under the Folkestone Community Works SME Business Grant Scheme funding programme	-	£101,636	-			£70,000 (Annual)
		No grant funding agreements under the Folkestone Community Works SME Business Grant Scheme funding programme were agreed in Quarter 2.				

Appearance Matters - *Provide an attractive and clean*

Description	Q2 2018/19 Comparison	Q1 Actual 2019/20	Q2 Actual 2019/20	Q3 Actual 2019/20	Q4 Actual 2019/20	Target
Maintain a 4+ rating on trip advisor for the Coastal Park	-	-	-			4+ (Annual)
		This indicator is collated on an annual basis and not available quarterly. A figure will be available at the end of Quarter 4.				
Community environmental events (e.g. litter picks) held	15	23	21			15 (Quarterly)
Community environmental volunteer hours committed	596	916	658			600 hours (Quarterly)
Corporate social responsibility environmental events held	-	5	5			5 (Quarterly)
Corporate social responsibility hours committed	240	267	328			240 hours (Quarterly)
Number of recorded See It, Own It, Do it, interventions completed	-	3,096	3,258			1200 (Quarterly)
Average time for graffiti to be removed from the time of being reported (Local Area Officers)	-	48 hours	24 hours			48 hours (Quarterly)
Warning Letters issued (Environmental Protection and Enforcement)	2	12	23			100 (Annual)
Number of enforcement notices served (e.g. Abatement Notices, Community Protection Notices)	50	39	43			100 (Annual)
Enforcement - % of successful prosecutions	-	-	100%			100% (Annual)

Description	Q2 2018/19 Comparison	Q1 Actual 2019/20	Q2 Actual 2019/20	Q3 Actual 2019/20	Q4 Actual 2019/20	Target
Enforcement - Fixed Penalty Notices issued	75	38	37			150 (Annual)
Enviro-crime patrol hours (dog fouling and littering)	506	426	415			2,800hrs (Annual)
% of unauthorised encampments successfully removed from FHDC Land	-	100%	100%			100% (Annual)
Compliant air quality monitoring sites	14	16	16			14 Sites
% of household waste recycled	48%	50%	48%			50% (Quarterly)
		The recycle rate has decreased from 50% in Quarter 1 to 48% in Quarter 2 due to seasonality. All material streams remained the same during Quarter 1 and Quarter 2 (paper and card collected in a black box and the container mix collected in the purple topped wheeled bin) with the exception of garden waste which was down by approximately 300 tonnes in Quarter 2, which has impacted on the overall recycling rate; in addition the amount of refuse collected for incineration was up by around 250 tonnes in Quarter 2, an overall impact of 550 tonnes compared to Quarter 1. *Garden waste in particular is seasonal driven and trend data over previous years has shown that Spring (Quarter 1) is the busiest time of the year when residents prepare their gardens for the summer months, hence why more tonnage is collected during this period compared to the summer (Quarter 2). Previous Trend data also suggests that household residual waste is constantly higher in August, which can be indirectly associated with factors including, people visiting their holiday homes, more outdoor eating and entertaining in the home environment and additional waste being generated by children at home during the school holidays.*				
Number of missed collections per 100,000 population	7.44	9.5	7.52			50 (Quarterly)
% of street surveyed clear of litter within in the district	97%	95%	93%			95% (Quarterly)
		In Quarter 1, a total of 879 inspections were carried out, 126 of these fell below the Defra code for cleansing standards and were rectified by Veolia within their contracted timescales. A total of 848 inspections were carried out in Quarter 2 and 208 fell below standard and were rectified by Veolia				

Description	Q2 2018/19 Comparison	Q1 Actual 2019/20	Q2 Actual 2019/20	Q3 Actual 2019/20	Q4 Actual 2019/20	Target
		in the contracted time. Overall staff shortages within Veolia have impacted on the litter score achieved during the quarter. To address the performance issue, the contactor has successfully recruited two supervisory positions and are temporarily using agency staff for operational duties (i.e. street cleaning and collections) where there is a shortfall in staff to ensure there is a full complement of staff for duties to be carried out.				
% of returns to empty a missed bin by the end of the next working day if it is reported within 24 hours	91%	92%	99%			95% (Quarterly)
Number of days to remove fly tipped waste on public land once reported	2	2.8	1			3 Days (Quarterly)
Parking: Number of PCNs issued	5,314	5,387	5,697			No Target
Parking: British PCN recovery rate	61.64%	66.5%	64.6%			70% (Quarterly)
		Under the Council's appeals process for a PCN for traffic offences, the driver does not have to make payment whilst their objection is being dealt with and is put on hold pending a decision. The parking services team continue to progress cases more quickly hence the improved recovery rate when compared with quarter two in 2018/19. Further work continues to be undertaken on chasing persistent evaders, which will make it possible to achieve the target in 2019/20.				
Parking: Foreign PCN recovery rate	48.47%	45.2%	41.9%			50% (Quarterly)
		Foreign registered vehicles (FRVs) are more likely to contravene traffic and parking regulations than drivers of UK registered vehicles – and are less likely to pay the penalty charges which they incur. It is often impossible to trace the owners of FRVs and, even when they can be traced, there is no legal process by which they can be made to pay civil penalties. Debtors are still being actively pursued through our enforcement agents. We are confident the target will be achieved in 2019/20.				

Health Matters - *Keeping our communities healthy and safe*

Description	Q2 2018/19 Comparison	Q1 Actual 2019/20	Q2 Actual 2019/20	Q3 Actual 2019/20	Q4 Actual 2019/20	Target
% of premises rated 3 or above for food hygiene	95%	97%	94%			95% (Quarterly)
		The percentage of premises rated three or above for food hygiene did not meet target primarily due to 20 new businesses within the district registering at the very end of Quarter two for their first inspection. These are automatically classed as “not broadly compliant” (i.e. equivalent to a rating below 3) before an inspection has taken place. The majority of these newly registered premises will be inspected during the months of October and November.				
Number of licensing complaints investigated	23	9	8			<100 (Monthly)
Number of visits and inspections to licensed premises	-	8	24			45 (Quarterly)
		The 24 reported visits and inspections consisted of: • *4 animal welfare licence inspections* • *14 premises licence inspections (under Licensing Act 2003)* • *3 caravan sites inspections* • *3 skin piercing premises registrations* *Performance has shown a marked improvement in comparison with the previous quarter as a result of a review of the team’s working priorities, but still remains under target. An extensive investigation into an unlicensed animal premises and preparation of associated evidence for a legal case has impacted on overall performance during the quarter.*				
Number of people engaged in Public Space Protection Order education and prevention activity	-	200	200			200 (Quarterly)
Fixed Penalty Notices issued under the Public Space Protection Order	-	4	1			No Target
Number of young people engaged in ASB diversionary activities	-	125	100			100 (Quarterly)

Number of hospital admissions prevented or hospital discharges accelerated as a result of Private Sector Housing Team and partner intervention	**-**	65	79			100 (Annual)
No of Disabled Facilities Grants administered	**-**	17	20			No Target

Achieving Stability - *Achieve financial stability through a commercial and collaborative approach*

Description	Q2 2018/19 Comparison	Q1 Actual 2019/20	Q2 Actual 2019/20	Q3 Actual 2019/20	Q4 Actual 2019/20	Target
Council tax collection	56.98% (cumulative)	29.38% (cumulative)	56.67% (cumulative)			97.3% (Annual)
Council tax reduction collection rate	47.8% (cumulative)	23.62% (cumulative)	45.49% (cumulative)			82.5% (Annual)
Business Rates collection	58.08% (cumulative)	34.37% (cumulative)	58.57% (cumulative)			97.5% (Annual)
Total annual income accrued from Oportunitas for the Council	-	-	-			£275,000 (Annual)
		This indicator is collated on an annual basis and not available quarterly. A figure will be available at the end of Quarter 4.				
Total income collected from the Council's corporate property portfolio	£81,776	£425,901	£434,720			£1.6 million (Annual)
Total income received from delivery of East Kent apprenticeship programme	-	£14,631	£15,954			£100,000 (Annual)
Total income received from FHDC apprenticeships	-	£2,769	£2,769			£8,000 (Annual)
Total value of Community Infrastructure Levy Liability notices	£307,970.38	£60,369.63	£519,212.80			No Target
Total value of Community Infrastructure Levy receipts	£0	£106,292.20	£57,021.90			No Target

Delivering Excellence - *Deliver excellent customer service through commitment of staff and members*

Description	Q2 2018/19 Comparison	Q1 Actual 2019/20	Q2 Actual 2019/20	Q3 Actual 2019/20	Q4 Actual 2019/20	Target
Calls served (versus volumes of calls received)	77.58%	86.6%	84.6%			80% (Monthly)
Reduction in abandoned calls	-	9.73%	6.43%			1% (Annual)
Increase of customer self-serve transactions (compared to 2018/19)	-	-	-			5% (Annual)
		This indicator is collated on an annual basis and not available quarterly. A figure will be available at the end of Quarter 4.				
% of dissuaded calls	-	0.15%	1.15%			2% (Annual)
% of customers satisfied with Web Chat service	-	90%	90%			88% (Annual)
Average number of days taken to process new claims for Housing Benefit	19.1	20	15.2			21 Days
Lifeline - Number of calls answered within 60 seconds	98.3%	98.5%	98.2%			97.5% (Monthly)
Lifeline - Number of calls answered within 180 seconds	100%	100%	99.9%			100% (Monthly)
EKH -Average time taken to re-let council dwellings excluding major works	17.98 days	24.65 days	15.8 days			16.5 Days (Quarterly)
East Kent Housing - % of emergency repairs completed on time	100%	99.62%	99.28%			98% (Quarterly)
East Kent Housing - % of routine repairs completed on time	96.09%	97.66%	99.61%			90% (Quarterly)

All complaints will be acknowledged within 5 days as required in the policy	100%	100%	99%			100% (Monthly)
		The departure of an officer from the Business Support team at the end of July and the recruitment and training of new officer to process complaints had impacted on response times during the month of August, therefore impacting on the overall result for Quarter two. Training for the new officer was completed by end of August and performance returned to 100% in the month of September.				
All Freedom of Information / Environmental information Requests to be responded to within the statutory period of (20 working days or lawful extension).	91.5%	93.1%	90.7%			90% (Monthly)
All Subject Access Request responses to be provided within the statutory period (1 calendar month or lawful extension).	-	55.5%	58.7%			100% (Monthly)
		The number of Subject Access Request responses to be provided within the statutory period continues to remain below target during the quarter. Significant resources have been diverted in order to attend to governance and policy matters, resulting in limited resource for processing primary FOI and SAR caseloads. The Senior Information Specialist is raising the issue with senior officers, and remedies for increased resourcing are currently being investigated via the newly implemented Staff Hub and Case structures to ensure performance returns to satisfactory levels.				
No of website unique visits	-	137,169	119,822			>100,000 (Quarterly)
% change in unique website visits	-	- 9.8%	14.6%			5% increase (Quarterly)
Number of social media followers (Facebook, Twitter, Instagram, LinkedIn)	-	13,702 (as at end of June 2019)	13,793 (as at end of September 2019)			>12,400 (Quarterly)
Number of absence days per employee (Per full-time equivalent)	1.33	0.81	0.9			7 days (Annual)

Number of apprenticeships available for East Kent Authorities (Folkestone & Hythe, Thanet, Dover and Canterbury)	-	24	47			26 (Annual)
		The Organisational Development team aim to enroll a total of 52 members of staff from across the four East Kent Authorities on a 13 month apprenticeship course over a two year period. To ensure all apprentices complete within the current and next financial year, a further 23 staff members have been enrolled in Quarter 2 for apprenticeships due to complete in 2020/21.				
Employee Net Promoter score	-	-	-			-20 or above (Annual)
		This indicator is collated on an annual basis and not available quarterly. A figure will be available at the end of Quarter 4.				

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Folkestone & Hythe District Council

This Report will be made public on 14 January 2020

Folkestone & Hythe District Council

Report Number **C/19/56**

To:	**Cabinet**
Date:	**22 January 2020**
Status:	**Key Decision/Non key Decision**
Responsible Officer:	**Katharine Harvey, Chief Economic Development Officer**
Cabinet Member:	**Councilor David Wimble, Cabinet Member for the District Economy**

SUBJECT: **The Step Short commemoration Memorial Arch**

SUMMARY: This report seeks Cabinet agreement to take on the responsibility for maintaining the Step Short commemoration Memorial Arch, including paying for its maintenance.

REASONS FOR RECOMMENDATIONS:
The Step Short charity is seeking to divest itself of the commemoration Memorial Arch asset and has requested that the District Council takes on this asset and assumes responsibility for its maintenance. On transfer of this asset the charity proposes to wind itself up.

RECOMMENDATIONS:
1. **To receive and note report C/19/56.**
2. **Cabinet agrees to the transfer of the commemoration Memorial Arch asset to the Council and assumes financial responsibility for the maintenance costs which are estimated at £6k per annum.**

BACKGROUND

1.1 The Step Short commemoration Memorial Arch is located at the top of the Road of Remembrance as a memorial to the bravery of millions of soldiers who marched through the town and down 'The Slope' (as it was then known) to boats waiting for them at the harbour to take them to the Western Front between 1914 and 1918.

1.2 In July 2012 the Step Short charity unveiled plans to create this arch as a symbol of remembrance to commemorate the soldiers at an estimated cost of £500,000.

1.3 In June 2013 Cabinet agreed (13/012) to make a £200,000 contribution from General Fund Reserves towards the creation of this Arch. It also indicated at that time a willingness to consider additional support through a further report at a future meeting of Cabinet.

