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

Agenda

Meeting: **Council**
Date: **22 February 2017**
Time: **7.00 pm**
Place: **Council Chamber - Civic Centre Folkestone**

To: **All Members of the Council**

YOU ARE HEREBY SUMMONED to attend a meeting of the Council on the date and at the time and place shown above. The meeting will be open to the press and public.

Anyone who wishes to have information on any matter arising on the Agenda which is not fully covered in these papers is requested to give notice prior to the meeting to the Chairman or appropriate officer.

J A Stewart

Chief Executive

1. **Apologies for Absence**

2. **Declarations of Interest**

   Members of the Council should declare any discloseable pecuniary interest or any other significant interests in any item/s on this agenda.

3. **Minutes (Pages 7 - 24)**

   To receive the minutes of the meeting of the council held on 18 January 2017 and to authorise the Chairman of the Council to sign them as a correct record.

4. **Chairman's Communications**

Queries about the agenda? Need a different format?

Contact JemmaWest/Sue Lewis – Tel: 01303 853369 / 01303 853265
Email: committee@shepway.gov.uk or download from our website
www.shepway.gov.uk

Date of Publication: Tuesday, 14 February 2017

5. **Petitions**

There are no petitions to be presented.

6. **Questions from the Public**

1. From Bryan Rylands to Councillor David Monk, Leader of the Council

Please could SDC provide me with the total sum of any pension deficit they may have and an explanation of how this has come about.

2. From Graham Corr to Councillor David Monk, Leader of the Council

Are Investors in Private Capital Ltd the guarantors for Cozumel estates, who have a collaboration agreement with SDC?

3. From Christopher Deane to Councillor David Monk, Leader of the Council

In the light of almost daily reports on the crisis in our cash strapped hospitals, and the particular problem of 'bed blocking' brought about by cuts in funding and social care provision for the elderly at a local level, will Shepway District Council be lobbying for the maximum permissible increase Council Tax in order to facilitate the best possible local provision.

4. From Aaron Roche to Councillor Alan Ewart-James, Cabinet Member for Housing

Could the Council please detail the exact criteria and methods of assessment for the triggering of the Severe Weather Emergency Protocol (SWEP) and whether there are any instances where these criteria have been met but SWEP not implemented in time this year?

5. **From Nick Southgate to Councillor Alan Ewart-James, Cabinet Member for Housing**

Can the council clarify its position on both social and affordable housing? In particular, how many proposed new-build homes will be utilised for social housing and how much would a first-time buyer need to be earning, assuming they have a 10% deposit, to purchase a new-build 'affordable home'?

7. **Questions from Councillors**

(Questions can be found under the date of the Council meeting - www.shepway.gov.uk from noon 2 days before the meeting).

Up to 45 minutes is allowed for questions from councillors.

8. **Announcements of the Leader of the Council**

To receive a report from the Leader of the Council on the business of the cabinet and on matters that the leader considers should be drawn to the council's attention. The leader shall have 10 minutes to make his announcements.

The opposition group will have an opportunity to reply to the leader's remarks. The opposition group leader shall have 5 minutes to respond after which the Leader of the Council will have a right of reply. Any right of reply will be for a maximum duration of 5 minutes.

9. **Opposition Business**

The UKIP Group has raised the following matter, the formation of a cross party working group to consider the impact of Brexit. The working group will carry out a time limited review of the current and likely future impact on Shepway of the UK exiting the EU and consider actions the council could take such as lobbying and local projects to capitalise on the opportunities and challenges that exiting the EU will bring, and then move forward.

Debates on opposition business shall be limited to 15 minutes. If the time limit is reached or the debate concludes earlier, the leader of the group raising the item shall have a right of reply.

The Council shall:

a) Note the issue raised and take no further action;
b) Refer the issue to the cabinet or relevant overview and scrutiny committee, as the case may be for their observations before deciding whether to make a decision on the issue;
c) Agree to examine the matter as part of a future scrutiny programme;
d) Adopt the issue raised by opposition business provided that the decision so made is within the policy framework and budget.

10. **Appointment of External Auditors (Pages 25 - 38)**

Report A/16/23 details the arrangements for appointing external auditors following the abolition of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audit. It recommends that opting into a Sector Led Body (Public Sector Audit Appointments Limited) to negotiate and make the external auditor appointment be agreed as the preferred procurement route. The appointment of the external auditor is a decision of the Full Council.

11. **Housing Revenue Account 2017/18 (Pages 39 - 54)**

Report A/16/26 sets out the Housing Revenue Account Revenue and Capital Budget for 2017/18 and proposes a decrease in rents and an increase in service charges for 2017/18.

12. **Update to the General Fund Medium Term Capital Programme and Quarter 3 Monitoring 2016/17 (Pages 55 - 84)**

Report A/16/22 updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2022. The report provides a projected outturn for the General Fund capital programme in 2016/17, based on expenditure to 30 November 2016. This report also sets out both the prudential indicators for capital expenditure and the Minimum Revenue Provision Policy Statement to be approved by full Council. 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. Overview and Scrutiny Committee considered this report on 17 January 2017 ahead of Cabinet approving it on 18 January 2017 to be submitted to full Council.

13. **Treasury Management Strategy Statement 2017/18 including Treasury Management Indicators (Pages 85 - 108)**

Report A/16/24 sets out the proposed strategy for treasury management for 2017/18 including the Annual Investment Strategy and Treasury Management Indicators to be approved by full Council. Overview and Scrutiny Committee considered this report on 17 January 2017 ahead of Cabinet approving it on 18 January 2017 to be submitted to full Council.

14. **General Fund budget and Council Tax 2017/18 (Pages 109 - 136)**

Report A/16/25 concludes the budget-making process for 2017/18. It sets out recommendations for setting the council tax after taking into account the district's council tax requirement (including town and parish council requirements and special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity), the precepts of Kent County Council, the Kent Police & Crime Commissioner and the Kent & Medway Fire & Rescue Service

15. **Motions on Notice**

The following motions have been placed on the agenda in the order received; up to 60 minutes shall be allowed for debates on motions on notice:

Councillor Mary Lawes

Should we as a council and society do more to help the 'Homeless' in our district?

*Explanations as to different levels of interest

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

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

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

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

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

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

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

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SHEPWAY DISTRICT COUNCIL

Minutes for the meeting of the Council held at the Council Chamber - Civic Centre Folkestone on Wednesday, 18 January 2017

Present: Councillors Mrs Ann Berry, Miss Susan Carey, John Collier, Malcolm Dearden, Alan Ewart-James, Peter Gane, Clive Goddard, David Godfrey, Miss Susie Govett, Ms Janet Holben (Chairman), Mrs Jennifer Hollingsbee, Mrs Claire Jeffrey, Mrs Mary Lawes, Rory Love, Philip Martin, Ian Meyers, David Monk, David Owen, Dick Pascoe, Stuart Peall, Damon Robinson, Carol Sacre, Mrs Rodica Wheeler and Roger Wilkins

Apologies for Absence: Councillors Len Laws, Michael Lyons, Frank McKenna, Paul Peacock, Peter Simmons and Mrs Susan Wallace

163. **Declarations of Interest**

There were no declarations of interest.

164. **Minutes**

The minutes of the meeting held on 21 December 2016 were submitted, approved and signed by the Chairman.

165. **Chairman's Communications**

The Chairman wished everyone a Happy New Year and said given the Kent County Council Elections in May and the US inauguration this week she expects it to be an interesting year.

She informed members that Councillor Michael Lyons, who has been quite ill was improving and getting stronger and there was a card circulating for members to sign if they so wish.

166. **Petitions**

There were no petitions.

167. **Questions from the Public**

The questions asked, including supplementary questions (if any) and the answers given are set out in Schedule 1 to these minutes.

168. **Questions from Councillors**

The questions asked and the answers given are set out in Schedule 2 to these minutes.

169. **Announcements of the Leader of the Council**

The Leader of the Council, Councillor David Monk wished everyone a happy and healthy new year and updated members on what is happening with Otterpool Park, Arcadis informing that the team responsible for the master planning will be going out in early March with the next stage of the consultation, the details of which will be published shortly.

He informed that there is a Councillor briefing being held at 5pm prior to the Council meeting on 15 March when everyone will be updated.

The Leader informed that he, Dr Susan Priest, Corporate Director and Chris Lewis, Planning Advisor met with civil servants in the DCLG to press for the planning easements promised in the Green Settlement prospectus and was confident of some help coming to the Council.

He informed members that on Wednesday 25 January at 5pm the business case for an East Kent Council will be published online and that at 7pm the same day a presentation of the report will be given by the Chief Executive to all Councillors in the Council Chamber.

Councillor Ian Meyers, Deputy Leader,UKIP Group thanked the Leader for his updates and informed that the group would work robustly to scrutinise the decisions of the Executive and through scrutiny hopefully make a difference. He looked forward to working on numerous projects this year.

170. **Opposition Business**

There was no opposition business.

171. **Council Tax base 2017/18**

The Council is required to decide its tax base which will be used in the calculation of Council Tax for 2017/18. Report A/16/21 proposes the tax base for the Council's approval.

Proposed by Councillor Ms Susan Carey
Seconded by Councillor Alan Ewart-James and

RESOLVED:
1. **To receive and note report A/16/21.**
2. **To recommend that the Council Tax bases set out in appendices 1-31, which have been calculated in accordance with the Local Authorities (Calculation of Tax Base) Regulations 1992 (as amended), be the amounts so calculated by the Council as its Council Tax bases for the year 2017/18.**

(Voting: For 24; Against 0; Abstentions 0)

172. Motions on Notice

There were no motions on notice.

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Council – 18 January 2017 **Schedule 1**

Public questions and answers

1. From Christopher Deane to Councillor ms Susan Carey, Cabinet Member for Finance

My question relates to Council Tax and the more vulnerable members of our community. At the Shepway District Council meeting on Wednesday 21st December you spoke with pride, in answer to question from the public, that the council had both reduced Council Tax payments for all (in real terms) while protecting essential service provision. Later in the same meeting did not the reduction in Council Tax Relief, amounting to a saving of approximately £187000 for Shepway, that was passed by all members of the Conservative group mean additional hardship for 6000+ of the poorer and more vulnerable members of our community?

ANSWER:

Thank you for your question unfortunately this does not reflect the decision which was taken at council. Mr Deane may recall that when the Council Tax Reduction Scheme was introduced, the funding for this was reduced by 10% nationally leaving local authorities having to design schemes which either replaced that funding in order to avoid making cuts to services. The latest scheme, which was agreed by Council in December, has to work within those financial realities.

When considering the scheme, the Cabinet looked at the options before going out to a wide scale consultation. The scheme was considered by both Cabinet and Overview and Scrutiny before going out to consultation, and then by both committees after the results of the consultation were known. Following consideration of the consultation comments, the final decision decided to **exclude** those items relating to self employed income, reduction in the capital limit and taking into account child maintenance or child benefit in the calculation.

The effect of this is that the level of potential income for Shepway District Council is not £187,000 but is lower by an estimated £65,700 than it would have been had we agreed to all the recommendations. This shows that as a Council we do listen and we do consider the impact of our policies when they are being implemented.

SUPPLEMENTARY QUESTION:

There is a lack of hardship schemes and it would seem fair to say that the impact is particularly felt by single women with children?

ANSWER:

I refer you to the answer given at the last meeting and again inform you that there is a need to get the balance right and the people who are poorest will benefit. The benefit will not only help Shepway but the Police, KCC and Kent Fire and Rescue.

2. From Nick Southgate to Councillor Mrs Jenny Hollingsbee, Deputy Leader and Cabinet Member for Communities

With reference to the council's Health and Well-Being "Priority 1: Tackling Health Inequalities". How will this chamber ensure that our region's proposed NHS Sustainability and Transformation Plan (STP) addresses the disproportionately high diabetes and lung disease issues prevalent in East Folkestone?

ANSWER:

Some East Folkestone residents experience stress and strain through the effects of deprivation and health inequalities, with very little focus on their personal health and well being. The effects are seen in high levels of diabetes and respiratory disease occurring earlier in life than in other areas.

Services are in place locally to support people with diabetes and respiratory disease. However, as a member of the South Kent Coast Health and Wellbeing Board, the Council works alongside Clinical Commissioning Group and Kent Public Health colleagues to support the East Kent STP's aim to increase prevention, personal responsibility and improved social and community networks. Alternatives to solely clinical models are being sought for improving resident health and wellbeing, encouraging healthy lifestyles and social inclusion. This may include a wide range of physical activity options, healthy eating and access to a vibrant voluntary and community infrastructure.

However, the Council can also directly influence these health issues. For example, you are more likely to smoke, misuse drugs or alcohol, live in overcrowded housing, be out of work if you are from a disadvantaged area – all of these factors will damage your health. Our private sector housing, community safety and economic development teams work together tackle these issues.

The Council will continue to work with health colleagues to ensure the East Kent STP ensures a comprehensive, integrated care and health services to address local needs across the district.

Examples of Practical Projects:

At the Dover Road community hub we worked with people from deprived communities and the KCHFT to provide health MOT checks for 50+ checks were carried out. Dietary advice and healthy eating projects were also carried using health trainers as obesity levels affect diabetes incidence.

Within the troubled families programme health outcomes are addressed by advising families on the impact of smoking and referring to GPs, pharmacies or smoking cessation programmes (this usually forms part of a discussion on budgets / debt and money spent on cigarettes).

The SKC CCG have reported through its self care and prevention sub-group that Shepway has a poor rate of take up on health screening so more work is being done to ensure health screening opportunities are taken up. The delivery of services through GP practices is being reviewed through this group and other structures alongside the SKC HWBB.

Age UK Personal Independence Programme

SKC CCG was successful in its bid to provide a personal independence programme locally, initially for 500 people. A phased roll-out is planned for 1st January 2017. Workshops are being arranged to bring together all related staff including care navigators, district nurses, talking therapies etc. Personal independence workers will be aligned to cohorts of identified patients across SKC. It is hoped numbers can be increased. People must have up to 2 or more long term conditions, be over the age of 65 and have received an unplanned admission in the last 2 years in order to qualify for this programme.

All GP surgeries in Shepway will be involved and will be able to refer patients through which workers will provide 121 advice and health interventions in the home to the vulnerable elderly and prevent worsening conditions and likely admission to hospital. This programme will complement the re-launch of the Care Navigation Service from the 1st January (care navigations staff and proactive health trainers will combine to a single role of care navigator).

The SKC Local Children's Partnership Group (LCPG) is focusing its work on a number of priorities including a key priority set as: To reduce childhood obesity by promoting healthy weight and positive self-image

The CSP has commissioned GFC to run the Shape up project where cohorts of young people are referred into a specialist programme that is seeing significant reductions in weight amongst young people participating.

A Health Inequalities Action Plan is being developed within the communities team and this will help guide where work needs to be focused to address these and other health issues. The plan will be ready by mid – February 2017. As a result new and ongoing projects according to need and including the issues raised will be commissioned in the future.

SUPPLEMENTARY QUESTION

With medical services cut so deeply already, will Shepway District Council follow the lead of Hammersmith and Fulham, Ealing, Telford and Wrekin councils, in rejecting any Sustainability and Transformation Plan which includes a loss of service or facility to the people of Shepway?

ANSWER:

This is a question for the Clinical Commissioning Group (CCG) to answer.

3. From Viv Kenny, The Shorncliffe Trust to Councillor David Monk, leader of the Council

Following a question raised at Council by Cllr Peter Gane on 20th July 2016 regarding Shepway DC adhering to the intention of the original Shorncliffe Garrison Masterplan to involve stakeholders including the Shorncliffe Trust, we would ask having;
(a) presented Shepway's Leader and Cabinet Member for the District's Economy with documentation outlining the potential of regeneration and job creation through tourism for this site *(linking also in the future, to further growth from opportunities through increased tourism for other undesignated buildings on the Shorncliffe Garrison Site such as the War Horse Stables; which aspiration has the support of 'War Horse' Author Michael Morpurgo*); and
(b) taking account of the work currently being undertaken by Shepway which gives support for such opportunities being developed comprising the Places and Policies Document; the Heritage Strategy which signifies the importance of this land and its heritage assets; and the Destination Management Plan which highlights its potential for tourism.
Why, without any meeting or discussion with the Shorncliffe Trust *(a stakeholder in the original Garrison Masterplan)*, have Shepway removed themselves from the opportunity to take the Back Door Training Area with its significant dowry (£1m+), thus releasing all future rights and opportunities to control and manage this site through a local partnership (Sandgate Parish, White Cliffs CP and the Shorncliffe Trust and potentially others); which project to create a Heritage and Education Park would offer significant economic benefit to the district for tourism and job creation; instead allowing the Developer to choose their own method of land management; not necessarily in the best interest of the district's future economy?

ANSWER:

As previously set out in correspondence with the Shorncliffe Trust the planning permisison granted to Taylor Wimpey for the redevelopment of the Garrison was fully in accordance with the requirements of adopted Core Strategy Local Plan policy SS7 which states that

f. Land at Seabrook Valley as shown in Figure 4.6 is released from military use for public and natural open space purposes, and a management strategy is in place to enhance biodiversity and to increase accessibility to the countryside where appropriate. Development proposals shall include an appropriate recreational access strategy to ensure additional impacts to Natura 2000 site(s) are acceptably mitigated against, in accordance with policy CSD4.