1.4 No additional further support was sought from the charity at that time and since then the Arch has remained an asset of the charity who has maintained the Arch, a now well established tourism asset in the town.

PROPOSED TRANSFER OF THE ASSET

1.5 The Council has been recently approached by the Step Short charity who are seeking to wind themselves up. It has requested that the Council accepts the transfer of this asset from the charity and assumes financial responsibility for its ongoing maintenance, to include an existing website, www.stepshort.co.uk.

1.6 The commemoration Memorial Arch is an important asset to Folkestone which supports the town's history and heritage through its recognition of the important role that Folkestone harbour played in the First World War. This is one of the important assets which supports Folkestone as a visitor destination and draws attention to the significance of the town in the first world-war period.

1.7 Tourism and the visitor economy is very important to the district and in 2017 it was estimated that 4.3 million day trips brought some £63million into the local economy. Assets such as the Memorial Arch have played a role in making Folkestone a visitor destination.

2. Maintenance & Financial Implications

2.1 There are maintenance and insurance implications to maintaining the arch.

2.2 The cleaning bill for the last year was £630.

2.3 The electricity bill for the last year was £546.

2.4 Insurance quotes have been obtained with the premium being around £2200.

2.5 It would also be prudent to budget in a small contingency amount to cover web hosting costs and any vandalism or ad-hoc repairs.

2.6 This gives a total budget of around £6k per year which will need to be built into the base budget for 2020/21.

2.7 It is assumed at this stage that there are no transferring funds from the Step Short charity although should there be any remaining funds from the charity, following closure, the Chairman of the charity has offered these to the Council as a contribution to any ongoing liabilities.

3. RISK MANAGEMENT ISSUES

3.1 There is risk management involved in this project.

Perceived risk	Seriousness	Likelihood	Preventative action
FHDC decides not to assume responsibility of the asset	High	Low	Members agree to the recommendation in the report
Step Short winds down without transferring the asset and so the arch falls into disrepair	High	Low	Members agree to the recommendation in the report
Estimated maintenance costs are higher than anticipated	High	Low	Officers have undertaken work to accurately estimate the maintenance costs
Unexpected maintenance costs occur in the future that have not been budgeted for	High	Low	The maintenance team will regularly monitor the necessary work required and identify budget requirements as part of the annual budget setting process

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. However, Step Short Folkestone Limited will need to enter into a Deed of Surrender in order to bring the lease dated 20 June 2016 and made between (1) The District Council of Shepway and (2) Step Short Folkestone Limited to an end and to enable FHDC to take over the maintenance responsibility. Legal suggests that Smith Woolley who act on behalf of the Radnor Estate (the superior landlord) are notified of this and also that the licence to assign to the Folkestone Town Council is no longer proceeding.

4.2 **Finance Officer's Comments (LH):**

Within the draft detailed budget 2020/21 there isn't a budget for this however, within the final budget that goes for approval at Council in February 2020, £6k will be included for this item, should Cabinet agree to the proposals in this report.

4.3 **Diversities and Equalities Implications (KH)**

There are no diversities and equalities implications arising directly from this report.

5. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Katharine Harvey, Chief Economic Development Officer
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This Report will be made public on 14 January 2020

Folkestone & Hythe District Council

Report Number **C/19/63**

To:	**Cabinet**
Date:	**22 January 2020**
Status:	**Key Decision**
Responsible Officer:	**Andy Blaszkowicz – Director, Housing & Operations**
Cabinet Member:	**Cllr John Collier, Cabinet Member for Property Management & Grounds Maintenance**

SUBJECT: **PROPOSED DISPOSAL OF FERNFIELD LANE**

SUMMARY: In December 2018, Folkestone & Hythe District Council ("FHDC" / "the Council") was granted outline planning permission for 19 houses at its development site at Fernfield Lane, Hawkinge. This report is seeking approval for the disposal of the whole of the site, recommending that marketing of the site commences at the start of 2020 aiming to obtain capital receipts in the 2020/21 financial year.

REASONS FOR RECOMMENDATIONS:

The site at Fernfield Lane is considered to be surplus to current requirements. Capital receipts identified can be used under the flexible capital receipts guidance.

RECOMMENDATIONS:

1. **To receive and note report C/19/63.**
2. **To authorise the Director – Housing & Operations to proceed with the disposal and achieve best value for the Council.**

1. INTRODUCTION

1.1 In December 2018, the Council was granted outline planning permission by Dover District Council (DOV/16/01450) for a scheme of 19 houses at its development site (“the Site”) at Fernfield Lane, Hawkinge (refer to Location Plan at Appendix 1). The 2.1 hectare (5.12 acre) site is located on the edge of a residential area to the north-east of Hawkinge, with a waste transfer station to the east and farmland beyond that.

1.2 The outline planning permission sets a requirement for 30% affordable housing. Six of the plots are allocated as shared ownership housing with the remainder assumed to be self-build.

1.3 In April 2019, the Site was valued by the property consultancy Savills and the recommendation from officers is that best value is sought through disposal.

2. BACKGROUND

2.1 The Site is located within Dover District Council’s district boundary with the immediate environs located within FHDC’s district boundary. The Site also sits within an Area of Outstanding Natural Beauty and Special Landscape Area and the surrounding area is a Conservation Area.

2.2 The layout of the scheme approved includes:

- Six 2-3 bedroom semi-detached houses with double parking spaces, which are assumed will be the affordable element;
- Four plots for 4-bedroom detached dwellings with double garages;
- Three larger plots which back onto Stombers Lane; and
- Six plots allocated for 3-4 bedroom detached dwellings.

2.2 In addition to the dwellings, there is infrastructure associated with the development as set out in the scheme layout as follows:

- Four spaces for visitor parking;
- New footpath link to Fernfield Lane;
- Internal circular road; and
- Existing recreation ground and play area to be retained.

2.3 The outline planning consent also sets out the following requirements:

- Verification report required for an approved remediation scheme, including removal of Japanese knotweed;
- Sustainable surface water drainage system;
- Footpath connection to the street and provision of a footway along the western part of Fernfield Lane;
- Noise mitigation and sound insulation scheme to account for possible noise from the waste transfer station;
- Infrastructure reinforcement works to the existing foul sewage system, on and off site. Higher costs associated with this have the potential to reduce the site value; and

There is also a Section 106 Agreement (20th December 2018) which requires various contributions totalling £76,600 (to be indexed until date of payments).

3. OPTIONS

3.1 Various options for the site have been considered.

3.2 Retain the Site and the Council builds the scheme in accordance with the outline planning permission. This would be resource intensive over a prolonged period of time at a time when the Council is already working on multiple projects.

3.3 Sell the Site in multiple parts i.e. sell the six affordable dwellings to a developer/registered provider, with the self-build plots sold on an individual basis. This would take considerable resource over a prolonged period and could result in some plots remaining unsold. It would also mean that the Council would have to invest upfront to put in the site infrastructure.

3.4 Sell the Site as a whole with the benefit of the outline planning permission, with marketing of the Site to commence during the first quarter of 2020. Selling the whole site, with the 6 units being delivered for affordable housing by the eventual developer will provide a capital return for the Council whilst providing 6 new affordable units.

3.5 Local developers have been contacted to gauge initial potential interest in the Site which has been positive. If the Council does proceed with the disposal of the Site, it could do this by, for example, advertising the Site for sale itself or through appointment of an agent to manage the disposal.

4. FUNDING & FINANCIAL IMPLICATION

4.1 The Council is under pressure from increasing budget demands. In response, the Council is striving to source new opportunities to generate capital receipts and revenue streams. Capital receipts previously identified can be used to fund transformation under the flexible capital receipts guidance. It is proposed that the sale of Fernfield Lane will be used for this purpose.

4.2 The Section 106 Agreement associated with the Site sets out various planning obligations and contributions once the scheme is developed, totalling £76,600. The valuation by Savills assumes that the Council will meet these payments. If not paid by the Council, this will need to be accounted for in the final price paid by any purchaser.

5. REVIEW AND GOVERNANCE

5.1 The Council's Asset Management Board has discussed the options for the Fernfield site and agreed that the most suitable way to progress would be for a disposal of the Site at the highest value. This forms the recommendation to Cabinet.

6. RISK MANAGEMENT ISSUES

Perceived risk	Seriousness	Likelihood	Preventative action
Insufficient interest in the Site resulting in limited interest in the disposal	High	Low	Full and proper marketing to be undertaken to maximise interest in the development opportunity of the Site

7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 Legal Officer’s Comments (NE)

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

7.2 Finance Officer’s Comments (LW)

The financial implications arising from the proposal are contained in the body of this report.

7.3 Diversities and Equalities Implications (AB)

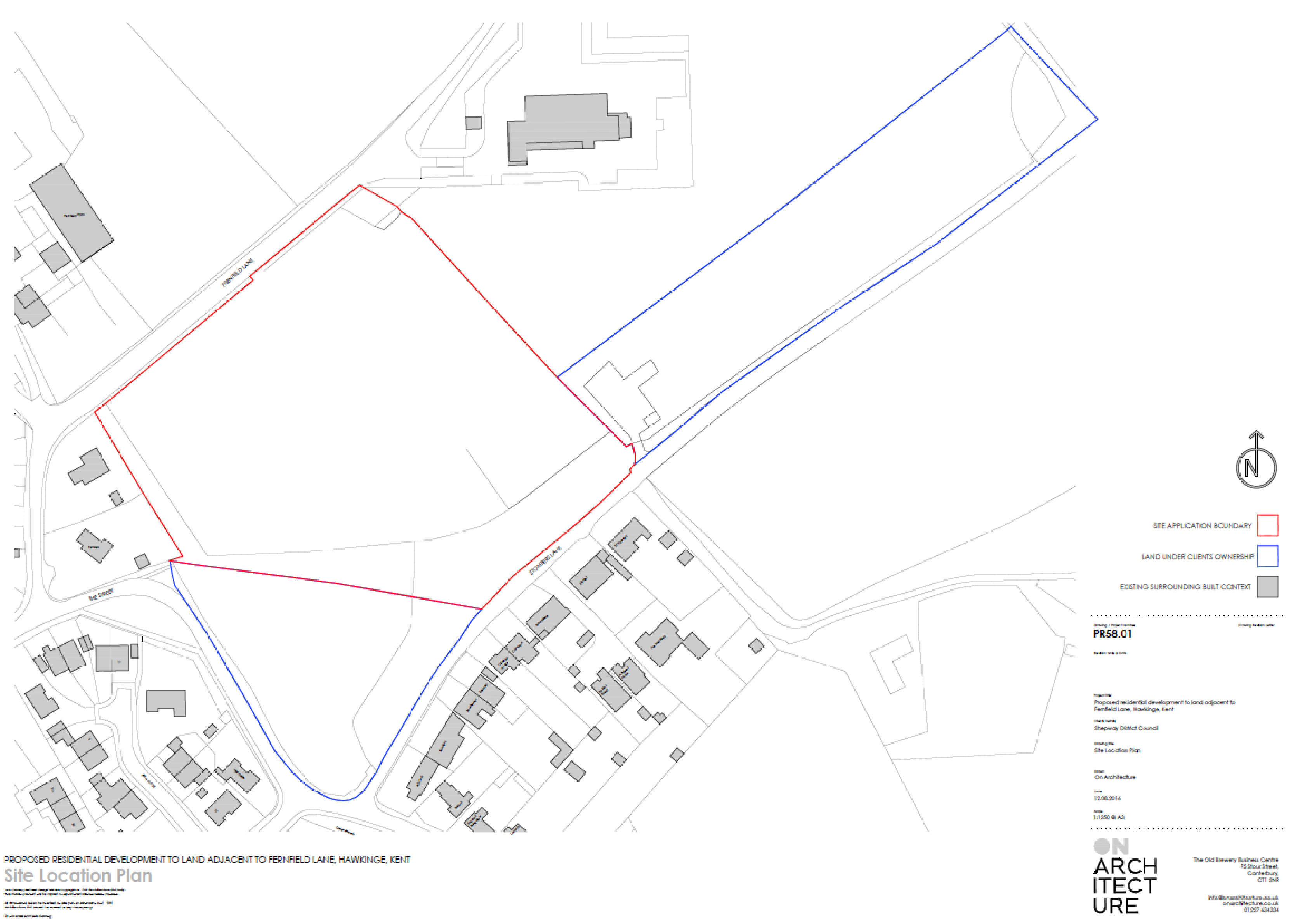
There are no equalities implications arising directly from this report.

8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Andy Blaszkowicz, Director – Housing & Operations
Telephone: 01303 853684
Email: andy.blaszkowicz@folkestone-hythe.gov.uk

Appendix 1: Location Plan



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Folkestone & Hythe District Council

This Report will be made public on 14 January 2020

Report Number **C/19/60**

To: Cabinet
Date: 22 January 2020
Status: Non-Key Decision
Head of Service: Charlotte Spendley, Director Support Services
Cabinet Members: Councillor David Monk, Leader of the Council and Councillor David Godfrey, Housing, Transport and Special Projects

SUBJECT: DRAFT HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL BUDGET 2020/21

SUMMARY: This report sets out the draft Housing Revenue Account Revenue and Capital Budget for 2020/21 and proposes an increase in weekly rents and an increase in service charges for 2020/21.

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/19/60.**
2. **To recommend to Full Council the Housing Revenue Account Budget for 2020/21. (Refer to paragraph 2.1 and Appendix 1).**
3. **To recommend to Full Council the increase in rents of dwellings within the HRA on average by £2.22 per week, representing a 2.7% increase with effect from 1 April 2020 (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 2020/21. (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 increase its New Build Programme to deliver 300 homes by 2025/26 and the updated HRA Business Plan was approved by Cabinet in March 2019.