With regards to the planning application, The committee report made it clear that a number of options for the future management of the Seabrook Valley transferred by the MOD to Taylor Wimpey alongside the phase 1 land were to be explored

13.9 At present the long term ownership and management arrangements for the BTA have not been finalised, however given the stringent management requirements set out above it is likely one of the following scenarios will materialise, following more detailed consideration post committee:
1. Transfer of BTA to Shepway District Council with long term management carried out by itself or alongside a partner (such as the White Cliffs Countryside Partnership)
2. Transfer of BTA to a newly formed Trust
3. Transfer of BTA to an established 3rd party organisation, such as the Land Trust, Kent Wildlife Trust or WCCP
4. Incorporation of BTA in to the area controlled by the development Management Company

13.10 The finalised arrangements, or provision for the above will be set out within the s106 legal agreement, alongside conditions relating to the requirements of the various BTP management plans and provisions for monitoring of the BTA by the planning department

Taylor Wimpey explored options with both the District Council and other parties before reaching the conclusion that the management of the area should be under their control (option 4), albeit working alongside a partner. A principle reason for doing this was the ability to provide funding in perpetuity for the management of the open space, heritage assets and biodiversity area via the housing delivered on the site, whilst also ensuring that the developer has control of the site to deliver the planning requirements placed upon them to mitigate the impact of the development.

It is very clear that the management and continued ownership of this area by Taylor Wimpey is in accordance with the requirements of the planning permission and the adopted strategic site policy, which itself was subject to detailed consultation and external scrutiny.

The Council continues to work closely with Taylor Wimpey regarding the significant improvements works to the Seabrook Valley and its management required by the planning permission that will enhance the ecological, recreational and heritage use of the land far beyond that which has been experienced for many years under MOD ownership and control. The Council can confirm that Taylor Wimpey is in advanced discussions with the White Cliffs Countryside Partnership (WCCP) regarding the management of the Seabrook Valley, whilst Taylor Wimpey have also confirmed to the Council that the Shorncliffe Trust have already met with the WCCP regarding the role they may be able to play in the future of the Seabrook Valley. As such, in these early days since the transfer of the land from the MOD to Taylor Wimpey there is still significant opportunity for the Shorncliffe Trust, Sandgate PC and others to be directly involved in the management of the area, alongside the WCCP with Taylor Wimpey as landowner. The District Council will continue to support and facilitate such discussions.

With regards to the Heritage and Education park mentioned in the question. A number of historic buildings, including an historic barrack block, the Victorian water tower and the Racquets Court are required to be repaired and retained within the development, directly opposite the Shorncliffe Redoubt. Taylor Wimpey has confirmed that the Shorncliffe Trust's interests in these buildings has been registered, however at present these building remain in MOD ownership and control. This gives opportunity for the Shorncliffe Trust to form and demonstrate a business case to Taylor Wimpey to support their plans for these buildings so that Taylor Wimpey can be convinced that they can be maintained in the long term. It has previously been made clear to the Shorncliffe Trust, by both Shepway and Historic England that the reuse of existing historic buildings within the former barracks would be far more appropriate than any plans for the construction of a new building on or adjoining the Scheduled Ancient Monument of the Shorncliffe Redoubt, whilst it is also a requirement of the planning permission that this land be managed for ecological and recreational purposes, alongside the enhancement of the military heritage within the area.

Schedule 2

COUNCIL MEETING – 18 JANUARY 2017

COUNCILLOR QUESTIONS AND ANSWERS

1. By Councillor Ian Meyers of Councillor David Monk, Leader of the Council

How many properties, private and commercial have gained immunity from prosecution by the planning department due to time lapsed in the last ten years?

ANSWER:

On average the Council receives just over 200 alleged breaches of planning control every year, with this information largely received from the general public.

Upon investigation many of these require no action or a planning application is invited for consideration. Where further investigation and/or action is needed the Council has a number of tools that can be used, and these include the serving of Enforcement Notices, Beach of Condition Notices, temporary and permanent Stop Notices. Generally about 10 -15 of these notices are served every year, usually as a result of collaboration between the Planning and Legal departments. Ultimately failure to comply with Enforcement Notices can lead to prosecution in the courts or the Council undertaking direct action, for which there are measures in place to aid with cost recovery. The serving of an Enforcement Notice ensures that such a use cannot become lawful by reason of continued use after the notice is served.

Within the last 10 years approximately 20 Lawful Development Certificates have been granted relating to the use of land or buildings for residential purposes, with six of these relating to occupation in breach of an Agricultural Occupancy Condition where permission has previously been granted for an agricultural worker. Six of the Lawful Development Certificates relate to the use of buildings or caravans as self contained dwelling houses where occupation has taken place continuously for 4 years, whilst a single application was recently granted for the use of land in Lydd as a residential caravan park due to 10 years occupation.

The Council's Licensing, Legal and Planning Departments continue to work closely so as to ensure that controls in place are appropriate and that any licenses granted reflect the planning permission that is in place.

Fees for Lawful Development Certificates are set out in the National Planning Fees Regulations. For applications for existing use the fee is identical to that of a planning application for the same proposal.

SUPPLEMENTARY QUESTION:

Will there be a more robust way of publicising the actions of defenders?

ANSWER:

Yes we will be doing this and it is seen as a high priority of the Council.

2. By Councillor Ian Meyers to Councillor Stuart Peall, Cabinet Member for the Environment

Could the Cabinet Member for Environment please advise how prevalent are incidences of Japanese Knotweed in the District and what methods do the council use to eradicate this highly invasive weed?

ANSWER:

<u>The method of removal for Japanese knotweed:</u>

Japanese Knotweed (JK) is treated once annually from August to September to target the roots and rhizomes. A phosphate based weed killer is used.

If the plants are big enough glyphosate is delivered by stem injection.

If the stems are not big enough for injection then the herbicide is applied to the leaves either by brushing or spraying depending on surrounding vegetation etc.

<u>Prevalence in the District:</u>

Japanese Knotweed is widespread in the District, however the full extent of this is not known as much will reside in private gardens without the Council or the resident knowing about it.

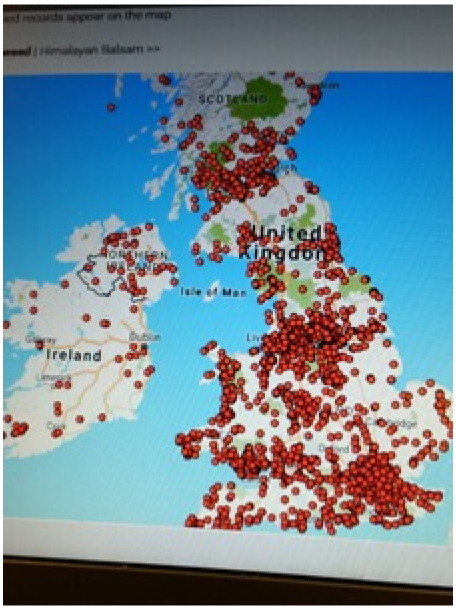
In 2016 Japanese Knotweed was treated on 11 SDC sites, 11 East Kent Housing sites as well as 6 private residents via Oportunitas.

SDC hotspot sites are Folkestone Warren and the woods behind Encombe in Sandgate. Both these sites have extensive stands of Japanese Knotweed and the Council is doing its best to reduce the plant within the resources available.

Prevalence is based on anecdotal evidence and what operatives note whilst out on the District and from clearance work carried out in areas such as those cited above.

The distribution of Japanese knotweed reports can be found at the following link :

http://www.planttracker.org.uk/map/knotweed



Actions that can be taken to address Japanese Knot weed

The Environment Agency or Natural England would be the enforcing body rather than the LA.

https://www.gov.uk/guidance/prevent-the-spread-of-harmful-invasive-and-non-native-plantsis a good link to answer common queries around the legislation they enforce.

The EA issue licenses to transport Japanese Knotweed so they would have the information about local companies. Grounds Maintenance advise that most people treating the plant leave it in situ (as to avoid this aspect). It is either left to rot away, burnt on site or buried. The District Council does not advise on companies to use.

If neighbours report nuisance from Japanese Knotweed there is the possibility of using new legislation to deal with nuisance. In 2014, reform of antisocial behaviour powers made it possible for community protection notices (CPNs) to be issued against anyone unreasonably having a detrimental effect on those nearby due to INNS (invasive non native species). The supporting Home Office guidance makes specific mention of Japanese Knotweed, the species against which the new power has mostly been directed.

The Council has not received complaints that have warranted this legislation to be used to date.

Details of the Power are provided below:

ANTI-SOCIAL BEHAVIOUR, CRIME AND POLICING ACT 2014 - SECTION 43 - COMMUNITY PROTECTION NOTICE

The Community Protection Notice (CPN) is intended to deal with particular ongoing problems or nuisances which negatively affect the community's quality of life by targeting those responsible. It is intended to stop a person, business or organisation committing ASB which spoils the community's Quality of life.

To serve a CPN authorised organisations must need to be satisfied that the behaviour is:

- Having a detrimental effect on the quality of life of those in the locality;
- Of a persistent or continuing nature; and
- Unreasonable.

Before a CPN can be served a written warning must be issued informing the perpetrator of the problem behaviour, requesting them to stop, and giving the consequences of continuing. The CPN can then be issued if the behaviour does not stop. The CPN must include a required to stop things, do things or take reasonable steps to avoid further ASB. A council can also carry out works in default on behalf of a perpetrator.

The breach of a CPN is a criminal offence; however a Fixed Penalty Notice (FPN) can be issued of up to £100 if appropriate. A fine of up to £2,500 or £20,000 for businesses can be imposed by the courts. The terms of a CPN can be appealed against by the perpetrator within 21 days of issue; in addition the cost of works carried out in default by a council can be challenged by the perpetrator if they think they are disproportionate.

SUPPLEMENATRY QUESTION:

Thank you for your comprehensive answer and are you aware that the Council's Princes Parade is supposedly infested with Japanese Knotweed and, as the process for destroying and removing it can take up to 3 seasons will agree that, at the moment, this makes it impractical for the proposed development to proceed.

ANSWER:

This would be picked up later.

3. By Councillor Mrs Mary Lawes to Councillor Mrs Jenny Hollingsbee, Deputy Leader and Cabinet Member for Communities

Nothing is being done and has not been for many years with regard to deprivation in Harbour Ward, and it is getting worse. There is a lack of locally affordable housing, severe lack of employment, overcrowding leading to health & Safety issues and lack of play areas/open spaces.

Could the Leader explain what SDC Council has planned in order to reduce deprivation and improve residents lives?

ANSWER:

Ensuring that local people are engaged and are at the heart of decision making are key priorities for the Council. Enabling communities to have the resilience and capacity to support themselves will become increasingly important as public sector resources continue to shrink. If the Council is to have the most impact in terms of allocating this resource, it needs to target activity in those areas where deprivation persists.

The council's Private Sector Housing team are actively working with private sector landlords and tenants in the Harbour Ward and other areas of the district to deal with housing related hazards (including overcrowding) where they are identified. The work also includes measures to improve the energy efficiency of homes and also a focus on bringing empty homes back into use. Where necessary the council has used and will continue to use its enforcement powers to ensure that landlords bring their properties up to standard. The team are also working to promote good landlord practice through our Landlord Forum. If Councillors have specific properties where problems such as overcrowding are evident, please do report them to council's Private Sector Housing Team.

In terms of providing more homes for the local community, the council continues to work with its affordable housing partners to maximise the new affordable homes provided in the district. 104 additional affordable homes for rent and low cost home ownership were provided in the district during 2015/16. The council is also working to deliver its own build and acquisition programme. Although not in the Harbour Ward, work will shortly be commencing on the council's 35 affordable home development in Military Road in Shorncliffe. So far this year the council has also acquired 8 existing properties in the district which are being made available for affordable rent through the Shepway Housing List and more are in the pipeline.

With regards to community engagement, the Dover Road community hub has been in place for nearly a year and has resulted in excellent partnership working across agencies to support the local community in terms of community cohesion, health and wellbeing and environmental aspects. The SHAPE and Active Shepway projects have seen a higher proportion of adults and young people referred from the Harbour Ward into its sports, play, health and wellbeing programmes, supporting those who need a higher degree of agency intervention.

The district boasts many play and open spaces, therefore, the council is currently working with consultants to develop a new play strategy for Shepway, which will identify areas of under and over provision in play space and open space across the district.

Shepway District Council successfully submitted a stage 1 application for a European-funded Community Led Local Development programme in Folkestone which aims to help tackle the issues of deprivation by helping residents in an area that includes the East Folkestone, Folkestone Central and Folkestone Harbour wards. The aim of the programme is to secure future job opportunities and support local businesses in the area to grow. The

Programme Strategy submitted at the end of August 2016, sought a total programme of nearly £5million, to be delivered over the 2017-2022 period, with half the funds coming from the European Regional Development Fund and European Social Fund. Should the Council be successful with this application, the programme is expected to start in Autumn 2017.

SUPPLEMENTARY QUESTION:

Do you believe what plans you have in place will reduce the difficulties, particularly in Harbour Ward?

ANSWER:

There are plans in place, projects in Harbour Ward and the Council is supporting these as much as possible.

4. By Councillor Mrs Mary Lawes to Councillor David Monk, Leader of the Council

Could the Leader explain the reason for rejecting the petition of 5,433 people who objected to any development on Princes Parade, and is he aware that 91.2% of the individuals who made representation to Princes Parade policy UA25 in the Places & Policies preferred options consultation also objected to the proposed development.

ANSWER:

Over the past few weeks/months the committee services team has been liaising with the Petition organiser for the above petition because the petition did not meet all requirements of the Constitution and therefore the Petition could not be accepted. The Petition organiser has now submitted an E-Petition which now "live on our website" and is currently available for signature by members of the public on the Council's website. I would ask you to note that at least 250 valid signatures are needed before the Council can take any further steps in relation to this petition.

You have raised a second point about the representations received as part of the Places and Policies Local Plan Preferred Options consultation. I am aware of Dr Burrell's analysis of the Princes Parade representations as he has recently circulated this to Members, however the Planning Policy team are carrying out their own analysis of comments received.

The next stage in the plan making process is for the planning policy team to consider the representations received from members of the public, statutory and other consultees, together with any new evidence base information and changes in Government legislation, and make any necessary amendments to the Plan if it is considered these are required for the plan to meet with legislation. This Plan will then be published for further public consultation prior to submission to the Secretary of State for consideration. Before it is published, the proposed Plan, including any modifications and commentary on how the representations received were considered will be reported to Cabinet for their agreement.

Once submitted to the Secretary of State there will be an Examination in Public, held by an independent Planning Inspector, where all policies, as well as any outstanding objections will be considered. The planning Inspector will then make the final recommendations of what should be in the Plan to the Council.

SUPPLEMENTARY QUESTION:

Prior to the planning application will the council make available the responses to the consultation?

ANSWER:

As far as I am aware, yes.

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This Report will be made public on 14 February 2016

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

Report Number **A/16/23**

To: **Council**
Date: **22 February 2017**
Status: **Non Key Decision**
Corporate Director: **Tim Madden, Organisational Change**

SUBJECT: Appointment of External Auditors

SUMMARY: This report details the arrangements for appointing external auditors following the abolition of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audit. It recommends that opting into a Sector Led Body (Public Sector Audit Appointments Limited) to negotiate and make the external auditor appointment be agreed as the preferred procurement route. The appointment of the external auditor is a decision of the Full Council

REASONS FOR RECOMMENDATION:

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

(a) Following consideration by the Audit and Governance Committee, the Sector Led Approach was identified as the favoured route and is being adopted by a large number of district councils. In order to “opt in” to these arrangements, notification must be given accepting the invitation to join these arrangements by the 9th March 2017. Failure to do so will mean an alternative route will need to be adopted and it will not be possible to “opt in” for at least another 5 years.

RECOMMENDATIONS:

1. **To receive and note report A/16/23.**
2. **That the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.**

1. INTRODUCTION AND BACKGROUND

1.1 A report was presented to the Audit and Governance Committee on 29 June 2016 detailing the changes to the arrangements for appointing external auditors following the abolition of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits. A summary of the background is set out in the following paragraphs.

1.2 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

1.3 The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following the closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority form the Secretary of State. Over recent years there has been a significant reduction in audit fees compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally and savings from the closure of the Audit Commission.

1.4 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.

1.5 The scope of the audit will still be specified nationally. The National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. It is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

1.6 Following consideration of the report on the 29 June 2016, the Audit and Governance Committee identified the adoption of the sector led approach as being the preferred option. The Committee requested a further report to Council when the formal decision was required.

3. Options for local appointment of External Auditors

2.1 There are three broad options open to the Council under the Local Audit and Accountability Act 2014:

Option 1 – Make a stand-alone appointment

Procuring a stand-alone appointment overseen by a specially set up independent Audit Panel. The members of the Panel would need to be wholly or a majority of independent members. This option would therefore incur costs associated with the recruitment of independent members and of maintaining the panel. Under this option, the Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

Option 2 – Set up a Joint Auditor Panel

Joining with other councils to set up a joint independent Auditor Panel. This option would spread the cost across a number of local authorities (for example, this could be a joint procurement across Kent). There would be a greater opportunity for negotiating some economies of scale by being able to offer a larger, combined contract value, however, the decision making body would be further removed from local input.

Option 3 – Opt-in to a Sector Led Body

A Sector Led Body who would negotiate contracts and make the appointment on behalf of councils, thus removing the need to set up an independent Auditor Panel. Public Sector Audit Appointments Ltd (PSAA) has been appointed by the Secretary of State to be the sector led body. PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association (LGA). PSAA already administers the current audit contracts nationally. Under the Sector Led Body option, elected members would have less opportunity for direct involvement in the appointment process, other than through the LGA and/or stakeholder groups. However, PSAA would have the ability to negotiate contracts with audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. PSAA would pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which would have regard to size, complexity and audit risk. This is in line with how the current scale of audit fees are set. As a not-for-profit company, any surplus funds would be returned to scheme members.

2.2 The Audit and Governance Committee at its meeting of 29th June 2016 considered the advantages and disadvantages of each of the above routes and concluded that the Sector Led Body offered, on balance, the preferred method of procuring the future external audit. This approach has been adopted by a large number of councils, including many district councils. In excess of 200 authorities have signalled positive interest – the greater the level of participation, the better the value that would be represented by the scale of fees under the Sector Led Body option. As at December 2016, 130 authorities have signed up to this approach with a further 100 indicating an intention to do so.

4. Invitation to Opt into the National Scheme for Auditor Appointments

3.1 An invitation to opt into the national scheme for auditor appointments has been received from the PSAA and the invitation letter and further details are included at Appendix A.

3.2 It is recommended that Full Council accept this invitation as it will ensure the following benefits:

- Avoiding the necessity for the Council to establish an auditor panel and to undertake auditor procurement.
- Savings from one major procurement as opposed to running an individual or Kent-wide procurement exercise.
- Securing highly competitive prices from audit firms through economies of scale.
- A scale of fees which reflects size, complexity and audit risk.
- Distribution of surpluses to participating bodies.
- Appointment of the same auditors to bodies involved in significant collaboration/joint working initiatives or across regions (for example, across Kent) where the parties believe that it will enhance efficiency and value for money.

5. RISK MANAGEMENT ISSUES

A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
There is an increase in External Audit costs through the chosen approach	Medium	Medium	The Sector Led Body approach is anticipated to provide the most cost effective option and that which will keep any increased costs to a minimum
There are insufficient organizations to justify a sector led approach	High	Low	Indications are that there is widespread commitment to this option for it to be pursued.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's Comments (DK)

Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 15 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in accordance with the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

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

The external audit fees for 2016/17 are expected to be £60,458 (excluding grant certification work). The level of external audit fees levels may increase when the current contract ends in 2018. Options 2 and 3 would allow the Council to take advantage of economies of scale through a larger joint procurement exercise.

The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above are not known at this stage but are likely to include recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members' fees and allowances.

Opting-in to a national Sector Led Body provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel. In excess of 200 authorities have expressed an interest in the sector led approach.

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

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

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

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

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

Report to the Audit and Governance Committee 29 June 2016 – Changes to arrangements for appointment of External Auditors

Appendices:

Appendix 1 - PSAA invitation letter and information on the national scheme

27 October 2016

Email: appointingperson@psaa.co.uk

Alistair Stewart
Shepway District Council
Civic Centre
Castle Hill Avenue
Folkestone Kent CT20 2QY

Copied to: Timothy Madden, Chief Finance Officer, Shepway District Council
Amandeep Khroud, Head of Democratic Services & Law, Shepway District Council

Dear Mr Stewart

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the appointing person page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely

Jon Hayes, Chief Officer

PSAA, 3rd floor, Local Government House, Smith Square, London, SW1P 3HZ
T 020 7072 7445 www.psaa.co.uk Company number: 09178094

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the appointing person page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

• Invitation to opt in issued	27 October 2016
• Closing date for receipt of notices to opt in	9 March 2017
• Contract notice published	20 February 2017
• Award audit contracts	By end of June 2017
• Consult on and make auditor appointments	By end of December 2017
• Consult on and publish scale fees	By end of March 2018

Enquiries

We publish frequently asked questions on our website. We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

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Form of notice of acceptance of the invitation to opt in

(Please use the details and text below to submit to PSAA your authority's formal notice of acceptance of the invitation to opt into the appointing person arrangements)

To: appointingperson@psaa.co.uk

Subject:	[Name of authority]
	Notice of acceptance of the invitation to become an opted-in authority

This email is notice of the acceptance of your invitation dated 27 October 2016 to become an opted-in authority for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

I confirm that [name of authority] has made the decision to accept your invitation to become an opted-in authority in accordance with the decision making requirements of the Regulations and that I am authorised to sign this notice of acceptance on behalf of the authority.

Name: [Name of signatory]
Title: [Role title] (authorised officer)
For and on behalf of: [Name of authority]
Date:

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This Report will be made public on 14 February 2016

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

Report Number **A/16/26**

To:	**Council**
Date:	**18 January 2017**
Status:	**Non-Key Decision**
Head of Service:	**Pat Main, Interim Head of Finance**
Cabinet Members:	**Councillor Miss Susan Carey, Finance and Councillor Alan Ewart-James, Housing**

SUBJECT: HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL ORIGINAL BUDGET 2017/18

SUMMARY: This report sets out the Housing Revenue Account Revenue and Capital Budget for 2017/18 and proposes a decrease in rents and an increase in service charges for 2017/18.

REASONS FOR RECOMMENDATION:
Council 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 AC/16/26.**
2. **To approve the Housing Revenue Account Budget for 2017/18. (Refer to paragraph 2.1 and Appendix 1)**
3. **To approve the decrease in rents of dwellings within the HRA on average by £0.85 per week, representing a 1.0% decrease with effect from 3 April 2017. (Refer to paragraph 3.2)**
4. **To approve the increase in service charges. (Refer to section 3.5)**
5. **To approve the Housing Revenue Account Capital Programme budget 2017/18. (Refer to paragraph 4.1 and Appendix 2)**

1. INTRODUCTION

1.1 The Housing Revenue Account (HRA) is a ring-fenced account and is determined by 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 has brought an end to the subsidy system where authorities such as Shepway 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.

2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

2.1 Original Budget 2017/18

The proposed HRA Budget for 2017/18, at Appendix 1, shows a forecast deficit of £779k.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 2018 is expected to be £3.582m as shown at Table 1 below.

Table 1	**£000's**
Original estimate of balance at 31 March 2017	**(4,361)**
Movement from Original to Original budgets	
Decrease in repayment of debt (see 2.1.2)	(900)
Decrease in general management (see 2.1.3)	(318)
Decrease in depreciation costs (see 2.1.4)	(104)
Decrease in loan charges interest	(60)
Decrease in debt management expenses	(10)
Increase in revenue contribution to capital expenditure (see 2.1.5)	364
Increase in repairs and maintenance (see 2.1.6)	171
Decrease in rents and other service charges due to annual rent setting (see 2.1.7)	82
Decrease in interest on notional cash balances	32
Increase in special management	26
Other minor changes	(8)
	(725)
Deficit 2016/17	1,504
Original estimate of balance at 31 March 2018	**(3,582)**

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 **Repayment of Debt**

The decrease in the repayment of debt relates to a change in strategy within the HRA Business Plan. The approved detailed HRA Business Plan agreed to extend the payback of debt period by approximately 5-7 years to ensure the council can continue to deliver the new homes programme.

2.1.3 **General Management**

The decrease in general management relates to the following items:-

- Premises insurance has reduced by £90k following the re-tender of insurance, a competitive bid from our existing insurer and the low claims experience that has built up over the previous contract term. Therefore, the premium for HRA has been substantially reduced and this is reflected within the detailed budget.
- During 2016/17 East Kent Housing (EKH) commissioned a stock condition survey through Rand Associates for all four councils who are in the ALMO. This cost was a one-off and not needed in 2017/18 therefore, the budget has reduced by £80k.
- Administration recharges has reduced by approximately £148k mainly due to the re-allocation of charges relating to the new build/acquisition programme within HRA capital programme and a decrease in accommodation charges due to the sale of 3-5 Shorncliffe Road.

2.1.4 **Depreciation costs**

The decrease in depreciation costs relates to combined decreases of the major repairs allowance and depreciation on non-HRA dwellings.

2.1.5 **Revenue Contribution to Capital**

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

2.1.6 **Repairs and Maintenance**

The increase in repairs and maintenance mainly relates to the following items:-

- Planned maintenance has increased by £65k relating to an increase within internal and external decorations on sheltered and non-sheltered properties and decreases within heating servicing and repairs based on the new contract, window servicing and door entry schemes.

- Void repairs has increased by £63k due to there being higher category works being completed and an increase in the number of properties needing repair.
- Asbestos removal has increased by £25k due to full house surveys, rather than individual rooms, being completed to comply with landlord's responsibilities and this has identified more works.

2.1.7 **Rents**

As part of the Summer Budget 2015 the Chancellor announced that rents in social housing would be reduced by 1% a year for four years from April 2016.

However, late rent guidance was received on 8th February 2016 from central government announcing that it will put in place a one year exception for 2016/17 to the 1% reduction in rents, for all supported accommodation whilst a review into Supported Accommodation is being carried out.
As a result the supported accommodation rents within the HRA will decrease by 1% with effect from 3 April 2017.
The decrease in rents within the HRA revenue budget shows the impact of this change (see 3.2 below).

2.1.8 **East Kent Housing (EKH) Management Fee**

EKH have frozen the 2017/18 management fee and absorbed any inflation and contractual incremental increases in salaries within the base budget through identifying efficiencies. EKH have also identified some items to improve the service and these are included within the budget proposals. These are:-

Procurement Officer	£13,600
Benefits & Monies Advisor	£32,800
	£46,400

Procurement Officer – Enables EKH to work with councils to procure housing related contracts and to maximise any potential efficiency savings.

Benefits & Monies Advisor – Preserving rental income streams by helping tenants to maximise their incomes or otherwise enabling them to deal with reductions in their welfare benefits.

Therefore, the total budget for the management fee in 2017/18 is £1,974,060.

2.2 **HRA Reserve Balances**

Table 2	**2016/17**	**2017/18**
	£000's	£000's
Balance as at 1 April	5,865	4,361
Balance as at 31 March	4,361	3,582

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 2016/17 was £5.865m, 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 2018.
The HRA reserve is expected to reduce by £779k between 2016/17 and 2017/18.

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

Major Repair Reserve (MRR) – This reserve is derived from the transfer of the depreciation charge from the revenue account and can be used to fund major repairs for capital expenditure or debt repayment. The Council's Business Plan requires that the reserve is allocated to fund capital expenditure. The proposed HRA capital programme should leave the Major Repairs Reserve with a nil balance. This is in line with the practice adopted by the Council in previous years, of using the Major Repairs Reserve in the year it is received.

3. RENT SETTING GUIDANCE & RENTS

3.1 Rent Guidance – National context

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

3.2 Rent Decrease – Local context

In line with last years approved report, Housing Services will be charging the 'formula rent'[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 decrease of 1%, in line with Government guidelines, equates to a decrease of £0.85 per week or £42.50 per annum. This gives an average rent of £87.18 (over 50 weeks) in 2017/18 (average rent in 2016/17 is £87.83). This decrease in rents is a reduction of approximately

[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.*

£145k in 2017/18 and has been factored into the latest approved HRA business plan.

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

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 2017/18 will not be available until late January/February 2017. LHA rates for the area have not changed significantly over the last two years. The indicative 2017/18 affordable rents for the Shepway area are as follows:

Bedsits	£58.50 per week
1 bedroom houses	£85.43 per week
2 bedroom houses	£113.92 per week
3 bedroom houses	£142.40 per week
4 bedroom houses	£166.32 per week

3.4 **Rent Comparisons**

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

Table 3	**Average weekly rent over 52 weeks 2017/18 £**	**Difference between SDC and other authorities £**
Shepway	83.83	-
Dover	84.96	1.13
Canterbury	90.80	6.97
Thanet	81.13	(2.70)

- 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 2016 was 1.0%, CPI plus 1.0% is therefore 2.0%. As a result general service charges within the HRA will increase by 2.0% with effect from 3 April 2017.

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 2017/18 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 years report, over time fuel costs have increased significantly above the rate of inflation, so that the charges raised for this service no longer cover the costs. Therefore, the proposed charges for this service towards the actual cost of providing the service are in line with those agreed last year. This continued move to full cost recovery would result in some tenants facing significant increases and it is therefore proposed to set charges that provide some interim protection against the highest increases.

Following the same approach as previous years it is recommended that the 2017/18 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 £15.80 per week (£790 per year)
- 1 bed flats £17.60 per week (£880 per year)
- 2 bed flats £19.40 per week (£970 per year)

A few charges are already set above these levels, and these should be frozen at current levels for 2017/18.

These changes will reduce the amount the HRA subsidises tenants' heating charges to £6,000 in 2017/18 compared to £8,000 in 2016/17.

3.5.3 **Leaseholder electrical maintenance**

The Council provides an electrical maintenance service to all of the communal areas in blocks of flats, which is delivered through the responsive maintenance contract. The cost of this element of the service equates to £40 per visit per block. This covers silent testing of fire alarms, checking of any emergency lighting circuits and checking and replacing bulbs, as well as the first call-out on any electrical installations, such as door entry systems and communal TV aerials.

These charges are covered within the basic rent for all tenants. However, leaseholders who live in blocks that receive this service are recharged a proportion of the cost. There are 94 leaseholders that receive this service.

4. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES

4.1 Original Budget 2017/18

The proposed HRA Capital Budget for 2017/18, shown in Appendix 2, is £8.098m. Table 4 below shows the movements in the programme from the 2016/17 original budget to the original budget for 2017/18.

Table 4	**£000's**
Original estimate 2016/17	**8,758**
Reductions in programme	
Kitchen Replacement (see 4.1.1)	(200)
Fire Protection Works (see 4.1.2)	(185)
New Build programme (see 4.1.3)	(126)
Heating Improvements (see 4.1.4)	(125)
Lift Replacements	(80)
Disabled Adaptations	(50)
Environmental Works	(50)
Treatment Works	(10)
External Enveloping	(9)
Increases in programme	
Sheltered Scheme upgrades (see 4.1.5)	110
Replacement Double Glazing Units	25
Void Capital works	20
Rewiring	10
Garages Improvements	10
Total decrease in expenditure	**(660)**
Original estimate 2017/18	**8,098**

4.1.1 Kitchen Replacement

The decrease in the kitchen replacement programme is based on the identified need and profiling of the programme.

4.1.2 Fire Protection Works

An independent fire risk assessment was carried out by Savills Housing Consultants and works identified to properties within the HRA stock. These works have been programmed over a 3 year period prioritising the most urgent items however, more works were able to be carried out in 2015/16 and 2016/17 than originally estimated.

4.1.3 **New Builds**

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

Table 5 below shows the profile of the new build/acquisitions programme over a 10 year period.

Table 5	2015/16	2016/17	2017/18	2018/19	2019/20
	Year 1	Year 2	Year 3	Year 4	Year 5
New builds/acquisitions	20	20	45	42	26

	2020/21	2021/22	2022/23	2023/24	2024/25
	Year 6	Year 7	Year 8	Year 9	Year 10
New builds/acquisitions	27	17	4	4	1

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.

4.1.4 **Heating Improvements**

The decrease in heating improvements is due to the number of boilers that need replacing being less than the previous year due to a re-appraisal of the programme identifying suitable candidates and the cost of the new heating contract being lower than the existing one.

4.1.5 **Sheltered Scheme upgrades**

The increase in sheltered scheme upgrades relates to electrical works, general improvements, re-decorations and installation of scooter stores.

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.

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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 2016/17 and original budget for 2017/18 for the HRA capital programme.

Table 6	**Major Repairs**	**Use of RTB**	**Revenue Contribution**	**Total**

	Reserve	Capital Receipts		
	£000's	£000's	£000's	£000's
Original budget 2016/17	3,762	1,598	3,398	8,758
Original budget 2017/18	2,820	1,516	3,762	8,098

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. They are still finalising the management fee with East Kent Housing. Any increase in budget will require Member approval
Budget not achieved	High	Low-Medium	Stringent budget monitoring during 2017/18 enabling early corrective action
Additional staffing resources required in relation to new build programme	Medium	Medium-High	Time recording analysis to be undertaken throughout 2017/18 to monitor impact

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

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

There are no legal implications arising from this report.

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

All financial effects are included in this report.