2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

2.1 Original Budget 2020/21

The proposed HRA Budget for 2020/21, at Appendix 1, shows a forecast deficit of £695k. 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 2021 is expected to be £7.2m as shown at Table 1 below.

Table 1	**£000's**
Original estimate of balance at 31 March 2020	**(10,471)**
Movement from Original to Original budgets	
Increase in rents and other service charges due to annual rent setting (see 2.1.2)	(130)
Increase in general management costs – EKH Funding (see 2.1.3)	672
Increase in revenue contribution to capital expenditure (see 2.1.4)	2,942
Other net movements	79
	3,563
Surplus 2019/20	(308)
Original estimate of balance at 31 March 2021	**(7,216)**

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 **Rents**

The increase in dwelling rents is due to the application of the rent increase in line with the revised policy from 1st April 2020 of CPI + 1%. This revised policy was announced in February 2019 and replaces the Welfare Reform and Work Act 2016 which required social landlords to reduce rents by 1% each year for four years. See section 3 for more detail.

2.1.3 **East Kent Housing (EKH) Funding**

The proposed EKH management fee includes the continuation of the 2019/20 Improvement Plan. Funding was originally agreed for 18 months, meaning only 6 months funding would be included in the 2020/21 budget, but EKH have requested this be continued for the full year in 2020/21, with a total of £162,250 included within the budget. As detailed below:

	o Rent Collection (Universal Credit) Resource	£111,000
	o Organisation Health/Sustainability	£42,500
	o Improved Procurement	£8,750
Total		**£162,250**

EKH have also proposed several further increases to the management fee for additional resources to address compliance issues. These are shown below and have been included within the proposed HRA budget.

	• Additional compliance posts (4.43 FTE)	£230,200
	• Estates Services posts (1 FTE)	£42,750
	• Organisation Health/Sustainability	£61,500
Total		**£334,450**

Therefore, the total budget for the management fee in 2020/21 is £2,480,260.

The proposed increase in the Management Fee is intended to improve the overall performance and financial resilience of East Kent Housing. The additional funding will increase the staffing structure providing more resources to deal with compliance.

A further sum of £60,000 has been requested to carry out an annual stock condition survey on 20% of the stock to better inform the programme of works required. This is included within the proposed budget.

The current proposed budget is based on EKH continuing to provide the housing management service for the Council. The future delivery of the management of council housing is currently being reviewed and the four owner Councils are undertaking a consultation with council tenants and other key stakeholders on the potential options.

If the outcome of the consultation is to withdraw from EKH and return the provision of housing management services back in-house then a full financial appraisal will need to be undertaken. It is not possible to make a realistic financial assessment of the potential costs involved or impact on the HRA budget at this stage. The proposed budget does include a sum of £250,000 to support interim transition management costs of bringing the service back in-house, as agreed by Cabinet on 16 October 2019.

The consultation ended on 20 December 2019 and the outcome of the process will be reported to Cabinet and Council at its meeting on 19 February 2020.

The future of the service will inevitably contain a number of unknowns until the final result of the consultation and decision is made. Pending the outcome of that decision, the budget has been set on the parameters outlined in this report. Whilst the future of the service will evolve, at this stage of preparing the budget it is proposed that any new structure will be within the financial parameters of the current management fee (as set out above). As has been mentioned, if the decision is taken to bring the service back under the control of the council, then a sum of £250,000 has been set aside to cover any transition costs. This is an estimate and will be continually reviewed should that be the decision the council takes. It is worth noting that the new senior structure of the council has also created a Director of Housing and Operations post that will be responsible for the overall housing service, including the HRA, regardless of how it is delivered.

It is also worth noting that the current capital programme is based on the existing profile of spend which will be subject to review if control of the housing stock were to change. The sum of £60,000 for further stock condition surveys will support this process but will only help inform the future capital programme.

It has recently been announced that the council will invest £10m into existing housing stock as well as increasing the new build/acquisition programme to deliver 1,200 homes over a 15 year period from 2020/21. The detail to support these announcements will be provided within the updated HRA Business Plan which will be presented to Cabinet for decision at its meeting on 19 February.

2.1.4 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 13 March 2019.

The contribution to capital in 2020/21 has also increased following the recent announcement to make a significant investment into existing housing stock. £10m will be invested over a three year period up to 2022/23 and for the purposes of budgeting it has been assumed that expenditure will be incurred evenly over the three years, with £3.5m included within the capital budget for 2020/21.

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 2019/20 was £10.2m, 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 2021.

Table 2	**2019/20**	**2020/21**
	£000's	£000's
Balance as at 1 April	10,163	10,471
Balance as at 31 March	10,471	7,216

The HRA reserve is expected to decrease by £3,255k from the close of 2019/20 and the end of the financial year 2020/21.

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 Policy – National context

In October 2017, the Government announced its intention to set a long term rent deal for both local authority landlords and housing associations. This would permit annual rent increases on both social rent and affordable rent properties of up to CPI plus 1% from 2020 for a period of at least five years.

The new policy recognises the need for a stable financial environment to support the delivery of new homes. The government is now looking to the social housing sector to make the best possible use of its resources to help provide the homes that the country needs.

The new policy will come into effect from 1 April 2020. It will not override landlords' statutory obligation to complete the four year social rent reduction as required by the Welfare Reform and Work Act 2016.

3.2 **Rent Increase – Local context**

In line with last years approved report, Housing Services will be charging the 'formula rent'[1] 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 increase of CPI plus 1% which is 2.7%, in line with Government guidelines, equates to an increase of £2.22 per week or £115.44 per annum. This gives an average rent of £87.81 (over 50 weeks) in 2020/21 (average rent in 2019/20 is £85.43 (over 51 weeks)).

The HRA budget, business plan and new build programme is based upon this level of increase. This funding is ring fenced to the HRA and supports the investment in and maintenance of the housing stock.

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 2020/21 will not be available until late January/February 2020. LHA rates for the area have not changed significantly over the last two years. The indicative 2020/21 affordable rents for the Folkestone & Hythe area are as follows:

Bedsits	£60.28per week
1 bedroom houses	£88.04 per week
2 bedroom houses	£117.39 per week
3 bedroom houses	£146.73 per week
4 bedroom houses	£171.38 per week

3.4 **Rent Comparisons**

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

Table 3	**Average weekly rent over 52 weeks (2020/21) £**	**Difference between FHDC and other authorities £**
Folkestone & Hythe	84.43	-
Dover	85.52	1.09

[1] *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.*

Canterbury	91.34	6.91
Thanet	81.67	(2.76)

- 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 2019 was 1.7%, CPI plus 1.0% is therefore 2.7%. As a result general service charges within the HRA will increase by 2.7% with effect from 1 April 2020.

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 2020/21 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 towards 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 2020/21 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 £21.06 per week (£1,053 per year)
- 1 bed flats £23.48 per week (£1,174 per year)
- 2 bed flats £25.78 per week (£1,289 per year)

4. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES

4.1 **Original Budget 2020/21**

The proposed HRA Capital Budget for 2020/21, shown in Appendix 2, is £13.5m. Table 4 below shows the movements in the programme from the 2019/20 original budget to the original budget for 2020/21.

Table 4	**£000's**
Original estimate 2019/20	**9,028**
Reductions in programme	
External Enveloping (see 4.1.1)	(457)
Increases in programme	
New Build programme (see 4.1.2)	1,070
Enhanced Capital Programme (see 4.1.3)	3,500
Heating Improvements (see 4.1.4)	131
Disabled Adaptations (see 4.1.5)	100
Other minor variances	133
Total increase in expenditure	**4,477**
Original estimate 2020/21	**13,505**

4.1.1 **External Enveloping**

The decrease in external enveloping is due to a low demand in 2019/20 and the need to survey properties to collate a programme of works. It is anticipated that the level of works required will be lower than previously budgeted.

4.1.2 **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 13 March 2019 and stated that 300 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.

Table 5	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	32	8	60
Delivered / Forecast	16	10	38	28	8	65

	2021/22	2022/23	2023/24	2024/25	2025/26	**TOTAL**
New builds/acquisitions	Year 6	Year 7	Year 8	Year 9	Year 10	
Target	12	55	40	20	13	**300**
Forecast	26	55	40	14	0	**300**

This shows that the new build programme is on target with 100 units having been delivered to date against a target of 100 and a further 200 units 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.

4.1.3 **Enhanced Capital Programme**

Following a consultation with tenants around the future of East Kent Housing, it is likely that the housing management service will be brought back in-house. It will be necessary to make a significant investment in the existing housing stock to bring it back up to a reasonable state of repair.

It has recently been proposed that £10m from land receipts from the General Fund will be invested into the HRA for an enhanced capital programme over a three year period up to 2022/23. For the purposes of budgeting it has been assumed that expenditure will be incurred evenly over the three years, with £3.5m included within the capital budget for 2020/21, subject to Council decisions being made. Expenditure will be monitored and budgets re-profiled as the detail of required works becomes known.

4.1.4 **Heating Improvements**

A new Gas Servicing and Heating Installations contract has been awarded for 2020/21 as agreed by Cabinet on 31 July 2019. The increased budget reflects the fixed cost of the annual servicing element of the contract and an estimate of variable costs for additional maintenance required.

4.1.5 **Disabled Adaptations**

The increase in disabled adaptations is a result of changes in policy which has led to an increase in occupational therapy referrals and adaptation works required.

4.1.6 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 2019/20 and original budget for 2020/21 for the HRA capital programme.

Table 6	**Major Repairs Reserve**	**Use of RTB Capital Receipts**	**Revenue Contribution**	**Total**
	£000's	£000's	£000's	£000's
Original budget 2019/20	3,532	1,634	3,862	9,028
Original budget 2020/21	5,275	1,425	6,805	13,505

5. RISK MANAGEMENT ISSUES

5.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
East Kent Housing management fee variation	Medium	Medium	Officers are ensuring that the rules laid out in the management agreement are followed.
Budget not achieved	High	Low-Medium	Stringent budget monitoring during 2020/21 enabling early corrective action

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 **Legal Officer's Comments** (NE)

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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Actual 2018/19 £	HOUSING REVENUE ACCOUNT	Original 2019/20 £	**Estimate 2020/21 £**
	INCOME		
14,669,358	Dwelling rents	14,843,000	**14,960,840**
279,179	Non-dwelling rents	355,020	**342,380**
895,450	Other charges for services and facilities	985,430	**1,009,840**
52,200	Contributions from general fund	52,200	**52,200**
15,896,187	**TOTAL INCOME**	16,235,650	**16,365,260**
	EXPENDITURE		
2,963,126	Repairs and maintenance	3,548,480	**3,786,920**
3,012,538	General management *	3,307,630	**3,979,810**
1,284,640	Special management *	1,054,940	**1,036,280**
36,331	Rents, rates & taxes	21,750	**21,750**
100,868	Increase provision for bad or doubtful debts	90,000	**150,000**
	Capital Financing Costs		
5,088,503	Depreciation charges	2,526,850	**2,564,670**
3,286,020	Exceptional Item Impairment	0	**0**
21,500	Debt management expenses	21,920	**0**
15,793,526	**TOTAL EXPENDITURE**	10,571,570	**11,539,430**
-102,661	**NET COST OF SERVICES**	-5,664,080	**-4,825,830**
-1,120,015	(Gains)/loss on sale of HRA fixed assets	0	**0**
1,596,808	Loan charges - Interest	1,569,000	**1,546,680**
	Investment Income		
-88,535	Interest on notional cash balances	-75,000	**-75,000**
101,000	Pensions Interest Cost and Expected Return on Assets	0	0
0	Premiums & discounts	0	**0**
386,596	**NET OPERATING INCOME**	-4,170,080	**-3,354,150**
-5,810,259	Any other item of income & expenditure	0	**0**
-12,648	Amounts charged to income & exp For premiums & discounts	0	**0**
1,120,015	Gain/(Loss) on Sale of HRA fixed assets	0	**0**
2,330,310	Revenue Contribution to Capital Expenditure	3,861,833	**6,804,817**
-130,000	Pensions Interest costs	0	**-195,000**
-2,115,986	**TOTAL DEFICIT/SURPLUS(-) FOR YEAR**	-308,247	**3,255,667**
8,047,323	Balance as at 1st April	10,163,309	**10,471,556**
10,163,309	Balance as at 31st March	10,471,556	**7,215,889**

* 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 2020/21**

Actual 2018/19 £	HRA CAPITAL PROGRAMME	Original 2019/20 £	**Estimate 2020/21 £**
	EXPENDITURE		
	Decent Homes Standard		
703,140	Doors	230,100	**250,000**
1,216	Re-roofing	387,100	**350,000**
84,192	Heating Improvements	518,450	**649,330**
194,710	Kitchen Replacement	403,000	**411,000**
177,024	Bathroom Improvements	170,000	**173,500**
227,400	Voids Capital Works	250,000	**300,000**
41,334	External Enveloping	557,500	**100,000**
196,262	Fire Protection Works	20,000	**50,000**
15,284	Thermal Insulations	10,000	**10,000**
0	Contract Specification	61,000	**30,500**
0	Enhanced Capital Programme	0	**3,500,000**
1,640,562	**Sub-Total**	2,607,150	**5,824,330**
	Non Decent Homes Standard		
0	Treatment Works	10,000	**10,000**
311,862	Disabled Adaptations	350,000	**450,000**
18,677	Rewiring	405,000	**485,000**
38,465	Sheltered Scheme upgrades	80,000	**80,000**
31,945	Garages Improvements	30,000	**30,000**
24,805	Lift Replacements	50,000	**60,000**
425,754	**Sub-Total**	925,000	**1,115,000**
	New Build Programme		
3,174,541	New Builds	5,445,476	**6,515,270**
3,174,541	**Sub-Total**	5,445,476	**6,515,270**
	Environment/Estate Improvement		
15,630	Environmental Works	25,000	**25,000**
0	New Paths	15,000	**15,000**
0	Play Areas	10,000	**10,000**
15,630	**Sub-Total**	50,000	**50,000**
5,256,487	**TOTAL IMPROVEMENTS TO HRA STOCK**	**9,027,626**	**13,504,600**
	OTHER SCHEMES		
92,500	EKH Single System	0	**0**
5,348,987	**TOTAL EXPENDITURE**	**9,027,626**	**13,504,600**
	FINANCING		
2,066,316	Major Repairs Reserve	3,532,150	**5,274,800**
952,362	Capital Receipts	1,633,643	**1,424,983**
2,330,309	Revenue Contribution	3,861,833	**6,804,817**
5,348,987	**TOTAL FINANCING**	9,027,626	**13,504,600**
0	**SHORTFALL IN FINANCING**	0	**0**

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This Report will be made public on 14 January 2020

Report Number **C/19/61**

To:	**Cabinet**
Date:	**22 January 2020**
Status:	**Non-Key Decision**
Responsible Officer:	**Charlotte Spendley, Director Support Services**
Cabinet Member:	**Cabinet Member for Housing, Transport and special projects, Leader of the Council**

SUBJECT: **HRA Budget Monitoring Quarter 3**

SUMMARY: This monitoring report provides a projection of the end of year financial position for the Housing Revenue Account (HRA) revenue expenditure and HRA capital programme based on net expenditure to 30 November 2019.