6.3 **Diversities and Equalities Implications**

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

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

This report has been prepared by:

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

None

Appendices:
Appendix 1 - HRA Revenue Budgets

Appendix 2 - HRA Capital Programme

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Appendix 1

HOUSING SERVICES **ANNUAL ESTIMATES 2017/18**

Actual 2015/16 £	HOUSING REVENUE ACCOUNT	Original 2016/17 £	**Estimate 2017/18 £**
	INCOME		
14,920,828	Dwelling rents	14,741,010	**14,648,980**
338,957	Non-dwelling rents	346,960	**351,920**
941,526	Other charges for services and facilities	974,030	**978,980**
50,300	Contributions from general fund	51,200	**52,200**
16,251,611	**TOTAL INCOME**	16,113,200	**16,032,080**
	EXPENDITURE		
2,935,066	Repairs and maintenance	3,108,090	**3,279,450**
3,226,553	General management *	3,428,620	**3,110,460**
1,009,679	Special management *	994,190	**1,020,370**
14,884	Rents, rates & taxes	20,200	**22,750**
66,858	Increase provision for bad or doubtful debts	149,000	**140,000**
	Capital Financing Costs		
3,900,413	Depreciation charges	3,989,140	**3,884,870**
29,587	Debt management expenses	31,870	**22,030**
11,183,038	**TOTAL EXPENDITURE**	11,721,110	**11,479,930**
-5,068,573	**NET COST OF SERVICES**	-4,392,090	**-4,552,150**
1,752,601	Loan charges - Interest	1,737,000	**1,676,500**
	Investment Income		
-92,632	Interest on notional cash balances	-114,660	**-85,490**
-28,927	Premiums & discounts	-25,070	**-22,270**
-3,437,531	**NET OPERATING INCOME**	-2,794,820	**-2,983,410**
0	Repayment of Debt	900,000	**0**
1,822,574	Revenue Contribution to Capital Expenditure	3,398,500	**3,762,110**
1,800	Pensions Interest costs	0	**0**
-1,613,157	**TOTAL DEFICIT/SURPLUS(-) FOR YEAR**	1,503,680	**778,700**
4,251,577	Balance as at 1st April	5,864,734	**4,361,054**
5,864,734	Balance as at 31st March	4,361,054	**3,582,354**

* 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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HOUSING SERVICES **ANNUAL ESTIMATES 2017/18**

Actual 2015/16 £	HRA CAPITAL PROGRAMME	Original 2016/17 £	Estimate 2017/18 £
	EXPENDITURE		
	Decent Homes Standard		
49,910	Doors & Windows	65,000	**210,000**
180,015	Re-roofing	200,000	**200,000**
155,777	Heating Improvements	575,000	**450,000**
504,661	Kitchen Replacement	500,000	**300,000**
247,073	Bathroom Improvements	200,000	**200,000**
290,472	Voids Capital Works	280,000	**300,000**
128,334	External Enveloping	389,000	**380,000**
315,718	Fire Protection Works	250,260	**65,000**
74,869	Thermal Insulations	50,000	**50,000**
1,946,830	**Sub-Total**	2,509,260	**2,155,000**
	Non Decent Homes Standard		
5,930	Treatment Works	20,000	**10,000**
110,956	Replacement Double Glazing Units	120,000	**0**
287,518	Disabled Adaptations	350,000	**300,000**
101,130	Rewiring	90,000	**100,000**
76,183	Sheltered Scheme upgrades	0	**110,000**
34,189	Garages Improvements	35,000	**45,000**
-1,877	Lift Replacements	180,000	**100,000**
614,029	**Sub-Total**	795,000	**665,000**
	New Build Programme		
1,891,995	New Builds/Acquisitions	5,179,370	**5,053,020**
1,891,995	**Sub-Total**	5,179,370	**5,053,020**
	Environment/Estate Improvement		
256,525	Environmental Works	250,000	**200,000**
8,672	New Paths	15,000	**15,000**
9,977	Play Areas	10,000	**10,000**
275,174	**Sub-Total**	275,000	**225,000**
4,728,028	**TOTAL IMPROVEMENTS TO HRA STOCK**	**8,758,630**	**8,098,020**
	OTHER SCHEMES		
223,000	EKH Single System	0	**0**
4,951,028	**TOTAL EXPENDITURE**	**8,758,630**	**8,098,020**
	FINANCING		
2,560,859	Major Repairs Reserve	3,762,000	**2,820,000**
567,598	Capital Receipts	1,598,130	**1,515,910**
1,822,571	Revenue Contribution	3,398,500	**3,762,110**
4,951,028	**TOTAL FINANCING**	8,758,630	**8,098,020**
0	**SHORTFALL IN FINANCING**	0	**0**

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This Report will be made public on 14 February 2017

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

Report Number **A/16/22**

To:	**Council**
Date:	**22 February 2017**
Status:	**Key Decision**
Head of Service:	**Pat Main, Interim Head of Finance**
Cabinet Member:	**Councillor Susan Carey, Finance**

SUBJECT: UPDATE TO THE GENERAL FUND MEDIUM TERM CAPITAL PROGRAMME AND QUARTER 3 MONITORING 2016/17

SUMMARY: This report updates the General Fund Medium Term Capital Programme for the five year period ending 31 March 2022. The report provides a projected outturn for the General Fund capital programme in 2016/17, based on expenditure to 30 November 2016. This report also sets out both the prudential indicators for capital expenditure and the Minimum Revenue Provision Policy Statement to be approved by full Council. 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. Overview and Scrutiny Committee considered this report on 17 January 2017 ahead of Cabinet approving it on 18 January 2017 to be submitted to full Council.

REASONS FOR RECOMMENDATIONS:
Full Council 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 have regard to the Prudential Code 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 Policy Statement for 2017/18 in advance of the start of the financial year.

RECOMMENDATIONS:

1. **To receive and note report C/16/22.**
2. **To approve the updated General Fund Medium Term Capital Programme as set out in appendix 2 to this report.**
3. **To approve the Prudential Indicators for capital and borrowing set out in the appendix 3 to this report.**
4. **To approve the Minimum Revenue Provision (MRP) Policy Statement set out in appendix 4 to this report.**

1. INTRODUCTION AND BACKGROUND

1.1 In line with the council's approved Budget Strategy for 2017/18, this report updates the General Fund Medium Term Capital Programme (MTCP) for the five year period ending 31 March 2022. The report;-

i) provides the latest projection, at quarter 3, of the planned expenditure in 2016/17 for the existing General Fund capital programme and explanations of the variances compared to the approved budget,

ii) incorporates the capital investment proposals agreed by Cabinet as part of the Budget Strategy for 2016/17 at its meeting on 16 November 2016 to be submitted to full Council for approval,

iii) provides details of those existing capital schemes proposed to be extended by one year into 2021/22,

vi) identifies the impact the proposed changes to the overall capital programme will have on the financing resources required to fund it,

v) sets the prudential indicators for capital expenditure and borrowing required to be submitted to full Council for approval, and

vi) sets the Minimum Revenue Provision (MRP) statement for 2017/18 required to be submitted to full Council for approval.

1.2 Capital expenditure plans for the Housing Revenue Account (HRA) are due to be considered by Cabinet in a separate report as part of this agenda.

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.

2. CAPITAL PROGRAMME 2016/17 – PROJECTED OUTTURN

2.1 The planned expenditure on all General Fund capital schemes in 2016/17, based on expenditure to 30 November 2016, is anticipated to be £8,900,000, a reduction of £2,281,600 compared to the latest approved budget of £11,181,600. 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 Programme 2016/17	Latest Budget 2016/17	Quarter 3 Projection 2016/17	Variance
General Fund – Service Units	**£'000**	**£'000**	**£'000**
Commercial and Technical Services	3,701.6	4,075.0	373.4
Democratic Services and Law	100.5	100.5	-
Finance	3,347.0	2,100.0	(1,247.0)
Economic Development	40.0	0	(40.0)
Communities	1,433.0	1,015.0	(418.0)
Human Resources	20.5	20.5	-
Strategic Development Projects	2,539.0	1589.0	(950.0)
Total General Fund Capital	**11,181.6**	**8,900.0**	**(2,281.6)**
Capital Funding			
Grants	(2,880.0)	(3,289.0)	(409.0)
External Contributions	(551.0)	(569.0)	(18.0)
Capital Receipts	(1,494.0)	(1,387.0)	107.0
Revenue	(6,256.6)	(3,655.0)	2,601.6
Borrowing	-	-	-
Total Funding	**(11,181.6)**	**(8,900.0)**	**2,281.6**

2.2 The main reasons for the net reduction in the projected outturn for 2016/17 are summarised below:

		£'000	£'000
1.	**Budgets Reprofiled to 2017/18**		
i)	Oportunitas acquisitions funding	(1,247)	
ii)	Corporate Property Development Projects	(950)	
iii)	Empty Properties Initiative	(391)	
iv)	Van – New supervisor's post (linked to Oportunitas work).	(15)	
			(2,603)
2.	**Other Changes**		
i)	Coronation Parade Coast Protection Scheme – increased cost of renovating the concrete structure met by additional Environment Agency grant	425	
ii)	Home Safe Loans – reduction in expenditure due to lower than anticipated demand	(45)	
iii)	Saving – 'Connectivity' wi-fi pilot project	(40)	
iv)	Other net minor savings	(19)	
			321
	Net reduction		**(2,282)**

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 Disabled Facilities Grants and Loans, the Private Sector Empty Homes Initiative and the release of funding to Oportunitas Limited for its housing acquisitions programme.

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 2016/17 to 2021/22 is £19,245,000. Compared to the latest approved budget of £17,785,100 this represents an increase of £1,459,900. 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 Programme to 2021/22	**Latest Budget**	**Projected Outturn**	**Variance**
General Fund – Service Units	**£'000**	**£'000**	**£'000**
Commercial and Technical Services	7504.6	8320.0	815.4
Democratic Services and Law	500.5	596.5	96.0
Finance	3,347.0	3,347.0	-
Economic Development	40.0	-	(40.0)
Communities	3,833.0	4,422.0	589.0
Human Resources	21.0	20.5	(0.5)
Strategic Development Projects	2539.0	2539.0	-
Total General Fund Capital	**17,785.1**	**19,245.0**	**1,459.9**
Capital Funding			
Government Grants	(8,005.0)	(9,189.0)	(1,184.0)
External Contributions	(1,051.0)	(1,069.0)	(18.0)
Capital Receipts	(1,904.0)	(2,590.0)	(686.0)
Revenue	(6,825.1)	(6,397.0)	428.10
Borrowing	-	-	-
Total Funding	**(17,785.1)**	**(19,245.0)**	**(1,459.9)**

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

	Changes to the Medium Term Capital Programme to 2021/22	£'000	£'000	£'000
1.	**Capital investment decisions approved by Cabinet on 16 November 2016**			
i)	Grounds Maintenance replacement vehicles and equipment	75		
ii)	Pumping Stations – replacement vehicle	25		
iii)	Royal Military Canal – bridleway and road surface enhancements (year 2 of 10)	20		
iv)	Community Safety Unit – replacement transit van	16		
			136	136
2.	**Existing annual programmes extended by one year to 2021/22**			
a)	Annual equipment and technology programmes funded from revenue resources			
i)	PC Replacement Programme	16		
ii)	Server Replacement Programme	60		
iii)	Virtual Desktop Technology	20		
iv)	Private Lifeline Equipment	42		
			138	
b	Coast Protection beach management schemes, subject to grant funding from the Environment Agency			
i)	Hythe beach management	250		
ii)	Greatstone dunes management	15		
			265	
c	Private Sector Housing Improvement Initiatives			
i)	Disabled Facilities Grants and Loans, subject to Government grant funding	500		
ii)	Home Safe Loans funded from repaid Decent Homes Loans	100		
			600	
	Total schemes extended by one year			1,003
3	Changes to schemes in 2016/17			
i)	Coronation Parade Coast Protection Scheme – increased cost of renovating the concrete structure met by additional Environment Agency grant	425		
ii)	Home Safe Loans – reduction in expenditure due to lower than anticipated	(45)		

	demand			
iii)	Saving – 'Connectivity' wi-fi pilot project	(40.0)		
iv)	Other net minor savings	(19.1)		
			320.9	320.9
	Total change in overall capital programme			**1,459.9**

3.3 Flexible Use of Capital Receipts

3.3.1 The Statutory Guidance on the Flexible Use of Capital Receipts issued by the government in March 2016 was outlined to Cabinet in the Medium Term Financial Strategy on 14 September 2016 (report C/16/48 refers). In summary, the guidance allows local authorities to use capital receipts from the disposal of property, plant and equipment assets received from 1 April 2016 to 31 March 2019 to fund revenue spending forecast to generate ongoing savings. The guidance allows the revenue expenditure to be treated as capital expenditure to be met from the qualifying capital receipts.

3.3.2 To date the council has received one qualifying capital receipt from the sale of 3 -5 Shorncliffe Road of £0.98m. Qualifying expenditure is being incurred particularly on the digital delivery of services however this is not currently reflected in the projected outturn for the capital programme. It is anticipated that future budget monitoring reports and updates for the General Fund capital programme will reflect the qualifying expenditure as well as information on any further capital receipts available to support this.

4. IMPACT ON CAPITAL RESOURCES

4.1 One of the key principles underlying the council's Medium Term Financial Strategy is the capital programme is funded from available or realised capital resources and that new borrowing should only be used where it is prudent and affordable. The only exception to this is where a scheme is subject to grant funding or external contributions in which case no commitment is made against these until the funding is confirmed. The latest forecast for the General Fund capital programme conforms to this key principle.

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

General Fund Capital Receipts Position Statement	£'000
Receipts in hand at 30th November 2016	(7,781)
Less,	
committed towards General Fund capital expenditure	2,590
committed towards HRA capital expenditure	3,160
Ring-fenced for specific purposes:	
i) Revenue efficiencies (flexible use of capital	980

receipts)	
ii) Home Safe Loans	310
iii) Other	78
Contingency for urgent or unforeseen capital expenditure	500
Balance available to support new capital expenditure	**(163)**

4.3 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 met from external grants and contributions without resorting to new borrowing. The table below summarises the council's revenue resources of £6.44m committed towards funding the MTCP.

Revenue Resources to Fund the MTCP	£'000
Vehicle, Equipment and Technology Reserve	795
Corporate Plans Initiative Reserve	500
Economic Development Reserve	1,700
Invest to Save Reserve	15
New Homes Bonus Reserve	500
Carry Forward Reserve	156
General Reserve	2,731
Total	**6,397**

4.4 This level of capital investment will be a significant draw upon the council's available reserves and balances and it is unlikely this could be repeated in the future. For this reason it is important that a thorough and robust assessment is undertaken for the new major capital investment proposals to ensure best use of the councils limited financial resources.

4.5 The Authority's major capital investment initiatives, such as Otterpool Park, Princes Parade and other asset investment initiatives, remain to be reported in detail to Members for approval. These major initiatives will have to be funded at least in part by prudential borrowing in the first instance. It is envisaged the initiatives will provide capital receipts and/or an on-going revenue stream for the council in the future allowing borrowing to be repaid or a commercial return to be made to absorb the financing costs incurred.

4.6 The revenue implications of the of the MTCP are contained in either the proposed General Fund budget for 2017/18 or feature in the council's approved Medium Term Financial Strategy.

5. THE CAPITAL PRUDENTIAL INDICATORS 2017/18 TO 2019/20

5.1 The Local Government Act 2003 requires local authorities to adopt the CIPFA Prudential Code and to produce prudential indicators. The Code promotes the freedom of a local authority to determine locally what it needs to borrow to finance its future capital spending. However, the Code requires the Council to have regard to the following matters when arriving at its decisions:

i. affordability – eg implications for Council Tax and housing rents,
ii. prudence and sustainability – eg implications for external borrowing,
iii. value for money – eg options appraisal,
iv. stewardship of assets – eg asset management planning
v. service objectives, and
vi. practicality – eg achievability of the medium term financial plan.

5.2 The Council is asked to approve the prudential indicators set out in **appendix 3** for the period up to 2019/20. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the council's underlying capital appraisal system and approved capital programme. The Prudential Code requires the Authority to monitor the prudential indicators each year.

6. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2017/18

6.1 The council is required to pay off an element of the accumulated General Fund capital spend financed by borrowing each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments where it is seen to be in its best interests to do so.

6.2 Regulations have been issued by the Department for Communities and Local Government (DCLG) which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The Council is asked to approve the MRP Statement shown in **appendix 4** to be applicable for 201718.

7. CONCLUSIONS

7.1 The council's MTCP has been reviewed and updated in accordance with the approved budget strategy for 2017/18.

7.2 The projected outturn for the 2016/17 General Fund capital programme is broadly in line with the approved budget and does not present any resourcing issues.

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

7.4 The proposed General Fund MTCP currently does not require new borrowing to fund it.

7.5 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 will require prudential borrowing to help fund them.

7.6 Cabinet is asked to recommend full Council to approve the changes to the MTCP outlined in this report to reflect the latest projected outturn shown in appendix 2 to this report.

7.7 Cabinet is also asked to recommend full Council to approve the prudential indicators shown in appendix 3 and the MRP Policy Statement shown in appendix 4.

8. RISK MANAGEMENT ISSUES

8.1 A summary of the perceived risks follows:

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

9. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

9.1 Legal Officer's Comments (DK)

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

9.2 Finance Officer's Comments (LW)

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

10. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Lee Walker, Group Accountant
Tel: 01303 853593. e-mail :lee.walker@shepway.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 2016/17
2) Proposed General Fund MTCP to 2021/22
3) Prudential indicators for 2017/18 to 2019/20
4) MRP Policy Statement for 2017/18

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GENERAL FUND CAPITAL PROGRAMME 2016/17 QUARTER 3 PROJECTION					
Item No	**Service Area and Scheme**	**Latest Approved Budget**	**Q3 Projection**	**Variance Budget to Q3 Projection**	**Comments**
		£'000	**£'000**	**£'000**	
	Andy Blaszkowicz - Head of Commercial and Technical Services				
1	Improvements to Hawkinge Yard	29.0	29.0	0.0	
2	Grounds Maintenance Vehicle and Equipment Replacement Programme	246.0	231.0	-15.0	New van reprofiled to 2017/18
3	Coast Protection - Coronation Parade Urgent Repairs to Sea Wall	45.0	45.0	0.0	Repairs to storm damaged wall undertaken in Spring 2016. £35K grant from Environment Agency towards work
4	Coast Protection - Coronation Parade, Folkestone	2,570.0	2,995.0	425.0	All externally funded. Increased cost of renovating the concrete structure being met by additional grant funding by the Environment Agency
5	Coast Protection - Greatstone Dunes Management & Study	15.0	12.0	-3.0	Scheme externally funded by the Environment Agency
6	Coast Protection - Hythe to Folkestone Beach Management (from 2015)	250.0	247.0	-3.0	Scheme externally funded by the Environment Agency
7	General Fund Property - Health and Safety Enhancements	207.0	207.0	0.0	Primarily for the Civic Centre. Possibility some of planned works may be completed in 2017/18

Item No	Service Area and Scheme	Latest Approved Budget	Q3 Projection	Variance Budget to Q3 Projection	Comments
		£'000	£'000	£'000	
8	Lifeline Capitalisation	42.0	42.0	0.0	
9	Responsive Repairs Contract - New Vehicle	24.0	16.0	-8.0	Saving
10	Royal Military Canal Enhancements	50.0	45.0	-5.0	Saving
11	Parking Self-Serve System	32.6	31.0	-1.6	Saving
12	Hythe Pool Improvements	191.0	175.0	-16.0	Works to replace the pool liner, roof and chlorine storage system during the summer 2016
	Total - Head of Commercial and Technical Services	**3,701.6**	**4,075.0**	**373.4**	

Appendix 1

Item No	Service Area and Scheme	Latest Approved Budget	Q3 Projection	Variance Budget to Q3 Projection	Comments
		£'000	£'000	£'000	
	Amandeep Khroud - Head of Democratic Services and Law				
13	PC Replacement Programme	20.5	20.5	0.0	
14	Server Replacement Programme	60.0	36.0	-24.0	Budget realigned to support Virtual Desktop Technology
15	Virtual Desktop Technology	20.0	44.0	24.0	Additional capacity required. Cost being met from Server Replacement Programme budget
	Total - Head of Democratic Services and Law	**100.5**	**100.5**	**0.0**	
	Katharine Harvey - Head of Economic Development				
16	Connectivity	40.0	0.0	-40.0	Saving
	Total - Head of Economic Development	**40.0**	**0.0**	**-40.0**	

Appendix 1

Item No	Service Area and Scheme	Latest Approved Budget	Q3 Projection	Variance Budget to Q3 Projection	Comments
		£'000	£'000	£'000	
	Pat Main - Interim Head of Finance				
17	Oportunitas Loan & Share Capital Phase 1 (Housing Acquisitions Programme)	1,347.0	1,347.0	0.0	Phase 1 acquisitions programme extended and reprofiled to 2016/17
18	Oportunitas Loan & Share Capital Phase 2 (Housing Acquisitions Programme)	2,000.0	753.0	-1,247.0	Partly reprofiled to 2017/18
	Total - Head of Finance	**3,347.0**	**2,100.0**	**-1,247.0**	
	Andrina Smith - Head of Human Resources				
19	Burials Software System	20.5	20.5	0.0	
	Total - Head of Human Resources	**20.5**	**20.5**	**0.0**	

Item No	Service Area and Scheme	Latest Approved Budget	Q3 Projection	Variance Budget to Q3 Projection	Comments
		£'000	£'000	£'000	
	Sarah Robson - Head of Communities				
20	Disabled Facilities Grant	500.0	500.0	0.0	Projection in line with budget but lower than external 'Better Care Fund' grant available to support scheme. Shepway Home Enablemet Scheme Service launched in Autumn 2016 may see increase in demand for service. Currently no waiting list for existing DFGs.
21	Home Safe Loans	100.0	55.0	-45.0	Demand currently lower than anticipated
22	Warm Home Loans Scheme	12.0	30.0	18.0	KCC funding in hand from 2015/16
23	Empty Properties Initiative	821.0	430.0	-391.0	Jointly funded scheme with KCC. Partly reprofiled to 2017/18
	Total - Head of Communities	**1,433.0**	**1,015.0**	**-418.0**	

Item No	Service Area and Scheme	Latest Approved Budget	Q3 Projection	Variance Budget to Q3 Projection	Comments
		£'000	£'000	£'000	
	Andy Jarrett - Head of Strategic Development Projects				
24	Hythe Environmental Improvements	39.0	39.0	0.0	
25	Princes Parade - Preparatory Costs	500.0	500.0	0.0	Professional advice required to support the planning application process
26	Corporate Property Development Projects	2,000.0	1,050.0	-950.0	General Fund element of acquisition of site at Biggins Wood, Folkestone
	Total - Head of Strategic Development Projects	**2,539.0**	**1,589.0**	**-950.0**	
	Total General Fund Capital Expenditure	**11,181.6**	**8,900.0**	**-2,281.6**	

Appendix 2 - General Fund Medium Term Capital Programme 2016/17 to 2021/2

Item No	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2016/17	Latest Projection 2017/18	Latest Projection 2018/19	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Total Projection 2016/27 - 2021/22	Variance Budget to Projection	Comments
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	Andy Blaszkowicz - Head of Commercial and Technical Services										
1	Improvements to Hawkinge Yard	29	29	0	0	0	0	0	29	0	Expected to be completed in early 2017
2	Grounds Maintenance Vehicle and Equipment Replacement Programme	246	231	90	0	0	0	0	321	75	Additional capital investment provided for 2017/18
3	Pumping Station - new vehicle	0	0	25	0	0	0	0	25	25	New capital investment for 2017/18
4	Coast Protection - Coronation Parade, Folkestone	5,145	2,995	2,575	0	0	0	0	5,570	425	Funded from Env Agency grant (£4,570k) & National Grid (£1,000k)
5	Coast Protection - Coronation Parade Emergency Works	45	45	0	0	0	0	0	45	0	Completed. EA Funding £35k
6	Coast Protection - Greatstone Dunes Management & Study	75	12	15	15	15	15	15	87	12	Extended one year to 2021/22 - externally funded
7	Coast Protection - Hythe to Folkestone Beach Management (from 2015)	1,250	247	250	250	250	250	250	1,497	247	Extended one year to 2021/22 - externally funded
8	General Fund Property - Health and Safety Enhancements	207	207	0	0	0	0	0	207	0	Primarily for the Civic Centre. Possibility some of planned works may be delayed until 2017/18
9	Lifeline Capitalisation	210	42	42	42	42	42	42	252	42	Extended one year to 2021/22
10	Royal Military Canal enhancements	50	45	20	0	0	0	0	65	15	Additional capital investment provided for 2017/18
11	Parking Self-serve Voucher and Permit System	32.6	31	0	0	0	0	0	31	-1.6	Scheme in progress
12	Hythe Pool Improvements	191	175	0	0	0	0	0	175	-16.0	Pool liner, roof replacement and chlorine storage system (approved in-year)
13	Responsive Repairs Vehicle	24	16	0	0	0	0	0	16	-8.0	Completed
	Total - Head of Commercial and Technical Services	**7,504.6**	**4,075**	**3,017**	**307**	**307**	**307**	**307**	**8,320**	**815.4**	
	Amandeep Khroud - Head of Democratic Services and Law										
14	PC Replacement Programme	100.5	20.5	32	16	16	16	16	116.5	16	Extended one year to 2021/22

Item No	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2016/17	Latest Projection 2017/18	Latest Projection 2018/19	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Total Projection 2016/27 - 2021/22	Variance Budget to Projection	Comments
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
15	Server Replacement Programme	300	36	60	60	60	60	60	336	36	Extended one year to 2021/22
16	Virtual Desktop Technology	100	44	20	20	20	20	20	144	44	Extended one year to 2021/22
	Total - Head of Democratic Services and Law	**500.5**	**100.5**	**112**	**96**	**96**	**96**	**96**	**596.5**	**96**	
	Pat Main - Interim Head of Finance										
17	Oportunitas Loan & Share Capital Phase 1 (Housing Acquisitions Programme)	1,347	1,347	0	0	0	0	0	1,347	0	Phase 1 extended to 31/3/17
18	*Oportunitas Loan - Development and Investment Projects Phase 2	2,000	753	1,247	0	0	0	0	2,000	0	Partly reprofiled to 2017/18
	Total - Head of Finance	**3,347**	**2,100**	**1,247**	**0**	**0**	**0**	**0**	**3,347**	**0**	

Item No	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2016/17	Latest Projection 2017/18	Latest Projection 2018/19	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Total Projection 2016/27 - 2021/22	Variance Budget to Projection	Comments
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	Katharine Harvey - Head of Economic Development										
19	'Connectivity' Wi-Fi Project	40	0	0	0	0	0	0	0	-40	Saving
	Total - Head of Economic Development	**40**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-40**	
	Sarah Robson - Head of Communities										
20	Disabled Facilities Grant	2,500	500	500	500	500	500	500	3,000	500	DFGs no waiting list. Home Enablement Scheme commenced from 1/10/16 and cost will be contained within Better Care Funding allocation
21	Home Safe Loans	500	55	100	100	100	100	100	555	55	Reduced demand in 2016/17. Scheme extended one year to 2021/22
22	Warm Homes Loans Scheme (Pilot Scheme)	12	30	0	0	0	0	0	30	18	0
23	Empty Properties Initiative	821	430	391	0	0	0	0	821	0	Jointly funded scheme with KCC . Partly reprofiled to 2017/18
24	Community Safety Unit - replacement transit van	0	0	16	0	0	0	0	16	16	New capital investment for 2017/18
	Total - Head of Communities	**3,833**	**1,015**	**1,007**	**600**	**600**	**600**	**600**	**4,422**	**589**	
	Andrina Smith - Head of Human Resources										
25	Burials Software (BACAS)	21	20.5	0	0	0	0	0	20.5	-0.5	Scheme in progress
	Total - Head of Human Resources	**21**	**20.5**	**0**	**0**	**0**	**0**	**0**	**20.5**	**-0.5**	

Item No	Service Area and Scheme	Latest Approved MTCP Budget	Latest Projection 2016/17	Latest Projection 2017/18	Latest Projection 2018/19	Latest Projection 2019/20	Latest Projection 2020/21	Latest Projection 2021/22	Total Projection 2016/27 - 2021/22	Variance Budget to Projection	Comments
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	Andy Jarrett - Head of Strategic Development Projects										
26	Hythe Environmental Improvements	39	39	0	0	0	0	0	39	0	Mackeson Square funded from S106
27	*Corporate Property Development Projects	2,000	1,050	950	0	0	0	0	2,000	0	Part of Strategic Investments initiative - partly delayed until 2017/18
28	Princes Parade - Preparartion Costs for Redevelopment Proposal	500	500	0	0	0	0	0	500	0	Planning application expected to submitted during early 2017
	Total - Head of Strategic Development Projects	**2,539**	**1,589**	**950**	**0**	**0**	**0**	**0**	**2,539**	**0**	
	Total General Fund Medium Term Capital Programme	**17,785.1**	**8,900.0**	**6,333**	**1,003**	**1,003**	**1,003**	**1,003**	**19,245.0**	**1,459.9**	
30	Government Grant	-8,005	-3,289	-2,840	-765	-765	-765	-765	-9,189	-1,184	
31	Other External Contributions	-1,051	-569	-500	0	0	0	0	-1,069	-18	
32	Capital Receipts	-1,904	-1,387	-803	-100	-100	-100	-100	-2,590	-686	
33	Revenue Contributions	-6,825.1	-3,655	-2,190	-138	-138	-138	-138	-6,397	428.1	
	Total Funding	**-17,785.1**	**-8,900**	**-6,333**	**-1,003**	**-1,003**	**-1,003**	**-1,003**	**-19,245**	**-1,459.9**	

Appendix 3

Prudential Indicators 2017/18 to 2019/20

1. Capital Expenditure Plans

1.1 The council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. The plans are consistent with the latest Medium Term Capital Programmes (MTCP) for the General Fund covered in this report and the Housing Revenue Account (HRA), due to be considered by Cabinet in a separate report on today's agenda. The HRA capital programme requires prudential borrowing to fund future capital expenditure plans and this is reflected in the borrowing limits being proposed as part of these indicators and is also covered in the Treasury Management Strategy also due to be considered by Cabinet in a separate report on today's agenda.

1.2 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some of the estimates for other sources of funding, such as future capital receipts and revenue resources to fund capital, may also be subject to change over this timescale. <u>To mitigate this risk capital schemes to be funded from future capital resources will not be allowed to commence until these sums have been received or confirmed.</u>

1.3 **The Council is asked to approve the summary capital expenditure projections below**. This forms the first prudential indicator:

Prudential Indicator 1 – Capital Expenditure Projections

£'000	2016/17 Projection	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Expenditure				
Non-HRA	8,900	6,333	1,003	1,003
HRA	8,918	8,098	8,879	9,357
Total	17,818	14,431	9,882	10,360
Funded by:				
Capital receipts	(3,051)	(2,319)	(100)	(100)
Capital grants	(3,858)	(3,340)	(765)	(765)
Capital reserves	-	-	-	-
Revenue (GF)	(3,655)	(2,190)	(138)	(138)
Major Repairs Reserve (HRA)	(3,070)	(2,820)	(3,952)	(4,051)
Revenue (HRA)	(4,184)	(3,762)	(2,813)	(2,448)

Net financing need for the year	**-**	**-**	**2,114**	**2,858**

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

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

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

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

Prudential Indicator 2 – CFR Projections

£'000 As at 31st March	2016/17 Projection	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
CFR – Non Housing	17,346	16,957	16,584	16,225
CFR - Housing	47,417	47,417	49,531	52,389
Total CFR	**64,763**	**64,374**	**66,115**	**68,614**
Movement in CFR	**(405)**	**(389)**	**1,741**	**2,499**

Movement in CFR represented by				
Net financing need for the year (P.I. 1)	-	-	2,114	2,858
Less MRP	(405)	(389)	(373)	(359)
Less HRA financing movement	-	-	-	-
Movement in CFR	**(405)**	**(389)**	**1,741**	**2,499**

3. Gross Debt and the Capital Financing Requirement

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

Debt	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Borrowing	59.5	**57.8**	55.9	54.8
Other long-term liabilities	-	**-**	-	-
Total Debt	**59.5**	**57.8**	**55.9**	**54.8**
CFR	**64.8**	**64.4**	**66.1**	**68.6**

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

4. Borrowing Limits

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

Operational Boundary	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	65.0	**65.0**	66.7	69.2
Other long-term liabilities	-	**-**	-	-
Total Debt	**65.0**	**65.0**	**66.7**	**69.2**

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

Authorised Limit	**2016/17 Limit £m**	**2017/18 Limit £m**	**2018/19 Limit £m**	**2019/20 Limit £m**
Borrowing	68.0	**69.9**	72.1	75.4
Other long-term liabilities	-	**-**	-	-
Total Debt	**68.0**	**69.9**	**72.1**	**75.4**

5. Affordability Prudential Indicators

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

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

Prudential Indicator 3 - Ratio of financing costs to net revenue stream

%	**2016/17 Projection**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Non-HRA	27.08	18.38	3.10	2.68
HRA	36.13	33.57	26.72	24.27

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

5.4 **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with ***new schemes*** introduced to the Medium Term Capital Programme recommended in the budget report compared to the council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published over a three year period.

Prudential Indicator 4 - Incremental impact of capital investment decisions on the Band D Council Tax

£	Proposed Budget 2017/18	Forward Projection 2018/19	Forward Projection 2019/20
Council Tax - Band D	0.02	0.02	0.00

5.5 These values reflect the loss of interest, the opportunity cost, for the council's cash reserves and balances, anticipated to be used to fund its new capital investment plans included in the Medium Term Capital Programme.

5.6 **Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – Similar to the Council Tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the budget report compared to the council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Prudential Indicator 5 - Incremental impact of capital investment decisions Housing Rent levels

Impact per property per rent week	Proposed Budget 2017/18	Forward Projection 2018/19	Forward Projection 2019/20
Weekly Housing Rent levels	**(£1.07)**	**(£1.79)**	**(£2.45)**

5.7 This indicator shows the revenue impact of the latest HRA capital programme on the average weekly housing rent for the HRA. This indicator reflects the additional rental income the council is forecast to receive from the HRA's new build and housing acquisitions programme. The new build programme is expected to generate a net surplus for the HRA which, in turn, will contribute to the planned repayment of its debt over the 30 year life of the current business plan.