REASONS FOR RECOMMENDATIONS:
Cabinet is asked to agree the recommendations set out below because Cabinet needs to be kept informed of the Housing Revenue Account position and take appropriate action to deal with any variance from the approved budget and be informed of the final 2019/20 position.

RECOMMENDATIONS:
1. **To receive and note report C/19/61.**

1. INTRODUCTION

1.1 This report informs Cabinet of the likely projected outturn on HRA revenue and capital expenditure for 2019/20.

1.2 The projections are based on actual expenditure and income to 30 November 2019 and a thorough budget monitoring exercise has been carried out.

2. HOUSING REVENUE ACCOUNT REVENUE 2019/20 (see Appendix 1)

2.1 The table below provides a summary of the projected outturn compared to the latest budget for 2019/20.

	Latest Budget £'000	Projection £'000	Variance £'000
Income	(16,235)	(16,245)	(10)
Expenditure	10,366	10,422	56
HRA Share of Corporate Costs	206	206	0
Net Cost of HRA Services	(5,663)	(5,617)	46
Interest Payable/Receivable etc	1,494	1,494	0
HRA Surplus/Deficit	(4,169)	(4,123)	46
Revenue Contribution to Capital	8,312	2,621	(5,691)
Decrease/(Increase) to HRA Reserve	4,143	(1,502)	(5,645)

2.2 The table shows that overall at quarter 3 there is a projected decrease in net expenditure of £5.6m on the HRA.

The projection has moved favourably by £5.9m since Quarter 2. The key factors affecting the movement from Q2 to Q3 are the revenue contribution to capital being reduced as a result of a change in profiling of the new build/acquisition programme and lower repairs and maintenance expenditure largely due to the delay in procurement of a new contractor for internal and external decorations.

The main reasons for this are as follows:-

	£'000
Decrease in Revenue Contribution to Capital (see 2.3 below)	(5,691)
Decrease in repairs and maintenance (see 2.4 below)	(208)
Increase in EKH Management Fee (see 2.5 below)	218
Other minor variances	36
Total net projected Housing Revenue Account decrease	**(5,645)**

2.3 The decrease in revenue contribution to capital largely relates to the new build/acquisition programme being re-profiled into 2020/21 and 2021/22, The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisition programme.

2.4 The decrease in repairs and maintenance is largely due to a delay in procuring a contractor to complete internal and external decorations before the end of the financial year. The projection also includes an additional sum for water safety works which have been identified as urgent.

2.5 The increase in EKH funding is due to additional management fee for increased resources to deal with compliance issues and reflects the additional management fee agreed by Cabinet at its meeting on 16th October.

2.6 Overall, the HRA reserve at 31 March 2020 is expected to be £9.5m compared with £3.9m in the latest budget.

3. HOUSING REVENUE ACCOUNT CAPITAL 2019/20 (see Appendix 2)

3.1 The latest budget for the HRA capital programme in 2019/20 is £15.6m and the projected outturn for the year is £6.6m, an underspend of £9.0m.

The projection has moved favourably by £9.0m since Quarter 2. The key factor affecting the movement from Q2 to Q3 is the revenue contribution to capital being reduced as a result of a change in profiling of the new build/acquisition programme.

3.2 The reasons for the decrease in expenditure are as follows:-

	£'000
New Builds/Acquisitions (see 3.3 below)	(8,150)
External Enveloping (see 3.4 below)	(358)
Re-wiring (see 3.5 below)	(355)
Re-roofing (see 3.5 below)	(287)
Windows & Doors (see 3.6 below)	210
Other net variances	(60)
Total decrease against Original Budget	**(9,000)**

3.3 The decrease in new build/acquisition expenditure relates to the re-profiling of new build schemes that will commence in 2020/21 and 2021/22. The overall delivery of the programme remains the same, however, the timing of delivery has been adjusted and these changes are reflected within the projection for the current financial year.

In view of the Council's aspirations for the new build programme, we recognise the underspend that has accumulated on the programme and a new approach to managing and delivering the new build schemes will be taken in 2020/21.

3.4 The decrease in external enveloping is due to a lack of stock condition survey data therefore not all works have been identified which has limited the scope of works to be undertaken in 2019/20. A further stock condition survey is scheduled to be completed early in 2020/21.

3.5 The projected decrease in re-wiring and re-roofing expenditure is due to a delay in the contracts being procured within this financial year.

3.6 The increased expenditure on windows and doors is to prevent homes failing against the decent homes standard.

3.7 The following table compares the resources required to finance the projected outturn for the HRA capital programme in 2019/20. The variation shown below corresponds to the figure in section 3.1, above.

2019/20 HRA	**1-4-1 Capital Receipts**	**Revenue Contribution**	**Major Repairs Reserve**	**Total**
	£'000	£'000	£'000	£'000
Projected Outturn	1,095	2,621	2,918	6,634
Approved	3,540	8,312	3,782	15,634
Variation	(2,445)	(5,691)	(864)	(9.000)

4. CONCLUSION

4.1 The HRA revenue outturn projection for 2019/20 forecasts £46k higher expenditure than the latest approved budget.

4.2 The HRA capital outturn projection for 2019/20 forecasts £9.0m lower expenditure than the latest approved budget.

4.3 The projected outturn for both the HRA revenue expenditure and capital programme for 2019/20 reflects the position based on actual expenditure and forecasts at 30 November 2019.

5. RISK MANAGEMENT ISSUES

5.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
The latest projection of the outturn could be materially different to the actual year end position.	Medium	Medium	Areas at greater risk of variances are being closely monitored and an update will be made to Cabinet if appropriate when this report is considered to allow action to taken.
Capital receipts (including right to buy sales) not materialising	Medium	Low	The capital programme uses realised capital receipts only.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 **Legal Officer's Comments** (NE)

There are no legal implications arising from this report.

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

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

6.3 **Diversities and Equalities Implications** (DA)

The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an EIA.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Cheryl Ireland, Lead Accountant
Tel: 01303 853213 Email: cheryl.ireland@folkestone-hythe.gov.uk

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

Budget projection working papers

Appendices:
Appendix 1 Housing Revenue Account revenue budget monitoring report at 30 November 2019
Appendix 2 Housing Revenue Account capital budget monitoring report at 30 November 2019

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Appendix 1

HOUSING PORTFOLIO	LATEST APPROVED BUDGET £000	PROJECTED OUTTURN £000	VARIANCE £000	REASON
INCOME				
Dwelling rents	14,843	14,873	-30	Increase due to new affordable properties
Non-dwelling rents	355	327	28	Garage rent income lower than estimated
Charges for services and facilities	985	993	-8	
Contributions from general fund	52	52	0	
Total Income	16,235	16,245	-10	
EXPENDITURE				
Repairs and maintenance	3,548	3,340	-208	(£400k) Internal & External Decs, (£55k) Fire Alarms Upgrade/Renewals, £173k Heating Servicing & Repairs, £67k Void Repairs, £7k other minor variances
Supervision and management	4,157	4,421	264	£218k additional resources to EKH to deal with compliance issues, £30k unforecast legal fees & £9k EKH Tunstall Service Contract 19/20, £7k other minor variances
Rents, rates and taxes	22	22	0	
Depreciation charges of fixed assets	2,527	2,527	0	
Debt management expenses	22	22	0	
Bad debts provision	90	90	0	
Total Expenditure	10,366	10,422	56	
Net	**-5,870**	**-5,824**	**46**	
HRA Share of Corporate and Democratic Costs	206	206	0	
Net Cost of HRA Services	**-5,663**	**-5,617**	**46**	
Interest payable	1,569	1,569	0	
Interest and investment income	-75	-75	0	
Premiums and discounts	0	0	0	
(SURPLUS)/DEFICIT	**-4,169**	**-4,123**	**46**	
MOVEMENTS IN HRA BALANCE FOR 2018/19				
Repayment of debt	0	0	0	
Revenue contribution to capital	8,312	2,621	-5,691	
Surplus/deficit for the year	-4,169	-4,123	46	
Increase/Decrease in Net Movement in HRA Balance	**4,143**	**-1,502**	**-5,645**	
HRA Reserve balance brought forward	-8,047	-8,047	0	
HRA Reserve balance carried forward	**-3,904**	**-9,549**	**-5,645**	

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PORTFOLIO AND SCHEMES	LATEST APPROVED BUDGET	PROJECTED OUTTURN	VARIANCE	COMMENTS
HOUSING PORTFOLIO	**£'000**	**£000**	**£000**	
1. Planned Improvements				
Windows & Doors	230	440	210	Projection increased due to prevention of non decent homes
Re-roofing	387	100	-287	Decreased due to contract not being in place by the end of this financial year
Replacement Double Glazing Units	0	0	0	
Heating Improvements	668	668	0	
Kitchen Replacements	403	403	0	
Bathroom Improvements	170	170	0	
Voids Capital Works	250	250	0	
Disabled Adaptations	350	350	0	
Sheltered Scheme upgrades	80	50	-30	Lower priority works being delayed so will not be completed this financial year
Rewiring	405	50	-355	The contract will not be procured within this financial year so will fall into 20/21
Contract Specification	61	61	0	
Lift Replacement	50	1	-50	Decreased as lift refurbishment identified is no longer required
Thermal Insulation	10	10	0	
Fire Protection Works	120	125	5	
Impairment of Assets	0	0	0	
	3,185	2,678	-507	
2. Major Schemes				
External Enveloping *	558	200	-358	Due to a lack of stock condition data not all works have been identified, only based on a 30% stock condition data and referrals which has limited the scope of works to be undertaken in 2019/20
Garages Improvements	30	30	0	
Treatment Works	10	10	0	
Broadmead Road	0	0	0	
	598	240	-358	
3. Environmental Improvements				
Environmental Works	25	25	0	
New Paths	15	30	15	Increased based on required work in 2019/20
Play Areas	10	10	0	
	50	65	15	
4. Other Schemes				
New Builds/Acquisitions	11,802	3,651	-8,150	Re-profiling of programme into 20/21
EKH Single System	0	0	0	
Cash Incentive Scheme	0	0	0	
	11,802	3,651	-8,150	
TOTAL	**15,634**	**6,634**	**-9,000**	
FUNDING				
Major Repairs Reserve	3,782	2,918	-864	
Revenue Contribution	8,312	2,621	-5,691	
1-4-1 Capital Receipts	3,540	1,095	-2,445	
TOTAL FUNDING	**15,634**	**6,634**	**-9,000**	

* This includes all items of the property structure that is external, such as roof, chimneys, gutters, fascias, eaves and repointing.

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This Report will be made public on 14 January 2020

Folkestone & Hythe District Council

Report Number **C/19/58**

To:	**Cabinet**
Date:	**22 January 2020**
Status:	**Key Decision**
Head of Service:	**Charlotte Spendley, Director of Corporate Services**
Cabinet Member:	**Councillor David Monk – Leader and Portfolio Holder for Finance**

SUBJECT: UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME AND BUDGET MONITORING 2019/20

SUMMARY: This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2025. The report provides an updated projected outturn for the General Fund capital programme in 2019/20, based on expenditure to 30 November 2019. 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 the Minimum Revenue Provision Statement for 2020/21 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 2020/21 in advance of the start of the financial year.

RECOMMENDATIONS:

1. **To receive and note report C/19/58.**
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 Minimum Revenue Provision (MRP) Policy Statement for 2020/21 set out in appendix 3 to this report.**

1. INTRODUCTION AND BACKGROUND

1.1 In line with the council's approved Budget Strategy for 2020/21, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five year period ending 31 March 2025. The report;-

i) provides the latest projection, as at 30 November 2019, of the planned expenditure in 2019/20 for the existing General Fund capital programme and explanations of the variances compared to the latest approved budget and also the previous projection for the current financial year,

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 2020/21,

iii) introduces proposed new schemes and initiatives identified during the budget process but yet to be considered by Cabinet,

iv) provides details of those existing capital schemes proposed to be extended by one year into 2024/25,

v) summarises the impact the proposed changes to the overall capital programme will have on the financing resources required to fund it.