5.8 Local Indicators - HRA Debt Ratios

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

i) HRA Debt to Revenue Ratio

	2016/17 Projection	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt £m	50.5	49.6	50.7	52.5
HRA revenues £m	16.8	16.0	16.4	16.4
Ratio of debt to revenues	**3.0**	**3.1**	**3.1**	**3.2**

ii) HRA Debt per Dwelling

	2016/17 Projection	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt £m	50.5	49.6	50.7	52.5
Number of HRA dwellings	3,372	3,393	3,421	3,448
Debt per dwelling £'000	**14.98**	**14.61**	**14.83**	**15.23**

Appendix 4

Minimum Revenue Provision (MRP) Policy Statement 2017/18

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 Department for Communities and Local Government (DCLG) 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 2017/18.**

   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.**

3. **Additionally the council is free to determine an alternative MRP approach provided that it is prudent. These alternatives may include a variation on the above options or may take other forms as determined by the Chief Finance Officer. For instance, where the council acquires assets funded from unsupported borrowing for the purpose of site assembly with the aim of disposing to developers in the future, then the council may determine a nil MRP charge is prudent on the understanding that the capital receipt from the disposal is used repay the borrowing and extinguish the CFR relating to it. Any unsupported borrowing falling on capital expenditure falling into this category will be reviewed annually and if for any reason a capital receipt will not be received within a specified timeframe as determined by the Chief Finance Officer relating to the asset acquired then the unsupported borrowing will revert back to the normal MRP treatment applicable including an adjustment for MRP due for previous years that may not have been previously charged.**

4. No statutory revenue charge or MRP is required for the HRA. However, as part of the approved HRA Business Plan, Cabinet approved an affordable strategy to repay the HRA's total debt, represented by its capital financing

requirement (HRACFR), currently over the next 30 years. No HRA debt is planned to repaid in 2017/18.

This Report will be made public on 14 February 2017

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

Report Number **A/16/24**

To: **Council**
Date: **22 February 2017**
Status: **Key Decision**
Head of Service: **Pat Main, Interim Head of Finance**
Cabinet Member: **Councillor Susan Carey, Finance**

Subject: TREASURY MANAGEMENT STRATEGY STATEMENT 2017/18 INCLUDING TREASURY MANAGEMENT INDICATORS

SUMMARY: This report sets out the proposed strategy for treasury management for 2017/18 including the Annual Investment Strategy and Treasury Management Indicators to be approved by full Council. Overview and Scrutiny Committee considered this report on 17 January 2017 ahead of Cabinet approving it on 18 January 2017 to be submitted to full Council.

REASONS FOR RECOMMENDATION:

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

a) The Council must have regard to both CIPFA's Code of Practice for Treasury Management in the Public Services and the CLG's Guidance on Local Authority Investments when carrying out its duties under Part 1 of the Local Government Act 2003.
b) The Financial Procedure Rules requires the Council to receive an annual plan and strategy for treasury management in advance of the financial year.
c) The Council is required to approve an Annual Investment Strategy for the forthcoming year.

RECOMMENDATIONS:

1. **To receive and note Report A/16/24.**
2. **To approve the strategy for treasury management in 2017/18 set out in the report is adopted.**

3. **To approve the 2017/18 Annual Investment Strategy set out in the report is adopted.**
4. **To approve the treasury management indicators set out in the report.**

1. INTRODUCTION

1.1 In February 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

1.2 In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

1.3 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

1.4 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.

1.5 In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement (TMSS) should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

1.6 The Authority's major capital investment initiatives, such as Otterpool Park, Princes Parade and other asset investment initiatives, remain to be reported in detail to Members for approval. When approved, these initiatives are likely to require the TMSS to be revised.

1.7 The Prudential Indicators for capital expenditure, including borrowing limits, are considered separately by Cabinet in a report on the Update to the Medium Term Capital Programme.

2. ECONOMIC OUTLOOK AND PROSPECT FOR INTEREST RATES

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

2.1 Economic Background

2.1.1 The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

2.1.2 The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of

England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

2.1.3 Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

2.1.4 Looking overseas, with the US economy and its labour market showing steady improvement, the Federal Reserve raised interest rates by 0.25% in December 2016 and projected three more 0.25% increases in 2017. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

2.1.5 The impact of political risk on financial markets remains significant over the next year. General elections in France, Germany and Italy scheduled in 2017 all have the potential to impact on financial markets.

2.2 Credit Outlook

2.2.1 Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

2.2.2 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

2.3 Interest Rate Forecast

2.3.1 Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18**.** The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

2.3.2 Gilt yields have risen sharply in the second half of 2016 but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

2.3.3 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 1.

2.3.4 For the purpose of setting the 2017/18 budget, it has been assumed that new investments will be made at an average rate of 0.37%. No new long-term loans have been anticipated in the budget.

3. THE COUNCIL'S FORECAST BORROWING AND INVESTMENT POSITION

3.1 On 30 November 2016 the Authority held £60m of borrowing and £45.8m of investments. This is set out in further detail at Appendix 2. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.16 Actual £m	**31.3.17 Estimate £m**	**31.3.18 Forecast £m**	**31.3.19 Forecast £m**	**31.3.20 Forecast £m**
General Fund CFR	17.8	17.4	17.0	16.6	16.2
HRA CFR	47.4	47.4	47.5	49.6	52.5
Total CFR	**65.2**	**64.8**	**64.5**	**66.2**	**68.7**
Less: External borrowing	60.1	59.5	57.8	55.9	54.8
Internal borrowing	**5.1**	**5.3**	**6.7**	**10.3**	**13.9**
Less: Usable reserves	-32.4	-25.0	-24.0	-21.2	-19.0
Less: Working capital	-4.3	-4.3	-4.3	-4.3	-4.3
Investments	**31.6**	**24.0**	**21.6**	**15.2**	**9.4**

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 2017/18 and information taken from the latest approved Medium Term Financial Strategy for 2018/19 and 2019/20.

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 2017/18.

4. BORROWING STRATEGY

4.1 The Authority currently holds £60.0 million of loans, a small reduction of £0.1 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority currently does not expect to need to borrow in 2017/18. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the proposed authorised limit for borrowing of £69.9 million for 2017/18.

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 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.3.3 Alternatively, the Authority may arrange forward starting loans during 2017/18, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

4.4 Sources of Borrowing

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- 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:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

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

4.5 Short-term and Variable Rate Loans

4.5.1 These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

4.6 Debt Rescheduling

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

5. INVESTMENT STRATEGY

5.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £32 and £54 million. The maximum investment balance held is expected to reduce to between £45 and £50 million in the coming year as the council uses its reserves to meet its approved capital expenditure plans in particular.

5.2 Objectives

5.2.1 Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. 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 2017/18, 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 falling returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2017/18. This is especially the case for the estimated £21m that is available for longer-term investment. A significant proportion of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will represent a change in strategy over the coming year.

5.4 Approved Counterparties

5.4.1 The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown. On the advice of Arlingclose, the corporate and registered providers are proposed to be added to the Authority's counterparty types for the first time.

Table 2: Approved Investment Counterparties and Limits for New Investments effective from 1 April 2017

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
BBB+	£3m 100 days	£3m 6 months	£3m 2 years	£1.5m 6 months	£1.5m 2 years
None	£1m 6 months	n/a	£5m 25 years	£50,000 5 years	£3m 5 years
Pooled funds	£5m per fund				

This table must be read in conjunction with the notes below

5.4.2 **Credit Rating -** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. 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.

5.4.3 **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.

5.4.4 **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.

5.4.5 **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 an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.4.6 **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.

5.4.7 **Registered Providers -** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

5.4.8 **Pooled Funds -** Shares 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.

5.4.9 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 Risk Assessment and Credit Ratings

5.5.1 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.

5.5.2 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.

5.6 Other Information on the Security of Investments

5.6.1 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. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.6.2 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.

5.7 Specified Investments

5.7.1 The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

5.7.2 The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.8 Non-specified Investments

5.8.1 Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£20m
Total investments without credit ratings or rated below A-	£15m
Total non-specified investments	£35m

5.9 Investment Limits

5.9.1 The Authority's revenue reserves available to cover investment losses are forecast to be £11 million 31st March 2017. In order that no more than 50% 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	£10m in total
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£25m in total

5.10 Liquidity Management

5.10.1 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 on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2017/18	**2018/19**	**2019/20**
Upper limit on fixed interest rate exposure	£63m	£66m	£68m
Upper limit on variable interest rate exposure	£0m	£0m	£0m

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

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:

	2017/18	**2018/19**	**2019/20**
Limit on principal invested beyond year end	£20m	£15m	£10m

7. OTHER ITEMS

7.1 There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

7.2 Policy on Use of Financial Derivatives

7.2.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

7.2.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

7.2.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

7.3 Policy on Apportioning Interest to the HRA

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

7.4 Investment Training

7.4.1 The needs of the Authority's treasury management staff for training in investment management are assessed as part of the regular staff appraisal process, and additionally when the responsibilities of individual members of staff change.

7.4.2 Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to undertake studying for relevant professional qualifications.

7.5 Investment Advisers

7.5.1 The Authority appointed Arlingclose Limited as treasury management advisers with effect from 1 April 2016 on an initial three year contract with a provision for a further two year extension and receives specific advice on investment, debt and capital finance issues. The quality of this service is monitored by the council's treasury management staff with reference to the agreed specification and particular attention is given to the timeliness and relevance of the information received.

7.6 Investment of Money Borrowed in Advance of Need

7.6.1 The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

7.6.2 The total amount borrowed will not exceed the authorised borrowing limit of £69.9 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

8. FINANCIAL IMPLICATIONS

8.1 The net revenue cost of the council's treasury management borrowing and investment activity is estimated to be:

£'000	**2016/17 Estimate**	*2016/17 Latest Projection*	**2017/18 Estimate**	**Variance 2016/17 to 2017/18**
Revenue Budgets	£'000	£'000	£'000	£'000
Interest on Borrowing	**2,225**	*2,223*	**2,114**	**(111)**
HRA Element	**(1,737)**	*(1,737)*	**(1,676)**	**61**
GF Borrowing Cost	**488**	*486*	**438**	**(50)**
Investment income	**(538)**	*(494)*	**(357)**	**181**
HRA Element	**106**	*72*	**52**	**(54)**
GF Investment income	**(432)**	*(422)*	**(305)**	**127**
Net Cost (GF)	**56**	*64*	**133**	**77**

8.2 The main reasons for the projected net increase in General Fund borrowing costs of £77k from the 2016/17 estimate to the 2017/18 estimate are:

		£'000
i)	Reduction in investment income from lower cash reserves and balances in 2017/18 compared to 2016/17	103
ii)	Reduction in investment income from forecast lower average returns in 2017/18 compared to 2016/17	78
iii)	Reduction in interest payable on borrowing due to maturing loans falling out	(111)
iv)	Adjustments in charges between the General Fund and HRA	7
Net increase in costs to General Fund		**77**

9. OTHER OPTIONS CONSIDERED

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

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

10. RISK MANAGEMENT ISSUES

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

10.2 Specific risks to be addressed are as follows:

PERCEIVED RISK	SERIOUSNESS	LIKELIHOOD	PREVENTATIVE ACTION
Interest Rate Risk (rates moving significantly different to expectations)	High	Medium	Rate rises would be beneficial but if rates fall the council would need to consider further fixed rate investments or debt rescheduling to mitigate impact.
Market Risk (adverse market fluctuations affect value of investment capital)	Medium	Low	A limit is placed on the value of principal exposed to changes in market value.
Credit Risk (risk to repayment of Capital)	High	Medium	The council's investment criteria restricts counterparties to those of the highest quality and security.
Liquidity Risk (risk that cash will not be available when needed)	Medium	Medium	Council's investment portfolio structured to reflect future liquidity needs. Temporary borrowing is also available to meet short term liquidity issues.
Changes to the Capital Programme and/or revenue streams	High	Low-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** (DK)

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

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

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

12. CONTACT OFFICER AND BACKGROUND DOCUMENTS

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

Lee Walker – Group Accountant

Tel: 01303 853593 Email: lee.walker@shepway.gov.uk

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

Arlingclose's Treasury Management Strategy Statement Template 2017/18

Appendicies
Appendix 1 – Arlingclose Economic and Interest Rate Forecast
Appendix 2 - Existing Investment & Debt Portfolio Position

Appendix 1 – Arlingclose Economic & Interest Rate Forecast November 2016

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	**0.12**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.40**
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.18**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.29**
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.34**
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.60**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.60**	**0.70**	**0.85**	**0.90**	**0.90**	**0.90**	**0.65**
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.24**
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**0.50**	**0.40**	**0.35**	**0.35**	**0.35**	**0.40**	**0.40**	**0.40**	**0.45**	**0.50**	**0.55**	**0.60**	**0.65**	**0.45**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.15**	**0.95**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.90**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.96**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.70**	**1.50**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.60**	**1.40**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.41**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**

Appendix 2 – Existing Investment & Debt Portfolio Position

	Actual Portfolio at 30 November 2016	Average Rate
	£m	%
External Borrowing:		
Public Works Loan Board	58.9	3.73
Local Authorities	1.1	1.10
Total External Borrowing	**60.0**	**3.70**
Investments:		
Banks (unsecured)	19.5	0.81
Covered bonds (secured)	2.0	0.46
Local Authorities	8.0	0.97
Money Market Funds	11.2	0.32
Pooled Funds - CCLA LA Property Fund	5.1	4.83
Total Investments	**45.8**	**1.15**
Net Debt	**14.2**	

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This report will be made public on 14 February 2017

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

Report number **A/16/25**

To: **Council**
Date: **22 February 2017**
Head of Service: **Pat Main, Head of Finance**
Cabinet Member: **Councillor David Monk, Leader and Councillor Susan Carey – Finance**

SUBJECT: GENERAL FUND BUDGET AND COUNCIL TAX 2017/18

SUMMARY: This report concludes the budget-making process for 2017/18. It sets out recommendations for setting the council tax after taking into account the district's council tax requirement (including town and parish council requirements and special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity), the precepts of Kent County Council, the Kent Police & Crime Commissioner and the Kent & Medway Fire & Rescue Service.

REASONS FOR RECOMMENDATIONS:
Council is asked to agree the recommendations set out below to approve the Budget and set the Council Tax for the year commencing 1 April 2017.

RECOMMENDATIONS:
1. **To receive and note Report A/16/25.**
2. **To approve the District Council's budget for 2017/18 as presented in Appendix 1 to this report and the council tax requirement for 2017/18, to be met from the Collection Fund, of £11,444,953.**
3. **To approve that the following amounts be now calculated by the Council for the year 2017/18 in accordance with sections 31 to 36 of the Local Government Finance Act 1992:**
   a) **£99,405,985 – being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) (a) to (f) of the Act (as in Appendix 2).**
   b) **£87,961,032 – being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) (a) to (d) of the Act (as in Appendix 2).**
   c) **£11,444,953 – being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the**

Council, in accordance with Section 31A(4) of the Act, as its council tax requirement for the year (as in Appendix 2).

d) £305.75 – being the amount at 3(c) above divided by the tax base of 37,431.37 calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its council tax for the year.

e) £2,573,344 – being the aggregate of all special items (including parish precepts) referred to in Section 34(1) of the Act.

f) £237.01 - being the amount at 3(d) above less the result given by dividing the amount at 3(e) above by the tax base of 37,431.37 calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its council tax for the year for dwellings in those parts of its area to which no special item relates, ie Old Romney and Snargate.

g) Part of the Council's area

Folkestone	325.83	Being the amounts given by adding to the amount at 3(f) above the special items relating to dwellings in those parts of the Council area mentioned here divided in each case by the appropriate tax base calculated by the Council, in accordance with Section 34(3) of the Act, as the basic amounts of its council tax for the year for dwellings in those parts of its area to which one or more special items relate.
Sandgate	309.15	
Hythe	294.64	
Lydd	321.16	
New Romney	321.73	
Acrise	239.29	
Elham	260.53	
Elmsted	246.79	
Hawkinge	309.45	
Lyminge	268.97	
Lympne	266.59	
Monks Horton	246.42	
Newington	270.47	
Paddlesworth	247.73	
Postling	254.66	
Saltwood	261.41	
Sellindge	296.33	
Stanford	270.09	
Stelling Minnis	256.51	
Stowting	251.16	
Swingfield	282.07	
Brenzett	275.58	
Brookland	298.12	
Burmarsh	271.41	
Dymchurch	272.89	
Ivychurch	288.04	
Newchurch	269.74	