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 2020/21.

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 the Minimum Revenue Provision Statement for 2019/20 required to be approved by full Council. The Prudential Indicators for capital expenditure are due to be considered separately as part of the Capital Strategy report by Cabinet on 19 February 2020 before being submitted to full Council for approval.

2. CAPITAL PROGRAMME 2019/20 – PROJECTED OUTTURN

2.1 The planned expenditure on all General Fund capital schemes in 2019/20, based on expenditure to 30 November 2019, is anticipated to be £30,853,000 a reduction of £6,356,000 compared to the approved budget of £37,209,000. 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:

General Fund Capital Programme	Latest Approved Budget	Latest Projection	Variance
General Fund - Service Units	**£'000**	**£'000**	**£'000**
Environment & Corporate Assets	21,434	18,471	(2,963)
Finance, Customer & Support Services	5,108	3,207	(1,901)
Governance, Law & Regulatory Services	2,050	1,878	(172)
Strategic Development Projects	8,617	7,297	(1,320)
Total General Fund Capital	**37,209**	**30,853**	**(6,356)**
Capital Funding			
Grants	(2,759)	(1,202)	1,557
External Contributions	(1,001)	(460)	541
Capital Receipts	(1,593)	(1,318)	275
Revenue	(1,117)	(1,217)	(100)
Borrowing	(30,739)	(26,656)	4,083
Total Funding	**(37,209)**	**(30,853)**	**6,356**

2.2 The projected outturn for 2019/20 has increased by £317k from that previously reported to Cabinet on 13 November 2019 (Report no. C/19/35 refers) and the main reasons for the change are summarised in the table below:

		£'000
i)	Additional expenditure on Disabled Facilities Grants and Loans supporting local residents to remain in their properties, to be met from government grant	210
ii)	Profiled funding of the Lower Sandgate Road Beach Huts scheme approved since the previous capital budget monitoring report, to be met from prudential borrowing	75
iii)	Pumping Stations new vehicle now expected to be purchased in 2019/20 rather than 2020/21	25
iv)	Other minor net changes	7
	Total	**317**

2.3 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 Otterpool Park land and property acquisitions, 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 2019/20 to 2024/25 is £187,631,000. Compared to the latest approved budget of £186,171,000 this represents an increase of £1,460,000. 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:

General Fund Capital Programme	Latest Approved Budget	Latest Projection	Variance
General Fund - Service Units	**£'000**	**£'000**	**£'000**
Environment & Corporate Assets	24,758	25,552	794
Strategic Development	143,491	144,490	999
Governance, Law & Regulatory Services	6,926	8,388	1,462
Finance, Customer & Support Services	8,466	8,466	0
Economic Development	2,530	735	(1,795)
Total General Fund Capital	**186,171**	**187,631**	**1,460**
Capital Funding			
Grants	(9,836)	(9,517)	319
External Contributions	(2,845)	(4,236)	(1,391)
Capital Receipts	(22,778)	(23,684)	(906)
Revenue	(1,748)	(3,821)	(2,073)
Borrowing	(148,964)	(146,373)	2,591
Total Funding	**(186,171)**	**(187,631)**	**(1,460)**

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

		£'000	£'000
1.	**Capital investments decisions approved by Cabinet**		
	i) Biggins Wood - Commercial and residential development of the site being met from revenue reserves	1,000	
	ii) Parking Services - Replacement of car park machines over a three year period	47	
	iii) Parking Services - New software to support management of Traffic Regulation Orders	38	

	iv) Private Sector Housing - Empty Homes Initiative jointly funded scheme with KCC. Growth for 2020/21 met from recycling previous loans on this initiative that have been repaid.	300	
			1,385
2.	**Existing annual programmes extended by one year to 2024/25**		
	i) Coast Protection - Greatstone Dunes Management and Study met from Environment Agency grant	15	
	ii) Coast Protection - Hythe to Folkestone Beach Management met from Environment Agency grant	250	
	iii) Coast Protection - Annual monitoring of Coronation Parade, Folkestone met from Environment Agency grant	4	
	iv) Lifeline units for customers	50	
	v) Royal Military Canal - Footpath improvement scheme	20	
	vi) Replacement technology	95	
	vii) Disabled Facilities Grants, subject to Government funding	1,000	
	viii) Home Safe Loans met from repaid Decent Homes Loans	100	
			1,534
3.	**Other Changes**		
	i) Public Toilets - Refurbishment programme for 2020/21 and 2021/22 subject to a separate report to Cabinet detailing the proposed scheme	400	
	ii) Disabled Facilities Grants - demand for service lower than anticipated in 2019/20	(100)	
	iii) Home Safe Loans - demand for service lower than anticipated in 2019/20	(40)	
	iv) Coast Protection Beach Management 2015 -2020 - budget carried forward from 2018/19 not required (entirely funded from the Environment Agency)	(95)	
	v) Lifeline Capitalisation - Additional cost of equipment due to an increase in demand for the service resulting in higher income being received	65	
	vi) Replacement Technology - Net increase in cost including the rollout of new laptops and tablets for staff and councillors in 2019/20	107	
	vii) Mountfield Road Business Hub - Cabinet decision to implement a revised scheme in partnership with the East Kent Spatial Development Company to be met from revenue reserves rather than prudential borrowing	(1,795)	
	viii) Other minor net changes arising from 2019/20	(1)	
			(1,459)
	Total net increase		**1,460**

3.3 As already mentioned in section 2 of this report, the profiling of the capital programme budget is likely to be subject to some change over the medium term. Notably, the timing and profiling of the Otterpool Park Garden Town scheme is expected to change as the council's plans for it develop going forward.

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 2020/21 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 proposed MTCP requires approximately £146m of prudential borrowing to support it with about £112m of this is for the Otterpool Park scheme. Ordinarily this would put a significant pressure on the General Fund budget for additional interest costs. However, as outlined in the report to full Council on 20 November 2019 regarding the additional funding for Otterpool Park (report A/19/17 refers), The Code of Practice on Local Authority Accounting permits the capitalisation of borrowing costs for qualifying assets during the acquisition and construction phase of a scheme to get them ready for their intended use, recognising this may be a 'substantial period' of time. To do this the Council will need to adopt a capitalisation policy and it is intended to implement this by updating its Accounting Policies for the 2019/20 Statement of Accounts. Once the qualifying asset (Otterpool Park) is ready for its intended use the borrowing costs from that point on are met by the General Fund in the normal way. However, at this point the council would anticipate receiving an income stream from the assets to meet the borrowing costs.

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

General Fund Capital Receipts Position Statement	**£'000**
Receipts in hand at 30 November 2019	(10,935)
Less,	
committed towards General Fund capital expenditure	3,399
committed towards HRA capital expenditure	6,017
Ring-fenced for specific purposes:	
i) Revenue efficiencies (flexible use of capital receipts)	105
ii) Other	78

Contingency for urgent or unforeseen capital expenditure	500
Balance available to support new capital expenditure	**(132)**

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 £393k of qualifying capital receipts in hand and plans to use £288k of this to support capital expenditure on the Transformation project during 2019/20. 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 £3.821m committed towards funding the MTCP.

Revenue Resources to Fund the MTCP	£'000
Vehicle, Equipment and Technology Reserve*	715
Economic Development Reserve	1,000
Business Rates Reserve	735
Carry Forward Reserve	20
General Reserve	1,351
Total	**3,821**
*The VET reserve has a programme of replenishment in order to fund on a longer term basis future commitments. This level is reviewed during normal budget setting processes.	

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.

5 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2020/21

5.1 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.

5.2 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 3** to be applicable for 2020/21.

5.3 Capital Prudential Indicators – The Council is required to approve prudential indicators linked to its overall capital expenditure plans, including the HRA. These are due to be considered as part of the Capital Strategy report by Cabinet on 19 February 2020 before being submitted to full Council for approval.

6 CONCLUSIONS

6.1 The council's MTCP has been reviewed and updated in accordance with the approved budget strategy for 2020/21.

6.2 The revenue consequences of the MTCP are reflected in the council's General Fund budget and Medium Term Financial Strategy.

6.3 The proposed General Fund MTCP requires a substantial level of prudential borrowing to fund it. A capitalisation policy for borrowing costs on qualifying assets is planned to be introduced from 2019/20. This will mean interest costs will only become chargeable to the General Fund on these qualifying assets once they are ready to be used.

6.4 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.

6.5 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.

6.6 Cabinet is asked to recommend full Council to approve the MRP Statement for 2019/20 shown in appendix 3 to this report.

7 RISK MANAGEMENT ISSUES

7.1 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.

8. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

8.1 Legal Officer's Comments (Nicola Everden)

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.

8.2 Finance Officer's Comments (Lee Walker)

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

9. 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 2019/20
2) Proposed General Fund MTCP to 2024/25
3) Minimum Revenue Provision Policy Statement for 2020/21

Appendix 1

GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2019/20					
Item Number	Service Area and Scheme	Latest Approved Budget £'000	Projection at 30/11/2019 £'000	Variance Budget to Projection £'000	Comments
	Andy Blaszkowicz - Environment & Corporate Assets				
1	GF Property Health & Safety Enhancements	116	50	(66)	Replacement fire doors completed in late 2019. Remainder of budget deferred to 2020/21 and subject to the production and agreement of a Civic Centre 10 year plan
2	Grounds Maintenance Vehicle Replacement Programme	158	158	0	On target with the majority of items already delivered
3	Lifeline Capitalisation	42	75	33	Additional cost due to an increase in customers taking up the service, reflected in the additional service income projected for 19/20.
4	Royal Miliatry Canal Enhancements	20	20	0	On target to complete planned works
5	Pumping Stations - New Vehicle	25	25	0	Vehicle planned to be acquired by March 2020
6	Hawkinge Cemetery Expansion	28	0	(28)	Remainder of scheme now expected to take place in 2020/21
7	Area Officer Vans	30	0	(30)	Delayed and now considering electric vehicles which may require an increase to the budget
8	Royal Military Canal Replacement Rowing Boats	46	46	0	Order placed and boats due to be delivered

Appendix 1

GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2019/20					
Item Number	**Service Area and Scheme**	**Latest Approved Budget £'000**	**Projection at 30/11/2019 £'000**	**Variance Budget to Projection £'000**	**Comments**
9	Connect 38 Ashford	17,710	17,710	0	Acquired May 2019 and providing an additional income in 2019/20
10	Coronation Parade Coastal Defence Scheme	2,391	10	(2,382)	Scheme all externally funded. Remaining planned works are now subject to review. The cliff stabilisation works are expected to be delayed until 2020/21 and the major rock revetment work may not proceed.
11	Greatstone Dunes Management	15	15	0	Scheme externally funded by the Environment Agency and work to be completed over the winter of 2020
12	Beach Management 2015-2020 Coastal Defence	349	253	(96)	Scheme externally funded by the Environment Agency. Amount of work required is dependent upon the impact of winter storms in particular.
13	Coronation Parade Annual Monitoring Coastal Defence	4	4	0	Scheme externally funded by the Environment Agency.
14	Hythe to Folkestone Beach Recharging Study Coastal Defence	0	30	30	Scheme externally funded by the Environment Agency. Being draw down from £2m approved budget in the MTCP, originally all profiled for 2020/21
15	Lower Sandgate Road Beach Huts	500	75	(425)	Scheme expected to commence before March 2020 with the majority of the work planned to take place in the spring and early summer of 2020
	Total - Environment & Corporate Assets	**21,434**	**18,471**	**(2,963)**	

Appendix 1

GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2019/20					
Item Number	**Service Area and Scheme**	**Latest Approved Budget £'000**	**Projection at 30/11/2019 £'000**	**Variance Budget to Projection £'000**	**Comments**
	Charlotte Spendley - Finance, Customer & Support Services				
16	PC Replacement Programme	16	134	118	Roll out of new laptops across the authority. Savings anticipated to be made on ICT capital budgets over medium term to help offset the additional cost
17	Server Replacement Programme	60	107	47	Additional cost to meet new Microsoft software licence requirements
18	Virtual Desktop Technology	16	0	(16)	Budget used towards PC Replacement Programme
19	FHDC Transformation	788	788	0	Capitalisation of ICT costs - on target
20	Oportunitas Loan & Share Capital Ph 1	778	778	0	On target
21	Oportunitas Loan & Share Capital Ph 2	3,450	1,400	(2,050)	To invest in the company's planned expansion of its residential property portfolio, which is being partly reprofiled to 2020/21
	Total - Finance, Customer & Support Services	**5,108**	**3,207**	**(1,901)**	

Appendix 1

GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2019/20					
Item Number	Service Area and Scheme	Latest Approved Budget £'000	Projection at 30/11/2019 £'000	Variance Budget to Projection £'000	Comments
	Amandeep Khroud - Governance, Law & Regulatory Services				
22	Temporary Accommodation	565	565	0	Work is underway to progress the acquisition of a further 4 units of accommodation.
23	New Vehicle Dog Warden	12	12	0	Vehicle acquired October 2019
24	Bacas Burial Software System	11	11	0	First phase complete, on target to be fully completed by April 2020
25	Disabled Facilities Grants & Loans	1,000	900	(100)	Deep cleans and clearance work for hospital discharge and Home Straight service have increased the spend. The Home Straight, H&H co-ordinator and Handyman are funded from this allocation, in addition to adaptation work and winter warmth loans.
26	Home Safe Loans	100	60	(40)	Several HSLs awaiting approval with spend anticipated in the current financial year.
27	Joint Empty Home Initiatives with KCC	362	330	(32)	Up to 24 units of accommodation planned to be brought back into use. The Council and KCC are considering a number of other potential projects that will require No Use Empty Funding in order to be progressed.

Appendix 1

GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2019/20					
Item Number	**Service Area and Scheme**	**Latest Approved Budget £'000**	**Projection at 30/11/2019 £'000**	**Variance Budget to Projection £'000**	**Comments**
	Total - Governance, Law & Regulatory Services	**2,050**	**1,878**	**(172)**	
	Andy Jarrett - Strategic Development Projects				
28	Otterpool Park Land & Property Acquisitions	6,573	6,000	(573)	Part of an ongoing programme of acquisitions planned to continue into 2020/21. Current year includes purchase of Westenhanger Castle.
29	Otterpool Park Garden Town Delivery Mechanism	281	281	0	On target
30	Hythe Environmental Improvements	1	0	(1)	No planned further expenditure
31	Corporate Property Development Projects	161	0	(161)	Unallocated sum to support strategic property initiatives

Appendix 1

GENERAL FUND CAPITAL PROGRAMME BUDGET MONITORING 2019/20					
Item Number	Service Area and Scheme	Latest Approved Budget £'000	Projection at 30/11/2019 £'000	Variance Budget to Projection £'000	Comments
32	Biggins Wood Commercial Development	61	25	(36)	Projected expenditure to support proposed joint venture development
33	Greatstone Holiday Lets	1,099	100	(999)	Currently in planning phase. Construction phase delayed until 2020/21
34	Ship Street Site Folkestone	441	441	0	Purchase of site likely during the winter 2020
35	Princes Parade Leisure Centre	0	450	450	Preliminary fees reprofiled from 2020/21. Scheme on hold subject to a request to seek a Judicial Review regarding the planning permission for the development being considered
	Total - Strategic Development Projects	**8,617**	**7,297**	**(1,320)**	
	Total General Fund Capital Expenditure	**37,209**	**30,853**	**(6,356)**	

Appendix 2

General Fund Medium Term Capital Programme to 2024/25

Item No	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Latest Projection 2024/25	Total Projection 2019/20 - 2024/25	Variance Budget to Projection	Comments
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	Andy Blaszkowicz - Environment & Corporate Assets										
1	Coast Protection - Coronation Parade, Folkestone	2,392	10	2,382	0	0	0	0	2,392	0	Scheme all externally funded. Remaining planned works are now subject to review. The cliff stabilisation works are due to take place in 2020/21 and the major rock revetment work may not proceed.
2	Coast Protection - Coronation Parade annual monitoring	20	4	4	4	4	4	4	24	4	Scheme externally funded by the Environment Agency. Scheme extended by one year to 2024/25
3	Coast Protection - Greatstone Dunes Management & Study	75	15	15	15	15	15	15	90	15	Annual programme funded by Environment Agency extended by one year to 2024/25
4	Coast Protection - Hythe to Folkestone Beach Management (from 2015)	1,348	253	250	250	250	250	250	1,503	155	Scheme externally funded by the Environment Agency. Amount of work required is dependent upon the impact of winter storms in particular. Scheme extended by one year to 2024/25
5	Coast Protection - Hythe to Folkestone Beach Recharge	2,000	0	1,970	0	0	0	0	1,970	(30)	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	116	50	66	0	0	0	0	116	0	Partly deferred to 2020/21 and subject to the production and agreement of a Civic Centre 10 year plan
7	Royal Military Canal footpath enhancements	100	20	20	20	20	20	20	120	20	Ongoing 10 year programme of improvements 2016/17-2026/27
8	Connect 38 Ashford	17,710	17,710	0	0	0	0	0	17,710	0	Acquired May 2019 and providing an additional income in 2019/20
9	Royal Military Canal Replacement Rowing Boats	46	46	0	0	0	0	0	46	0	Order placed and boats due to be delivered in 2019/20
10	Hawkinge Cemetery Expansion	28	0	28	0	0	0	0	28	0	Remainder of scheme now expected to take place in 2020/21
11	Area Officer Vans	30	0	30	0	0	0	0	30	0	Delayed and now considering electric vehicles which may require an increase to the budget
12	Lifeline Capitalisation	210	75	50	50	50	50	50	325	115	Annual programme to purchase new/replacement units extended by one year to 2024/25 (£50k). Also additional expenditure of £65k projected to reflect increased demand for the service
13	Grounds Maintenance Vehicle and Equipment Replacement Programme	158	158	0	0	0	0	0	158	0	On target with the majority of items already delivered
14	Pumping Station - new vehicle	25	25	0	0	0	0	0	25	0	Vehicle planned to be acquired by March 2020

Item No	Service Area and Scheme	Latest Approved MTCP Budget		Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Latest Projection 2024/25	Total Projection 2019/20 - 2024/25		Variance Budget to Projection	Comments
		£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	
15	Hythe to Folkestone Beach Recharging Study Coastal Defence	0		30	0	0	0	0	0	30		30	Scheme externally funded by the Environment Agency. Being draw down from £2m approved budget in the MTCP, originally all profiled for 2020/21
16	Public Toilet Enhancement Programme	0		0	200	200	0	0	0	400		400	Growth - Proposed new scheme to refurbish the council's public toilets portfolio. Subject to a separate report to Cabinet detailing the scheme.
17	Lower Sandgate Road Beach Huts	500		75	425	0	0	0	0	500		0	FHDC capital funding contribution to the Folkestone Parks and Pleasure Grounds Charity scheme to replace and renovate the Lower Sandgate Road Beach Huts
18	Parking Services	0		0	16	16	15	0	0	47		47	Budget Growth. Parking Services - replacement of 15 on-street pay and display machines in Folkestone to be spread over a three year period.
19	Parking Services - New Traffic Regulation Order (TRO	0		0	38	0	0	0	0	38		38	Budget growth. Parking Services - New Traffic Regulation Order (TRO) system (Parkmap System) to manage TROs and assist with parking enforcement
	Total - Environment & Corporate Assets	**24,758**		**18,471**	**5,494**	**555**	**354**	**339**	**339**	**25,552**		**794**	

Appendix 2

Item No	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Latest Projection 2024/25	Total Projection 2019/20 - 2024/25	Variance Budget to Projection	Comments
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	Andy Jarrett - Strategic Development										
20	Corporate Property Development Projects	161	0	161	0	0	0	0	161	0	Unallocated sum to support strategic property initiatives
21	Biggins Wood Commercial Development	61	25	1,036	0	0	0	0	1,061	1,000	Cabinet approval made in July 2019 to invest £1m from revenue reserves to support the commercial and residential development of this site
22	Otterpool Land Acquitision	111,573	6,000	45,573	20,000	20,000	20,000	0	111,573	0	In November 2019 Council approved a further £100m for making acquisitions and undertaking infrastructure works at Otterpool Park
23	Otterpool Park Garden Town Delivery Mechanism	281	281	0	0	0	0	0	281	0	Professional advice to create delivery mechanism for council's involvement with the project.
24	Ship Street Site Folkestone	441	441	0	0	0	0	0	441	0	Cabinet approval made in October 2019 to proceed with the purchase of the site
25	Princes Parade Leisure & Housing development	29,065	450	2,472	15,215	10,928	0	0	29,065	0	Scheme on hold subject to a request to seek a Judicial Review regarding the planning permission for the development being considered
26	Hythe Environmental Improvements	1	0	0	0	0	0	0	0	(1)	Residual expenditure only met from S106 income
27	Greatstone Varne Holiday Lets	1,908	100	1,808	0	0	0	0	1,908	0	Currently in planning phase. Construction phase delayed until 2020/21
	Total - Strategic Development	**143,491**	**7,297**	**51,050**	**35,215**	**30,928**	**20,000**	**0**	**144,490**	**999**	
	Amandeep Khroud - Governance, Law & Regulatory Services										
28	Empty Properties Initiative (KCC)	362	330	332	0	0	0	0	662	300	Jointly funded scheme with KCC. £300k growth for 2020/21 met from recycling previous loans made on this initiative that have been repaid
29	Temporary Accommodation (invest to save)	565	565	0	0	0	0	0	565	0	Scheme underway to progress the acquisition of a further 4 units of accommodation
30	Disabled Facilities Grant	5,000	900	1,000	1,000	1,000	1,000	1,000	5,900	900	Scheme met entirely from Government grant and extended by one year to 2024/25. There is currently no waiting list for applications
31	Home Safe Loans	500	60	100	100	100	100	100	560	60	Scheme extended by one year to 2024/25. There is currently no waiting list for applications

Item No	Service Area and Scheme	Latest Approved MTCP Budget		Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Latest Projection 2024/25	Total Projection 2019/20 - 2024/25		Variance Budget to Projection	Comments
		£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	
32	Replacement Vehicle - Dog Warden	12		12	0	0	0	0	0	12		0	Vehicle purchased in 2019/20
33	PC Replacement Programme	80		134	16	16	35	35	35	271		191	Roll out of new laptops and tablets for staff and councillors across the authority in 2019/20 and then provision for an on-going replacements over the medium term
34	Server Replacement Programme	300		107	60	60	60	60	60	407		107	Additional cost to meet new Microsoft software licence requirements in 2019/20 and then provision for an anuual replacement programme over the medium term
35	Virtual Desktop Technology	96		0	0	0	0	0	0	0		(96)	Budget no longer required and saving used to help offset additional PC and Server Replavement costs, included above
36	Burials Software (BACAS)	11		11	0	0	0	0	0	11		0	Planned to be installed and operational by the spring of 2020
	Total - Governance, Law & Regulatory Services	**6,926**		**2,119**	**1,508**	**1,176**	**1,195**	**1,195**	**1,195**	**8,388**		**1,462**	
	Charlotte Spendley - Finance, Customer & Support Services												
37	Oportunitas Loan and Share Capital Phase 1	778		778	0	0	0	0	0	778		0	Funding expected to be fully utilised by the company in 2019/20
38	Oportunitas Loan and Share Capital Phase 2	6,900		1,400	5,500	0	0	0	0	6,900		0	To invest in the company's planned expansion of its residential property portfolio, which is being partly reprofiled to 2020/21
39	FHDC Transformation	788		788	0	0	0	0	0	788		0	ICT costs - on target
	Total - Finance, Customer & Support Services	**8,466**		**2,966**	**5,500**	**0**	**0**	**0**	**0**	**8,466**		**0**	

Item No	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Latest Projection 2022/23	Latest Projection 2023/24	Latest Projection 2024/25	Total Projection 2019/20 - 2024/25	Variance Budget to Projection	Comments
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	
	Katharine Harvey - Economic Development										
40	New Business Hub - Mountfield Road Industrial Estate	2,530	0	735	0	0	0	0	735	(1,795)	Following a Cabinet decision in September 2019 the scheme has been revised to a joint development with East Kent Spatial Development Company with the Council's contribution reduced to £735k and being met from revenue reserves rather than prudential borrowing
	Total - Economic Development	**2,530**	**0**	**735**	**0**	**0**	**0**	**0**	**735**	**(1,795)**	
	Total General Fund Medium Term Capital Programme	**186,171**	**30,853**	**64,287**	**36,946**	**32,477**	**21,534**	**1,534**	**187,631**	**1,460**	
41	Government Grant	(9,836)	(1,202)	(3,239)	(1,269)	(1,269)	(1,269)	(1,269)	(9,517)	319	
42	Other External Contributions	(2,845)	(460)	(3,332)	0	(444)	0	0	(4,236)	(1,391)	
43	Capital Receipts	(22,778)	(1,343)	(925)	(14,816)	(6,400)	(100)	(100)	(23,684)	(906)	
44	Revenue Contributions	(1,748)	(1,217)	(1,963)	(146)	(165)	(165)	(165)	(3,821)	(2,073)	
45	Borrowing	(148,964)	(26,631)	(54,828)	(20,715)	(24,199)	(20,000)	0	(146,373)	2,591	
	Total Funding	**(186,171)**	**(30,853)**	**(64,287)**	**(36,946)**	**(32,477)**	**(21,534)**	**(1,534)**	**(187,631)**	**(1,460)**	

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Appendix 3

Minimum Revenue Provision (MRP) Policy Statement 2020/21

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 2020/21.**

   i. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:
   - **<u>Existing practice</u> - 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:
   - **<u>Asset Life Method</u> – 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 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 previously agreed an affordable strategy to repay the HRA's total debt, represented by its capital financing requirement (HRACFR) over 30 years. However in a move to maximise the level of resources available to build new HRA homes, the latest HRA Business Plan no longer makes provision to repay debt.

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 14 January 2019

Report Number **C/19/64**

To:	**Cabinet**
Date:	**22 January 2020**
Status:	**Non-Key Decision**
Responsible Officer:	**Charlotte Spendley – Director of Corporate Services**
Cabinet Member:	**Councillor David Monk – Leader of the Council**

SUBJECT: GENERAL FUND REVENUE BUDGET MONITORING – 3RD QUARTER 2019/20

SUMMARY: This monitoring report provides a projection of the end of year financial position of the General Fund revenue budget, based on expenditure to the 30 November 2019.

REASONS FOR RECOMMENDATIONS:
Cabinet is asked to agree the recommendations set out below because it needs to be informed of the council's General Fund revenue budget position and take appropriate action to deal with any variance from the approved budget.