Old Romney	**237.01**
St Mary in the Marsh	**263.26**
Snargate	**237.01**

(h) Part of the Council's area **Valuation Bands**

Parish	A £	B £	C £	D £	E £	F £	G £	H £
Folkestone	217.22	253.42	289.62	325.83	398.23	470.64	543.05	651.66
Sandgate	206.10	240.45	274.80	309.15	377.85	446.55	515.25	618.30
Hythe	196.42	229.16	261.90	294.64	360.11	425.59	491.06	589.28
Lydd	214.11	249.79	285.47	321.16	392.53	463.89	535.26	642.32
New Romney	214.49	250.24	285.98	321.73	393.23	464.72	536.22	643.46
Acrise	159.53	186.11	212.70	239.29	292.46	345.64	398.81	478.58
Elham	173.69	202.63	231.58	260.53	318.42	376.32	434.22	521.06
Elmsted	164.53	191.95	219.37	246.79	301.63	356.47	411.32	493.58
Hawkinge	206.30	240.68	275.07	309.45	378.22	446.98	515.75	618.90
Lyminge	179.31	209.20	239.08	268.97	328.74	388.51	448.28	537.94
Lympne	177.73	207.35	236.97	266.59	325.83	385.07	444.31	533.18
Monks Horton	164.28	191.66	219.04	246.42	301.18	355.94	410.70	492.84
Newington	180.31	210.37	240.42	270.47	330.58	390.68	450.79	540.94
Paddlesworth	165.15	192.68	220.20	247.73	302.78	357.83	412.88	495.46
Postling	169.77	198.07	226.36	254.66	311.25	367.84	424.43	509.32
Saltwood	174.27	203.32	232.36	261.41	319.50	377.59	435.68	522.82
Sellindge	197.55	230.48	263.40	296.33	362.18	428.03	493.88	592.66
Stanford	180.06	210.07	240.08	270.09	330.11	390.13	450.15	540.18
Stelling Minnis	171.01	199.51	228.01	256.51	313.51	370.52	427.52	513.02
Stowting	167.44	195.35	223.26	251.16	306.98	362.79	418.61	502.32
Swingfield	188.05	219.39	250.73	282.07	344.75	407.43	470.12	564.14
Brenzett	183.72	214.34	244.96	275.58	336.83	398.07	459.31	551.16
Brookland	198.75	231.87	265.00	298.12	364.37	430.62	496.87	596.24
Burmarsh	180.94	211.09	241.25	271.41	331.72	392.03	452.34	542.82
Dymchurch	181.92	212.24	242.56	272.89	333.53	394.17	454.81	545.78
Ivychurch	192.03	224.03	256.04	288.04	352.05	416.06	480.07	576.08
Newchurch	179.83	209.80	239.77	269.74	329.68	389.63	449.57	539.48
Old Romney	158.01	184.34	210.68	237.01	289.68	342.35	395.02	474.02
St Mary in the Marsh	175.51	204.76	234.01	263.26	321.76	380.26	438.76	526.52
Snargate	158.01	184.34	210.68	237.01	289.68	342.35	395.02	474.02

Being the amounts given by multiplying the amounts at 3(f) and 3(g) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

4. To note that for the year 2017/18 Kent County Council, Kent Police and Crime Commissioner and the Kent & Medway Fire & Rescue Service have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:

	A £	B £	C £	D £	E £	F £	G £	H £
Kent County Council	785.88	916.86	1,047.84	1,178.82	1,440.78	1,702.74	1,964.70	2,357.64
Kent Police and Crime Commissioner	104.77	122.23	139.69	157.15	192.07	226.99	261.92	314.30
Kent & Medway Fire & Rescue	48.90	57.05	65.20	73.35	89.65	105.95	122.25	146.70

Major preceptor amounts remained subject to confirmation at the time of preparing this report.

5. **That, having calculated the aggregate in each case of the amounts at 3(h) and 4 above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of council tax for the year 2017/18 for each of the categories of dwelling shown below:**

(i) Part of the Council's area Valuation Bands

	A	B	C	D	E	F	G	H
Parish	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Folkestone	1,156.77	1,349.56	1,542.35	1,735.15	2,120.73	2,506.32	2,891.92	3,470.30
Sandgate	1,145.65	1,336.59	1,527.53	1,718.47	2,100.35	2,482.23	2,864.12	3,436.94
Hythe	1,135.97	1,325.30	1,514.63	1,703.96	2,082.61	2,461.27	2,839.93	3,407.92
Lydd	1,153.66	1,345.93	1,538.20	1,730.48	2,115.03	2,499.57	2,884.13	3,460.96
New Romney	1,154.04	1,346.38	1,538.71	1,731.05	2,115.73	2,500.40	2,885.09	3,462.10
Acrise	1,099.08	1,282.25	1,465.43	1,648.61	2,014.96	2,381.32	2,747.68	3,297.22
Elham	1,113.24	1,298.77	1,484.31	1,669.85	2,040.92	2,412.00	2,783.09	3,339.70
Elmsted	1,104.08	1,288.09	1,472.10	1,656.11	2,024.13	2,392.15	2,760.19	3,312.22
Hawkinge	1,145.85	1,336.82	1,527.80	1,718.77	2,100.72	2,482.66	2,864.62	3,437.54
Lyminge	1,118.86	1,305.34	1,491.81	1,678.29	2,051.24	2,424.19	2,797.15	3,356.58
Lympne	1,117.28	1,303.49	1,489.70	1,675.91	2,048.33	2,420.75	2,793.18	3,351.82
Monks Horton	1,103.83	1,287.80	1,471.77	1,655.74	2,023.68	2,391.62	2,759.57	3,311.48
Newington	1,119.86	1,306.51	1,493.15	1,679.79	2,053.08	2,426.36	2,799.66	3,359.58
Paddlesworth	1,104.70	1,288.82	1,472.93	1,657.05	2,025.28	2,393.51	2,761.75	3,314.10
Postling	1,109.32	1,294.21	1,479.09	1,663.98	2,033.75	2,403.52	2,773.30	3,327.96
Saltwood	1,113.82	1,299.46	1,485.09	1,670.73	2,042.00	2,413.27	2,784.55	3,341.46
Sellindge	1,137.10	1,326.62	1,516.13	1,705.65	2,084.68	2,463.71	2,842.75	3,411.30
Stanford	1,119.61	1,306.21	1,492.81	1,679.41	2,052.61	2,425.81	2,799.02	3,358.82
Stelling Minnis	1,110.56	1,295.65	1,480.74	1,665.83	2,036.01	2,406.20	2,776.39	3,331.66
Stowting	1,106.99	1,291.49	1,475.99	1,660.48	2,029.48	2,398.47	2,767.48	3,320.96
Swingfield	1,127.60	1,315.53	1,503.46	1,691.39	2,067.25	2,443.11	2,818.99	3,382.78
Brenzett	1,123.27	1,310.48	1,497.69	1,684.90	2,059.33	2,433.75	2,808.18	3,369.80
Brookland	1,138.30	1,328.01	1,517.73	1,707.44	2,086.87	2,466.30	2,845.74	3,414.88
Burmarsh	1,120.49	1,307.23	1,493.98	1,680.73	2,054.22	2,427.71	2,801.21	3,361.46
Dymchurch	1,121.47	1,308.38	1,495.29	1,682.21	2,056.03	2,429.85	2,803.68	3,364.42
Ivychurch	1,131.58	1,320.17	1,508.77	1,697.36	2,074.55	2,451.74	2,828.94	3,394.72
Newchurch	1,119.38	1,305.94	1,492.50	1,679.06	2,052.18	2,425.31	2,798.44	3,358.12
Old Romney	1,097.56	1,280.48	1,463.41	1,646.33	2,012.18	2,378.03	2,743.89	3,292.66
St Mary in the Marsh	1,115.06	1,300.90	1,486.74	1,672.58	2,044.26	2,415.94	2,787.63	3,345.16
Snargate	1,097.56	1,280.48	1,463.41	1,646.33	2,012.18	2,378.03	2,743.89	3,292.66

6. **To determine that the District Council's basic amount of council tax for 2017/18 is not excessive in accordance with principles approved under Section 52ZB of the Local Government Finance Act 1992.**

1. INTRODUCTION

1.1 This report concludes the budget-setting process for 2017/18.

1.2 Cabinet considered the Council's final General Fund budget for 2017/18 and the council tax requirement at its earlier meeting on 22 February 2017. Cabinet has approved the General Fund Revenue Budget, a summary of which is included at Appendix 1. The draft budget was subject to review by Overview and Scrutiny Committee on 13 December 2016. It was also published for public consultation during November 2016.

1.3 This report makes recommendations to enable the Council to set the council tax for each part of its area, after taking into account its council tax requirement for 2017/18 (including town and parish council requirements and special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity) and the precepts of Kent County Council, the Kent Police & Crime Commissioner and Kent & Medway Fire & Rescue Service. Changes in respect of the major precept assumptions may result in a revised report having to be tabled.

1.4 The proposed General Fund budget for 2017/18 results in an increase to the average council tax at Band D of 1.99% to £250.91. This is the amount that Central Government monitors when considering whether any increase in council tax is excessive. The council tax bill separates out the special expenses element for Folkestone and Sandgate payers from this amount. The 'Shepway only' element of the bill, at Band D average, will be £237.01, a 1.91% increase on the existing amount of £232.56. The increase will show as 1.9% on council tax bills.

2. GENERAL FUND REVENUE BUDGET 2017/18

2.1 The General Fund budget has been prepared on the basis of the Council's approved Medium Term Financial Strategy (MTFS) and Budget Strategy. It also takes into account announcements, where relevant, in the Chancellor's Autumn Statement and the Provisional Local Government Finance Settlement for 2017/18. The Final Settlement is expected to be confirmed in the week commencing 20 February 2017.

2.2 Initially the MTFS projected a shortfall of £1.54m. This shortfall was reduced to £0.5m by the time the Budget Strategy was approved in November 2016, mainly due to work undertaken on identifying savings and efficiencies. It was reduced to £0.2m when the Draft Budget was approved in December. The Budget that is now presented to Members for approval has been balanced.

<u>General Fund Revenue Budget 2017/18</u>

2.3 The 2017/18 budget (excluding town and parish precepts and before any withdrawal from the General Reserve) is £15,779,750 representing a £2,071,960 net decrease compared to the 2016/17 budget of £17,851,710. The budget details are set out at Appendix 1.

2.4 The deficit for the year represents a withdrawal from the General Reserve of £1.589m which will be a planned contribution to fund schemes in the approved Medium Term Capital Programme.

2.5 The budget requirement for 2017/18 is £15.78m, £2.07m lower than the 2016/17 original budget. This reduction is primarily due to:

	£000
Reduction in Head of Service Net Expenditure	(693)
Increase in Drainage Board levy	9
Net increase in treasury management costs	87
Reduction in New Homes Bonus income received	378
Net increase in Other Government Grants	(137)
Reduced transfers from Earmarked Reserves	1,468
Reduced contribution to financing of Fixed Assets from revenue	(3,184)
Total Reduction	**(2,072)**

Town and Parish Precepts

2.6 Town and parish precepts form part of the council tax requirement. Total local council precepts in 2017/18 are £2,052,914 – an increase of £225,759 (12.3%) in cash terms compared to £1,827,155 in the current year. An increase in precepts increases the council tax requirement and affects the average tax calculation; however it is not taken into account by the Government when monitoring 'excessive' increases. Town and parish councils are not currently subject to referendums.

Council Tax Requirement

2.7 The statutory calculation for the council tax requirement is shown at Appendix 2. This sets out gross expenditure and gross income, including the Housing Revenue Account and overall changes to reserves. The outcome results in recommendations 3(a), (b) and (c).

3. GENERAL FUND REVENUE RESERVES

3.1 The Council's reserves position is shown below:

Reserve	1/4/2016 Balance £000	2016/17 Movement £000	31/3/2017 Balance £000	2017/18 Movement £000	31/3/2018 Balance £000
Earmarked Reserves:					
VET[1] Reserve	**942**	(324)	**618**	(8)	**610**
IFRS[2] Reserve	**84**	(17)	**67**	(18)	**49**
Corporate Initiatives	**1,226**	(442)	**784**	(439)	**345**
New Homes Bonus	**1,757**	599	**2,356**	358	**2,714**
Corporate Property	**20**	(20)	**0**	0	**0**
Carry Forward	**1,650**	(1,394)	**256**	(32)	**224**
Business Rates	**2,460**	(190)	**2,270**	0	**2,270**
Economic Development	**2,251**	(1,764)	**487**	(150)	**337**
Invest to Save	**381**	(15)	**366**	0	**366**
Leisure	**246**	(100)	**146**	50	**196**
Grave Maintenance	**12**	-	**12**	-	**12**
Total Earmarked Reserves	**11,029**	**(3,667)**	**7,362**	**(239)**	**7,123**
General Reserve	**5,707**	**(236)**	**5,471**	**(1,589)**	**3,882**
Total General Fund Reserves	**16,736**	**(3,903)**	**12,833**	**(1,828)**	**11,005**

[1] VET = vehicles, equipment and technology
[2] IFRS = International Financial Reporting Standards

3.2 The General Reserve is forecast to be £3.9m by 31 March 2018 on the assumption that in-year budget variances are contained within the overall approved 2017/18 budget. Total General Fund Reserves (General Reserve plus Earmarked Reserves) are forecast to be £11.0m at 31 March 2018.

4. CALCULATING COUNCIL TAX IN RESPECT OF DISTRICT AND PARISH REQUIREMENTS

4.1 The Council must calculate a 'basic amount' of tax for all Band D properties in each part of the district, taking into account not only the net expenditure of the District Council but also the precepts of the town and parish councils and the net expenditure of the Folkestone Parks and Pleasure Grounds Charity, which are charged to their local areas.

4.2 This net expenditure is known as the council tax requirement and is determined after taking in to account retained non-domestic rates, revenue support grant and the Council's share of the Collection Fund surplus. The calculation is set out at section 4.4 below.

4.3 The result of the calculation is divided by the Tax Base to give the tax rate. The Tax Base for 2017/18 of 37,431.37 Band D equivalent properties was approved by Full Council on 18 January 2017.

4.4 The basic amount of tax (average District tax) is as follows:

	£
Expenditure - see Appendix 2	99,405,985
Income - see Appendix 2	(87,961,032)
Council Tax Requirement- demand on the Collection Fund	**11,444,953**
Divided by Tax Base	÷ 37,431.37
Basic amount of Council Tax - average District council tax	£305.75

The calculations for the basic amounts for each part of the District are set out at Appendices 3 and 4.

4.5 The average District council tax for Band D properties, including town and parish precepts, will be £305.75. This is an increase of £9.85 (3.33%) over 2016/17.

4.6 For the purposes of measuring Shepway's council tax increase against the Government's referendum criteria, the amount in respect of town and parish precepts is excluded.

Band D Tax Rates	**2017/18 £**	2016/17 £	**Increase (Decrease)**
Band D Council Tax - including Town and Parish precepts	**305.75**	295.90	**3.33%**
Town and Parish precepts - Band D equivalent	**(54.84)**	(49.88)	**9.95%**
Band D Council Tax - excluding Town and Parish precepts	**250.91**	246.02	**1.99%**

4.7 The average Council Tax to finance Shepway's net expenditure plans in 2017/18, including Special Expenses, is proposed to increase by 1.99% to £250.91. Excluding Special Expenses, Shepway's council tax rate is £237.01, an increase of 1.91% (see Appendix 3).

4.8 The Council Tax applicable to dwellings in valuation bands other than Band D has been calculated in accordance with the proportions set out in the Act. The result of these calculations is set out in recommendation 3(h).

5. SETTING THE TOTAL AMOUNTS OF COUNCIL TAX FOR EACH PART OF THE DISTRICT

5.1 The final step in setting the council tax is for the Council to aggregate the District council tax with the precepts of Kent County Council, Kent Police and Crime Commissioner and Kent & Medway Fire & Rescue Service. The County and Fire & Rescue precepts remain to be confirmed at the time of preparing this report.

5.2 Kent County Council, the Kent Police & Crime Commissioner and Kent & Medway Fire & Rescue Service plan to issue precepts of £44,124,848 £5,882,340 and £2,745,591 respectively. The County Council's precept includes £1,664,199 for the Adult Social Care precept which will be itemised separately on council tax bills.

5.3 The average total tax at Band D is summarised in the table below, confirming an overall increase of £61.47 (3.72%).

Authority	2017/18 £	2016/17 £	Increase £	Increase %
Shepway DC - including Special Expenses	250.91	246.02	4.89	1.99%
Town and Parish Councils	54.84	49.88	4.96	9.95%
Total District Council	**305.75**	**295.90**	**9.85**	3.33%
Kent County Council	1,178.82	1,133.55	45.27	3.99%
Kent Police Commissioner	157.15	152.15	5.00	3.29%
Kent & Medway Fire & Rescue	73.35	72.00	1.35	1.87%
Total	**1,715.07**	**1,653.60**	**61.47**	3.72%

5.4 Appendix 4 sets out the result of adding the precept figure to the District council tax for each part of the District and Recommendation 5 seeks approval to the council tax for each area analysed over the tax bands.

5.5 The relative elements of the average council tax charge for 2017/18 are as follows:

Council Tax 2017/18 – Band D	2017/18 £	% of total bill
Shepway DC (including Special Expenses)	250.91	15%
Town and Parish Councils	54.84	3%
Total District Council	**305.75**	
Kent County Council	1,178.82	69%
Kent Police Commissioner	157.15	9%
Kent Fire and Rescue Service	73.35	4%
Total	**1,715.07**	

6. ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

6.1 The Local Government Act 2003 requires the Council's Chief Finance Officer to give an opinion on the robustness of the budget and adequacy of the reserves. This statement is set out in full at Appendix 5.

7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

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

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

7.2 **Finance Officer's Comments** (PM)

This report and appendices cover all financial matters necessary to enable Council to make the determinations in accordance with the Local Government Finance Act 1992 as amended by the Localism Act 2011.