RECOMMENDATIONS:
1. **To receive and note Report C/19/64.**
2. **To agree to utilise up to £400k to provide interim capacity for the delivery of Corporate Priorities, that meet the conditions outlined in paragraph 2.3, to be agreed by the Head of the Paid Service in consultation with the Leader of the Council.**

1. INTRODUCTION AND BACKGROUND

1.1 This report updates Cabinet on the likely projected outturn on the General Fund revenue budget, based on data at 30 November 2019.

1.2 General Fund projections are made against the latest approved estimate (incorporating approved virements).

2. GENERAL FUND REVENUE 2019/20 - PROJECTED OUTTURN

2.1 The Quarter 3 projected outturn for service areas shows a forecast of £18,010k against the latest approved budget of £19,657k resulting in a variance of £1,647k (projected underspend).

2.2 When taking into account other operating expenses & income, as well as movement on earmarked reserves & capital financing, the total projected outturn is a projected underspend of £890k.

2.3 The Council continues to have a very ambitious agenda. Resources are required to assist the delivery of the current and emerging priorities of the Council. Due to the ongoing strong financial performance of the Council it is proposed to utilise some of the projected underspend to support the delivery of the priorities of the Council at this time. Recommendation 2 of this report therefore proposes that a sum of up to £400k be allocated for the purposes of interim capacity for the delivery of Corporate Priorities. In order to be met from the available resources the funds will be spent only on one off items and will not have any recurring financial impact. Additionally this allocation will only be used in the pursuit of agreed corporate priorities. Priority will be given to spending that can be incurred during 2019/20, the balance of the available £400k is proposed to be allocated to an Earmarked Reserve for use during 2020/21.

2.4 The following table summarises the latest projected outturn position across the Service Units:

General Fund Net Cost of Services	Latest Approved Budget	Projected Outturn	Variance
	£'000	**£'000**	**£'000**
Customer, Support & Specialist Services	322	311	-11
Leadership Support	661	638	-23
Governance, Law & Regulatory Services	7,346	7,308	-38
Human Resources	630	596	-34
Finance, Customer & Support Services	6,334	5,409	-925
Strategic Development	1,051	1,652	601
Economic Development	529	532	3
Planning	513	545	32
Environment & Corporate Assets	2,611	1,019	-1,592
Sub-Total – Heads of Services	**19,997**	**18,010**	**-1,987**
Unallocated Net Employee Costs	-340	0	340
Total – Heads of Service	**19,657**	**18,010**	**-1,647**

2.5 The main variations are shown and explained in more detail below.

	£'000
Administration budgets incl. vacancy factor	409
Governance, Law & Regulatory Services	
Recycling & Waste – additional income	-78
Finance, Customer & Support Services	
Housing Benefit/Rent Rebates – decrease in payments	-659
Council Tax Reduction Scheme – additional grant	-208
Strategic Development	
Otterpool Park – Masterplanning costs	961
Corporate Investment Initiatives	-370
Planning	
Development Control – additional income from Planning Performance Agreements	-249
Environment & Corporate Assets	
On Street Parking – additional income	-33
Off Street Parking – additional income	-127
Commercial Properties – Connect 38 income	-1,134
Other small variations	-159
Total – Heads of Service	**-1,647**

Administration Budgets
This represents variances across various service areas within the administration budgets mainly relating to staffing costs. This position is net of the agreed vacancy factor amount budgeted for each year and Transformation project savings.

Governance, Law & Regulatory Services
Recycling & Waste – the increase in income relates to an increase in the garden waste collection subscriptions in 2019/20.

Finance, Customer & Support Services
Housing Benefit/Rent Rebates – the projected net underspend on Housing Benefits mainly relates to the projected decrease in rent allowance payments.

Council Tax Reduction Scheme – the increase in income relates to grants being received from Kent County Council (KCC) in respect of additional Support Grant and Empty Homes Incentive Fund.

Strategic Development

Otterpool Park – The net cost for progressing the Otterpool masterplanning process in 2019/20, both as a developer and as the local planning authority, is projected to be £961k more than budgeted.
The increase mainly relates to work required to support the project undertaken by consultants Arcadis for the Collaboration Board and Project Board in order to achieve outline planning permission.
All projected costs for 2019/20 will be met from the Otterpool Reserve.

Corporate Investment Initiatives – the projected underspend includes the Town Centre Regeneration Initiatives budget and £175k is projected to be spent with the remaining £370k being carried forward and spent in 2020/21. All projected costs will be met from the Corporate Initiatives Reserve.

Planning

Development Control – following the successful introduction of Planning Performance Agreements additional income is projected to be received in 2019/20.

Environment & Corporate Assets

Car Parking – despite increasing the base budget projections for 2019/20, income projections for both on-street and off-street parking continue to increase in line with current trends.

Commercial Properties – the projected rental income to be received relates to the Connect 38 offices in Ashford, acquired in May 2019. The full acquisition cost £17.7m has been met from Prudential Borrowing. For 2019/20 it is projected that the council will be able to use cheaper internal borrowing from available cash balances to temporarily meet the capital cost of Connect 38 rather than take out new external borrowing. The impact of the internal borrowing has been contained within the interest payable and receivable budgets which are held outside of the heads of service area. Further, the requirement on the council to make an annual Minimum Revenue Provision (MRP) charge to offset the Capital Financing Requirement arising from the borrowing does not commence until 2020/21. The annual MRP charge for Connect 38 is estimated to be in the region of £500k.
The rental income received from Connect 38, which did not feature in the approved 2019/20 budget has been reversed out and taken to Earmarked Reserves as shown below.

Transformation Project

The transformation project has an approved budget that was set by Cabinet in February 2018 and this was profiled over the period of the programme with funding being drawn down as required. This is being monitored, however at the present time there will be no variances affecting the overall spending position of the council for this report. This will continue to be monitored to ensure the funding is spent effectively and any potential variances will be reported in due course.

2.6 Further variances below the heads of service total are shown below.

Other Non-Service related Government Grants
There is projected to be additional grant received of £290k which reflects net changes to grants received from Ministry of Housing, Communities & Local Government (MHCLG) in relation to additional Brexit funding of (£317k) partially offset by a reduction in Section 31 grant relating to lower business rates discretionary reliefs awarded of £27k.

Capital Financed from Revenue
In line with the latest projected outturn position on the General Fund Capital Budget Monitoring report it is reported that this cost will be approximately £1,217k in 2019/20.

This is an increase of £1,079k in the budgeted sum with the majority of it relating to the re-profiling of capital schemes between 2018/19 and the current financial year (£979k).
There is also expected to be additional spend relating to ICT costs for server upgrade and laptop replacements of £100k.

Movement in Earmarked Reserves
The projected movement on Earmarked Reserves reflects the release of £370k from the VET Reserve and £1,022k from the Otterpool reserve and a contribution of £50k to the Leisure Reserve, £194k to the Corporate Initiatives Reserve, £2,266k to the Economic Development reserve and £308k to the Business Rates reserve.

The total approved carry forwards from 2018/19 was £417k and included within the projection for the Carry Forward Reserve is £213k that has been released in 2019/20. It is assumed that a further £204k will be used during the year and transferred out of the Carry Forward Reserve with the service areas amended accordingly.

Movement in Earmarked Reserves

Reserve	Balance at 1/4/2019 £'000	Latest Budget £'000	Projection £'000	Change £'000	Balance at 31/3/2020 £'000
Earmarked					
Business Rates	5,496	59	367	308	5,863
Leisure Reserve	197	0	50	50	247
Carry Forwards	723	-213	-381	-168	342
VET Reserve	637	24	-346	-370	291
Invest to Save	366	0	0	0	366
Maintenance of Graves	12	0	0	0	12
New Homes Bonus (NHB)	2,524	-165	-165	0	2,359
Corporate Initiatives	404	260	454	194	858
IFRS Reserve	38	-7	-7	0	31
Otterpool Park Garden Town	2,129	-278	-1,300	-1,022	829
Economic Development	2,901	-742	1,524	2,266	4,425
Community Led Housing	437	0	0	0	437
Lydd Airport	9	0	0	0	9
Homelessness Prevention	319	0	0	0	319
High Street Regeneration	0	3,000	3,000	0	3,000
Total Earmarked Reserves	**16,192**	**1,938**	**3,196**	**1,258**	**19,388**

Business Rates Income
There is a net increase in Business Rates income which is based on latest estimates due to lower gross rates payable and higher mandatory reliefs awarded of £298k which is off-set by the projected pool benefit for 2019/20 of (£616k).

2.7 With the above variances added to the service areas favourable variance of £1,647k, the overall position for the general fund shows a projected underspend of £890k.

3. CONCLUSIONS

3.1 The projected outturn shown for the General Fund revenue account for 2019/20 reflects the position based on actual expenditure and forecasts at 30 November 2019.

4. RISK MANAGEMENT ISSUES

4.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
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.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

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

5.2 **Finance Officer's Comments** (LH)
This report has been prepared by Financial Services. There are therefore no further comments to add.

5.3 **Diversities and Equalities Implications**
The report does not cover a new service/policy or a revision of an existing service/policy and therefore does not require an Equity Impact Assessment.

5.4 **Communications** (KA)
There are no significant implications arising directly from this report. Budget information will be communicated as appropriate.

5.5 **HR** (RB)
There are no HR implications arising directly out of this report.

5.6 **Transformation** (LH)
There are no direct implications arising from this report on the delivery of the transformation project.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Leigh Hall, Case Management Lead (Support Services)
Telephone: 01303 853231 Email: leigh.hall@folkestone-hythe.gov.uk

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

Budget projection working papers.

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Agenda Item 11

This Report will be made public on 14 January 2020

Report Number **C/19/59**

To: **Cabinet**
Date: **22 January 2020**
Status: **Key Decision**
Head of service: **Charlotte Spendley, Director of Corporate Services**
Cabinet Member: **Councillor David Monk – Leader and Portfolio Holder for Finance**

Subject: **TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21**

SUMMARY: This report sets out the proposed strategy for treasury management for 2020/21 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/19/59.**
2. **To approve the strategy for treasury management in 2020/21 set out in the report is adopted.**
3. **To approve the Treasury Management Indicators for 2020/21 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 which Cabinet is due to consider on 19 February 2020 ahead of it being submitted to full Council for approval on the same day.

2. ECONOMIC OUTLOOK AND PROSPECT FOR INTEREST RATES

(Based on 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 (EU), together with its future trading arrangements, will continue to be a major influence on the authority’s treasury management strategy for 2020/21. The General Election has removed some uncertainty within the market, however following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.

2.1.2 GDP growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England’s Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

2.1.3 The headline rate of UK Consumer Price Inflation remained the same in November 2019 at 1.5% year-on-year, the same as October 2019, however continuing to fall from highs of 2.1% in July and April 2019 as accommodation services and transport continued to contribute to a level of inflation below the BOE target of 2%. Labour market data continues to be positive. The official unemployment rate continues to hold at historic lows at 3.8%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.5% in November 2019 providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.9% in October 2019 and only likely to have a moderate impact on household spending.

2.1.4 Domestic inflationary pressures have abated, as domestic gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December 2019. The limited inflationary pressure from real wages will likely keep inflation below the Bank of England target of 2%. The Bank of England maintained Bank Rate to 0.75% in December following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

2.1.5 The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary tightening through 2019. The Federal Reserve has cut rates three times to 1.5% - 1.75%, to stimulate growth as GDP growth has started to fall (to 2.1%).

2.1.6 The fallout from the US-China trade war continues which, risks contributing to a slowdown in global economic activity in 2020. Recent suggestions have been an initial compromise and potential unwinding of tariffs; however, this can change quickly. Slow growth in Europe, combined with changes in leadership at the ECB and IMF has led to a change of stance in 2019. Quantitative easing has continued and been extended.

2.2 Credit Outlook

2.2.1 The recent Bank of England stress tests assessed all seven UK banking groups. The tests scenarios include deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. All seven banks passed the test on both a CET1 ratio and a leverage ratio basis. Major banks have steadily increased their capital for many years now. However, there are a number of shortcomings in the Bank's approach; timeliness as the results are over 11 months of out date when they are published, being based on end-2018 balance sheets; ringfencing, as the tests ignore the restrictions on transferring capital between ringfenced "retail" banks and non-ringfenced "investment" banks within the larger groups and;

coverage – the tests should be expanded to cover a wider range of UK banks and building societies.

2.2.2 The Bank of England will seek to address some of these issues in 2020, when Virgin Money/Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks.

2.2.3 Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

2.3 Interest Rate Forecast

2.3.1 The authority's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be weighted to the downside with the need for greater clarity on Brexit and the continuing global economic slowdown. As already mentioned above, the MPC are less convinced of the need for an interest rate rise even with an orderly exit from the EU and successful trade negotiations between the two parties.

2.3.2 Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty. Detailed interest rate forecasts for both investments and borrowing are shown in appendix 1 to this report.

2.3.3 For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 0.75%, and that new long-term loans will be borrowed at an average rate of 2%.

3. THE COUNCIL'S FORECAST BORROWING AND INVESTMENT POSITION

3.1 On 31 December 2019 the authority held £56.4m of borrowing and £32.9m 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

	31.3.19 Actual £m	**31.3.20 Estimate £m**	**31.3.21 Forecast £m**	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**
General Fund CFR	11.8	12.5	14.1	14.5	15.6
HRA CFR	47.4	47.4	47.4	47.4	49.5
Investments CFR	8.6	34.1	86.5	105.8	125.1
Total CFR	**67.8**	**94.0**	**148.0**	**167.7**	**190.2**
Less: External borrowing	56.4	54.8	53.5	52.2	47.2
Internal borrowing	**11.4**	**39.2**	**94.5**	**115.5**	**143.0**
Less: Usable reserves	(51.2)	(49.8)	(38.5)	(27.9)	(23.2)
Less: Working capital	(2.4)	(4.0)	(4.0)	(4.0)	(4.0)
Treasury Investments (-) or / New Borrowing (+)	**(42.2)**	**(14.6)**	**52.0**	**83.6**	**115.8**

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 2020/21, the proposed Medium Term Capital Progamme, the HRA Business Plan and information taken from the latest approved Medium Term Financial Strategy for 2021/22 and 2022/23. The authority has an increasing CFR arising from its planned capital investment and will therefore be required to borrow up to £116m over the forecast period.

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 2020/21.

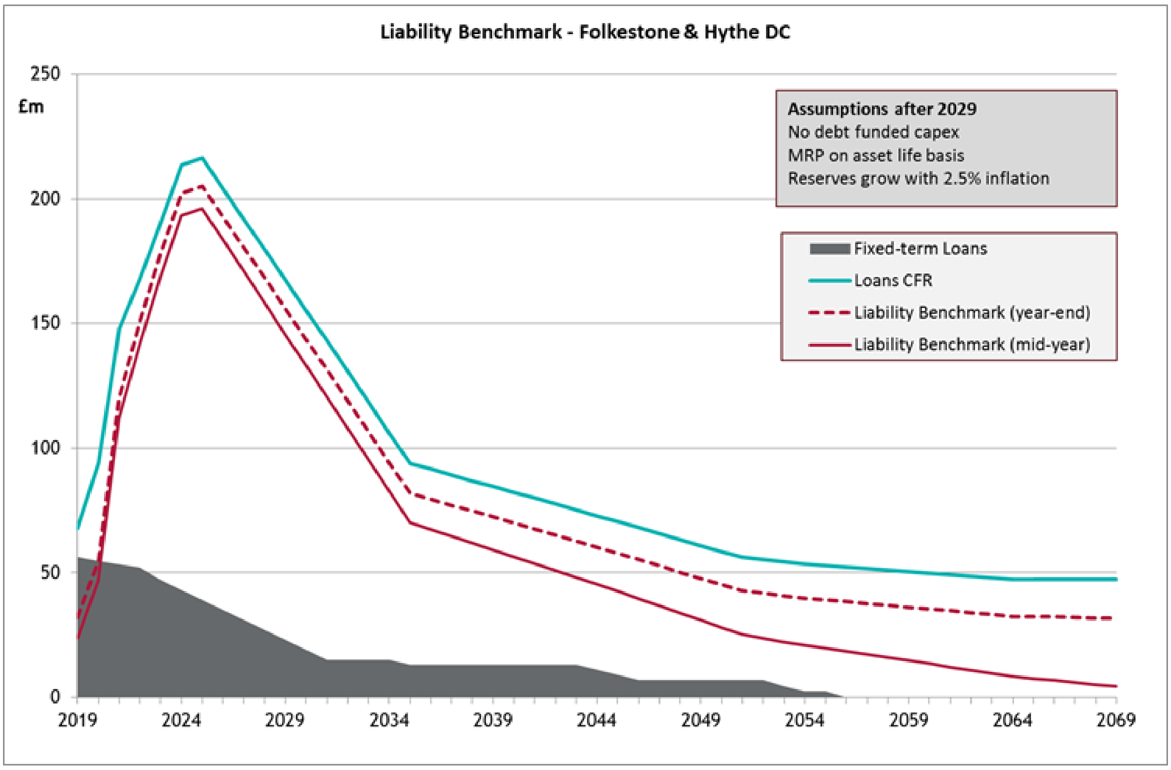
3.5 Liability Benchmark

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

	31.3.19 Actual £m	31.3.20 Estimate £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m
CFR	67.8	94.0	148.0	167.7	190.2
Less: Usable reserves	(51.2)	(49.8)	(38.5)	(27.9)	(23.2)
Less: Working capital	(2.4)	(4.0)	(4.0)	(4.0)	(4.0)
Plus: Minimum investments	15.0	15.0	15.0	15.0	15.0
Liability Benchmark	**29.2**	**55.2**	**120.5**	**150.8**	**178.0**

3.5.2 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes further capital expenditure funded by borrowing after 31 March 2023 for Otterpool Park and the HRA new build programme, minimum revenue provision on new capital expenditure based on asset life (except for Otterpool Park which assumes the borrowing to be repaid over 10 years), 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 £56.4 million of loans as part of its strategy for funding previous years' capital programmes. The current loans are shown in appendix 2 to this report. The balance sheet forecast in table 1 shows that the authority expects to borrow up to £52m in 2020/21. The authority may however borrow to pre-fund future years' requirements, providing this does not exceed the proposed authorised limit for borrowing of £171 million for 2020/21. The authorised borrowing limit will be considered in more detail as one of the prudential indicators for capital expenditure which will be included in the Capital Strategy for 2020/21 report to Cabinet at its meeting on 19 February 2020 before going to full Council for approval on the same day.

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 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.3.3 The authority has previously raised all of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The authority will now look to borrow any long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

4.3.4 Alternatively, the authority may arrange forward starting loans 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.

4.3.5 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

4.5 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. Financial derivatives may be used to manage this interest rate risk (see section 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 2019/20 until 31 December, the authority's investment balance has ranged between £25 and £50 million with the average being £35 million. The average investment balance held is expected to reduce to around £25 million in the coming year as the council uses its reserves to meet its approved capital expenditure plans and also continues to use some of its cash balances in lieu of external borrowing (i.e. internal borrowing). 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

2020/21. The authority's current investment portfolio is shown in appendix 3 tot his report.

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 2020/21, 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 continue with its current strategy to diversify into more secure and/or higher yielding asset classes during 2020/21. This is especially the case for the estimated £27m that is available for longer-term investment. A significant but reducing proportion of the authority's surplus cash is currently invested in money market funds in particular, although this is likely to reduce further in 2020/21 as a result of the capital expenditure plans.

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.

Table 3: Approved Investment Counterparties and Limits for New Investments effective from 1 April 2020

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
Pooled funds and real estate investment trusts	£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 the 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 (REITS) -** 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. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

5.5.11 **Operational bank accounts:** The authority may incur operational exposures, for example though 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 £22 million 31st March 2020. In order that no more than 25% 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

	Cash limit
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.

	Target
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.

	Target
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:

	Limit
Upper limit on one year revenue impact of a 1% **rise** in interest rates	£290,000
Upper limit on one year revenue impact of a 1% **fall** in interest rates	(£310,000)

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. The indicator also incorporates the impact of new borrowing forecast to support the authority's capital expenditure plans over the next 12 months.

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:

	Upper	**Lower**
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:

	2020/21	2021/22	2022/23
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.

7.2.4 In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

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 Director of Corporate 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	**2019/20 Estimate**	*2019/20 Latest Projection*	**2020/21 Estimate**	**Variance 2019/20 to 2020/21**
Revenue Budgets	£'000	£'000	£'000	£'000
Interest on Borrowing	**1,912**	*1,922*	**1,945**	**33**
HRA Element	**(1,569)**	*(1,569)*	**(1,547)**	**22**
GF Borrowing Cost	**343**	*353*	**398**	**55**
Investment income	**(713)**	*(764)*	**(635)**	**78**
HRA Element	**75**	*88*	**50**	**(25)**
GF Investment income	**(638)**	*(676)*	**(585)**	**53**
Net Cost (GF)	**(295)**	*(323)*	**(187)**	**108**

8.2 The main reason for the projected net increase in the General Fund borrowing cost of £108k in 2020/21 compared to 2019/20 is due to the impact of the borrowing being incurred to support the council's capital investment plans. It should be noted that the council is planning to adopt a capitalisation policy during 2019/20. This will mean the borrowing cost (interest) for qualifying assets being acquired or developed but not ready for use will be capitalised as a charge to the relevant capital scheme rather than be met by the General Fund. Only once the asset is ready to be used will the interest charge revert to being met by the General Fund. Notably, the interest cost for the additional £100m of prudential borrowing for the Otterpool Park scheme approved by full Council on 20 November 2019 is expected to be capitalised under this policy.

9. OTHER OPTIONS CONSIDERED

9.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director for Corporate 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	With an increasing borrowing requirement rising interest rates would be detrimental. The council would need to consider taking out fixed borrowing to help mitigate this risk and/or use further internal borrowing if resources are available. Falling interest rates would be broadly beneficial to the council given the increasing borrowing requirement.
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 (Nicola Everden)

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 Finance 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 – Capital and Treasury Senior Specialist
Tel: 01303 853593 Email: 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 2020/21
Appendicies
Appendix 1 – Arlingclose Interest Rate Forecast
Appendix 2 – Borrowing portfolio at 31 December 2019
Appendix 3 – Investment portfolio at 31 December 2019

Appendix 1 – Arlingclose Interest Rate Forecast December 2019

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%

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

Appendix 2 – Borrowing Portfolio at 31 December 2019

Folkestone and Hythe District Council Itemised Borrowing at 31 December 2019

Lender	Loan No	Loan Type	Repayment Method	Interest Payment Frequency	Maturity Date	Principal Outstanding 31/03/2019	Movement	Principal Outstanding 31/12/2019	Interest Rate
						£	£	£	%
Public Works Loan Board	430141	Fixed	Annuity	Half Yearly	01/11/2033	4,010	-110	3,900	11.38
Public Works Loan Board	480111	Fixed	Maturity	Half Yearly	31/03/2023	1,000,000	0	1,000,000	6.63
Public Works Loan Board	488942	Fixed	Maturity	Half Yearly	07/08/2034	2,000,000	0	2,000,000	4.80
Public Works Loan Board	492233	Fixed	Maturity	Half Yearly	15/03/2054	2,000,000	0	2,000,000	4.05
Public Works Loan Board	493698	Fixed	Maturity	Half Yearly	07/08/2055	2,500,000	0	2,500,000	4.55
Public Works Loan Board	493914	Fixed	Maturity	Half Yearly	07/02/2053	2,500,000	0	2,500,000	4.55
Public Works Loan Board	494027	Fixed	Maturity	Half Yearly	15/03/2044	2,000,000	0	2,000,000	4.65
Public Works Loan Board	494028	Fixed	Maturity	Half Yearly	15/03/2045	2,000,000	0	2,000,000	4.65
Public Works Loan Board	494029	Fixed	Maturity	Half Yearly	15/03/2046	2,141,190	0	2,141,190	4.65
Public Works Loan Board	500536	Fixed	Maturity	Half Yearly	28/03/2023	4,000,000	0	4,000,000	2.56
Public Works Loan Board	500537	Fixed	Maturity	Half Yearly	28/03/2031	4,010,000	0	4,010,000	3.26
Public Works Loan Board	500538	Fixed	Maturity	Half Yearly	28/03/2028	4,000,000	0	4,000,000	3.08
Public Works Loan Board	500540	Fixed	Maturity	Half Yearly	28/03/2025	4,000,000	0	4,000,000	2.82
Public Works Loan Board	500541	Fixed	Maturity	Half Yearly	28/03/2029	4,000,000	0	4,000,000	3.15
Public Works Loan Board	500542	Fixed	Maturity	Half Yearly	28/03/2030	4,000,000	0	4,000,000	3.21
Public Works Loan Board	500543	Fixed	Maturity	Half Yearly	28/03/2027	4,000,000	0	4,000,000	3.01
Public Works Loan Board	500544	Fixed	Maturity	Half Yearly	28/03/2021	1,300,000	0	1,300,000	2.21
Public Works Loan Board	500545	Fixed	Maturity	Half Yearly	28/03/2022	1,300,000	0	1,300,000	2.40
Public Works Loan Board	500546	Fixed	Maturity	Half Yearly	28/03/2024	4,000,000	0	4,000,000	2.70
Public Works Loan Board	500547	Fixed	Maturity	Half Yearly	28/03/2020	1,100,000	0	1,100,000	1.99
Public Works Loan Board	500548	Fixed	Maturity	Half Yearly	28/03/2026	4,000,000	0	4,000,000	2.92
Total - Public Works Loan Board						55,855,200	-110	55,855,090	
Folkestone Town Council	n/a	Variable	Call Notice - 2 days	Half Yearly	n/a	500,000	0	500,000	0.50
Total - All Borrowing						**56,355,200**	**-110**	**56,355,090**	

Appendix 3 – Investment Portfolio at 31 December 2019

Category and Counterparty	Amount or Value £	Terms	Interest Rate or Yield %
Covered Bonds (Secured)			
Royal Bank of Scotland	1,000,257	Covered floating rate note to 15/05/2020	1.03
Royal Bank of Scotland	2,501,470	Covered floating rate note to 15/05/2020	1.03
Money Market Funds			
Aberdeen Standard MMF	4,740,000	No notice instant access	0.74
Goldman Sachs MMF	1,310,000	No notice instant access	0.68
Legal and General MMF	2,760,000	No notice instant access	0.72
Federated MMF	5,000,000	No notice instant access	0.73
Other Pooled Funds			
Commercial Property Funds			
CCLA Property Fund	5,432,067		4.38*
Multi-Asset Income Funds			
CCLA Diversified Income Fund	2,021,951		3.41
UBS Multi-Asset Income Fund	1,006,325		4.88
Kames Diversified Monthly Income Fund	3,589,046		5.27
Investec Diversified Income Fund	3,505,659		4.56
Total Investments	**32,866,775**		2.53
* Net of Fees			