7.3 **Diversities and Equalities Implications** (PM)

The Equality Impact Assessment is attached at Appendix 6.

8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Pat Main, Head of Finance
Telephone: *01303 853387*
Email: *pat.main@shepway.gov.uk*

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

- Budget working papers
- 14 September 2016 - Report to Cabinet and Council - Medium Term Financial Strategy for the period 2017/18 to 2020/21
- 16 November 2016 - Reports to Cabinet - Budget Strategy 2017/18 and Fees & Charges 2017/18
- 20 December 2016 - Report to Cabinet - Draft General Fund Original Revenue Budget 2017/18
- 18 January 2017 - Report to Cabinet - Update to the General Fund Medium Term Capital Programme

Appendices:

Appendix 1 - General Fund Budget 2017/18

Appendix 2 - Calculation of District Council's Council Tax Requirement in accordance with Section 31A of the Local Government Finance Act 1992.

Appendix 3 - Calculation of Basic Amounts of Council Tax in accordance with Sections 31B and 34 of the Local Government Finance Act 1992.

Appendix 4 - Council Tax Calculations at Band D for each Area in the District.

Appendix 5 - Robustness of the Estimates and Adequacy of Reserves.

Appendix 6 - Equality Impact Assessment

APPENDIX 1

GENERAL FUND BUDGET 2017/18

2015/16 Outturn £		**2016/17** Original Budget (based on outturn prices) £	**2017/18** Original Budget £
	SUMMARY OF NET EXPENDITURE		
	Service Heads		
921,471	Leadership Support	812,540	**833,080**
378,786	Communications	256,490	**240,530**
4,767,002	Head of Democratic Services & Law	4,872,720	**4,774,650**
956,357	Head of HR	918,080	**962,390**
2,771,126	Head of Finance	4,365,660	**4,227,010**
3,330,870	Head of Communities	2,533,540	**2,254,850**
407,964	Head of Strategic Development Projects	329,240	**359,600**
997,102	Head of Economic Development	555,880	**470,740**
751,483	Head of Planning	764,890	**923,150**
2,275,363	Head of Commercial & Technical Services	2,481,060	**2,551,020**
-1,805,524	Recharges	-1,868,500	**-1,980,500**
-	Vacancy Target (not included above)	64,000	**-224,000**
15,752,000	**TOTAL HEAD OF SERVICE NET EXPENDITURE**	**16,085,600**	**15,392,520**
427,266	Internal Drainage Board Levies	435,830	**444,272**
1,118,854	Interest Payable and Similar Charges	576,230	**526,000**
-537,000	Interest and Investment Income	-604,510	**-451,000**
-99,559	Council Tax Freeze Grant	-	**-**
-1,602,551	New Homes Bonus Grant	-1,949,620	**-1,571,779**
-1,118,343	Other non-service related Government Grants	-762,650	**-899,350**
13,940,667	**TOTAL GENERAL FUND NET OPERATING EXPENDITURE**	**13,780,880**	**13,440,663**
1,220,314	Net Transfers to/(from) Earmarked Reserves	-1,707,900	**-239,843**
514,394	Minimum Revenue Provision	405,130	**388,930**
646,613	Financing of Fixed Assets	5,373,600	**2,190,000**
17,879,049	**TOTAL TO BE MET FROM REVENUE SUPPORT GRANT AND LOCAL TAXPAYERS**	**17,851,710**	**15,779,750**
1,557,061	Town and Parish Council Precepts	1,827,155	**2,052,914**
-392,393	Transfer to/(from) the Collection Fund	-588,670	**-203,378**
-4,680,014	Business Rates Income	-3,799,080	**-3,747,186**
-2,752,844	Revenue Support Grant	-1,736,220	**-848,140**
10,053,798	**TOTAL TO BE MET FROM DEMAND ON THE COLLECTION FUND AND GENERAL RESERVE**	**13,554,895**	**13,033,960**
-		-10,838,835	**-11,444,953**
10,112,921	Council Tax - Demand on Collection Fund		
-59,123	**(SURPLUS) / DEFICIT FOR YEAR**	**2,716,060**	**1,589,007**

APPENDIX 2

CALCULATION OF DISTRICT COUNCIL'S COUNCIL TAX REQUIREMENT IN ACCORDANCE WITH SECTION 31A OF THE LOCAL GOVERNMENT FINANCE ACT 1992

		£	£
	EXPENDITURE (including additions to Reserves and Contingencies)		
1.	Gross Revenue Expenditure (excl. Special Items)	94,861,263	
2.	Special Items		
	a) Special Expenses	520,430	
	b) Parish Precepts	2,052,914	
3.	Addition to Reserves		
	a) New Homes Bonus Reserve	1,572,000	
	b) Vehicles, Equipment and Technology	153,248	
	c) Leisure	50,000	
4.	Allowance for contingencies in the year	196,130	
	TOTAL EXPENDITURE Recommendation 3(a)		**99,405,985**
	INCOME (including use of Reserves)		
1.	Gross Revenue Income	(83,374,856)	
2.	Use of Reserves		
	a) Vehicles, Equipment and Technology Reserve	(162,000)	
	b) Carry Forwards Reserve	(31,640)	
	c) IFRS Reserve	(17,780)	
	d) Corporate Initiatives Reserve	(439,000)	
	e) New Homes Bonus Reserve	(1,214,671)	
	f) Economic Development	(150,000)	
	g) Invest to Save Reserve	(778,700)	
	h) Housing Revenue Account	(1,589,007)	
	i) General Reserve		
3.	Transfer of share of Collection Fund surplus	(203,378)	
	TOTAL INCOME Recommendation 3(b)		**(87,961,032)**
	COUNCIL TAX REQUIREMENT Recommendation 3 (c)		**11,444,953**

APPENDIX 3

CALCULATION OF BASIC AMOUNTS OF COUNCIL TAX IN ACCORDANCE WITH SECTIONS 31B AND 34 OF THE LOCAL GOVERNMENT FINANCE ACT 1992

1.	**BASIC AMOUNT OF TAX**		
	a) Council Tax Requirement **Recommendation 3(c)**		£11,444,953
	b) Divided by Tax Base		37,431.37
	c) Basic amount of Tax **Recommendation 3(d)**		£305.75
2.	**BASIC AMOUNT OF TAX FOR THOSE PARTS OF AREA TO WHICH NO SPECIAL ITEMS RELATE**		
	a) Basic amount of tax **Recommendation 3(d)**		£305.75
	b) Special Expenses	£520,430	
	c) Parish Precepts	£2,052,914	
	d) Special Items **Recommendation 3(e)**	£2,573,344	
	e) Divided by Tax Base	37,431.37	(£68.75)
	f) Basic Amount of Tax for Areas with no Special Items **Recommendation 3(f)** See Appendix 4 for individual parishes		£237.01
3.	**BASIC AMOUNT OF TAX FOR THOSE PARTS OF AREA TO WHICH SPECIAL ITEMS RELATE**		
	a) Basic Amount of Tax for Areas with no Special Items **Recommendation 3(f)**		£237.01
	b) Special Items for each individual area of the District	£X	
	c) Divided by Tax Base for each individual area of the District	Y =	£Z
	d) Basic Amount of Tax for Areas with Special Items **Recommendation 3(g)** See Appendix 4 for individual parishes		£237.01 + £Z

APPENDIX 4

COUNCIL TAX CALCULATIONS AT BAND D FOR EACH AREA IN THE DISTRICT

Area	Precepts	+ F/stone Parks Charity	= Special Items	÷Tax Base	= Council Tax for Special Items	+ Council Tax for General Items	= District* Council Tax	+ KCC, Police and Fire Precepts	= Total Council Tax
	£	£	£		£	£	£	£	£
Folkestone	764,750	457,571	1,222,321	13,762.13	88.82	237.01	325.83	1,409.32	1,735.15
Sandgate	73,523	62,859	136,382	1,890.59	72.14	237.01	309.15	1,409.32	1,718.47
Hythe	341,049		341,049	5,918.27	57.63	237.01	294.64	1,409.32	1,703.96
Lydd	176,980		176,980	2,103.21	84.15	237.01	321.16	1,409.32	1,730.48
New Romney	222,797		222,797	2,629.76	84.72	237.01	321.73	1,409.32	1,731.05
Acrise	200		200	87.77	2.28	237.01	239.29	1,409.32	1,648.61
Elham	17,060		17,060	725.36	23.52	237.01	260.53	1,409.32	1,669.85
Elmsted	1,475		1,475	150.82	9.78	237.01	246.79	1,409.32	1,656.11
Hawkinge	208,582		208,582	2,879.36	72.44	237.01	309.45	1,409.32	1,718.77
Lyminge	36,885		36,885	1,154.09	31.96	237.01	268.97	1,409.32	1,678.29
Lympne	19,238		19,238	650.42	29.58	237.01	266.59	1,409.32	1,675.91
Monks Horton	597		597	63.45	9.41	237.01	246.42	1,409.32	1,655.74
Newington	5,200		5,200	155.40	33.46	237.01	270.47	1,409.32	1,679.79
Paddlesworth	200		200	18.66	10.72	237.01	247.73	1,409.32	1,657.05
Postling	2,000		2,000	113.32	17.65	237.01	254.66	1,409.32	1,663.98
Saltwood	9,500		9,500	389.39	24.40	237.01	261.41	1,409.32	1,670.73
Sellindge	38,000		38,000	640.59	59.32	237.01	296.33	1,409.32	1,705.65
Stanford	6,000		6,000	181.37	33.08	237.01	270.09	1,409.32	1,679.41
Stelling Minnis	5,300		5,300	271.78	19.50	237.01	256.51	1,409.32	1,665.83
Stowting	1,650		1,650	116.57	14.15	237.01	251.16	1,409.32	1,660.48
Swingfield	21,647		21,647	480.41	45.06	237.01	282.07	1,409.32	1,691.39
Brenzett	5,000		5,000	129.62	38.57	237.01	275.58	1,409.32	1,684.90
Brookland	9,900		9,900	161.99	61.11	237.01	298.12	1,409.32	1,707.44
Burmarsh	3,841		3,841	111.67	34.40	237.01	271.41	1,409.32	1,680.73
Dymchurch	46,700		46,700	1,301.74	35.88	237.01	272.89	1,409.32	1,682.21
Ivychurch	4,890		4,890	95.82	51.03	237.01	288.04	1,409.32	1,697.36
Newchurch	3,950		3,950	120.68	32.73	237.01	269.74	1,409.32	1,679.06
Old Romney	-		-	81.10	-	237.01	237.01	1,409.32	1,646.33
St Mary in the Marsh	26,000		26,000	990.52	26.25	237.01	263.26	1,409.32	1,672.58
Snargate	-		-	55.51	-	237.01	237.01	1,409.32	1,646.33
	2,052,914	520,430	2,573,344	37,431.37					

*Recommendation 3(f) and 3(g)

APPENDIX 5

ROBUSTNESS OF THE ESTIMATES AND ADEQUACY OF RESERVES

Introduction

The council has a legal duty to produce a balanced budget and must take all reasonable factors into account when doing so. Under the Local Government Act 2003 section 25(1) (b), the Chief Finance Officer (CFO) must advise the council about the **robustness of the budget** and **the adequacy of the council's reserves** when it considers its budget and council tax. The Act requires Members to have regard to this report in making their decisions.

As the council's CFO, I confirm that in my opinion the draft budget is robust and the proposed level of reserves is adequate in respect of the proposed budget for 2017/18. The reasons for this opinion are set out below.

Members should note that if they wish to depart from or amend the draft Budget, the comments within this Appendix may require revision.

Background

In December 2011, CIPFA sent a letter to all CFOs highlighting their legal duties in respect of setting the budget. The letter was sent in the context of the challenges local authorities and CFOs were facing as a result of unprecedented pressure on local authority budgets

These challenges are still with us. The Local Government Finance Settlement figures for 2017/18 – 2019/20 (issued on 15 December 2016) were based on the first four-year settlement, which is generally seen to be a positive development, however it was based on a cumulative 33.5% reduction in the authority's Settlement Funding Assessment by 2019/20.

Despite the challenges, over recent years, through sound and robust financial management, the council has maintained its financial position. As a result, the council is able to propose a balanced budget for 2017/18 and is forecast to have reserves above minimum levels at 31 March 2018.

In addition to balancing the annual budget, the council has been able to increase its focus on the longer term financial implications as set out in its Medium Term Financial Strategy (MTFS) approved by Members in September 2016. The MTFS covers a four year horizon to 2019/20 focusing on the council's future financial sustainability to enable it to deliver the strategic objectives set out in the Corporate Plan. The MTFS has been used to inform the 2017/18 Budget setting process.

However, whilst the council remains in a relatively strong financial position, the rapidly changing environment for local government, particularly in relation to moving away from Government grant to local taxation funding, brings increased financial uncertainty. This inevitably results in a greater degree of estimation in the calculations for the Budget and MTFS, which means that a risk-based approach to assessing the robustness of estimates and the adequacy of reserves, is crucial.

Robustness of the Estimates

In assessing the robustness of the estimates this statement looks at the key factors and risk areas associated with the proposed 2017/18 budget and how they have been and can be managed.

<u>The MTFS</u>
In considering the budget calculations for 2017/18 regard should be had to the medium term financial position of the council. The outlook for local government financing remains challenging over the next few years.

Moreover, there are a number of significant areas of change that currently cannot be fully quantified but will have potential financial impact over the planning period, including the move to 100% business rate retention by the end of the Parliament. As part of these reforms, the main local government grant will be phased out and additional responsibilities devolved to local authorities. At this stage it is not possible to estimate the impact of this on the Council until further detail is provided.

The council has various strategies in place to address the medium term funding gap. The multi-pronged approach to achieving a balanced position is set out in the MTFS and Budget Strategy. Specific initiatives include:

- the Digital Transformation Board
- the council's regeneration and housing company, Oportunitas
- a range of Strategic Development Projects
- continued emphasis on economic development and building more homes
- the use of reserves to ensure future financial sustainability.

The Government's new guidance on the flexible use of capital receipts will enable local authorities to capitalise costs incurred on transforming or improving service delivery designed to generate ongoing revenue savings.

<u>Development of Budgets</u>
The MTFS 2017/18 to 2020/21was presented to Cabinet and approved by Full Council in September 2016 and the 2017/18 Budget Strategy was approved by Cabinet in November 2016. Prior to this, both were subject to scrutiny by the Overview & Scrutiny Committee.

In December 2016 the 2017/18 General Fund Draft Budget was examined in detail by the Overview & Scrutiny Committee, together with the proposed 2017/18 Fees and Charges. The HRA Revenue and Capital budgets and the Medium Term Capital Programme were also presented for scrutiny in January 2017. The Committee focused in particular on challenging the major budget variations in income and expenditure.

The conclusion of the formal budget process takes place on 22 February 2017 when the General Fund Budget and council tax requirement are considered for approval by Full Council following a final update report to Cabinet.

This report is the culmination of the budget process; detailed work has taken place behind the scenes with finance officers, budget holders, heads of service and CMT to ensure the budget estimates are robust. In addition to this there have been regular updates to Informal Cabinet.

The budget-setting process commenced during spring 2016 and was then revisited during the summer when detailed budget guidelines covering the General Fund, HRA and Capital Programme were issued. This ensured that a consistent approach was used in preparing the budget estimates. During the summer Finance staff worked with Heads of Service and budget holders to build the base budget, including realignment of budgets to reflect approved in-year changes. Staff establishment budgets were prepared based on the approved structure for each cost centre on a post by post basis; growth and efficiency proposals were scrutinised and challenged by finance officers and CMT, and a rigorous process was carried out in relation to setting the 2017/18 fees and charges.

Past experience, combined with an assessment of future risks, provides a sound basis for determining the robustness of estimates. Given the context of significant underspends in previous years and the requirement to make savings going forward, in May 2016 the Corporate Management Team (CMT) undertook a rigorous review of all service budgets with Heads of Service and their budget holders. The review focused on past spending trends, as well as current projections for income and expenditure, with a view to identifying where efficiencies and/or savings could be made through reducing expenditure and increasing income, or where budgets required ‘right-sizing’. The review identified savings and efficiencies of just over £1.2m.

Following a previous CMT review, service budget contingencies are now held managed corporately, thereby ensuring optimum resource allocation and flexibility going forward.

The budget estimates necessarily include assumptions around a number of key factors. The process for determining the 2017/18 budget has again required the majority of budgets to be cash limited. The only budgets that have been adjusted for inflation are salaries and existing inflationary commitments in relation to contracts. A 1.5% provision for pay awards has been held centrally. In addition the 2016 local government pension fund revaluation has required changes to employer pension contribution rates and the budgeted annual payment to Kent County Council as fund administrators.

Where appropriate, external advice has been sought in setting budget estimates, for example, the advice of the council’s treasury management advisers has been used in determining the interest received and payable on investments and loans.

Estimates have also taken account of the financial implications of the council’s Capital Programme and the level of financing required to meet the expenditure demanded. The capital programme is fully funded as presented to Members. This is based on the use of reserves and the investment of future income streams.

It is worth commenting that the Council has ambitious plans for the future of the district and in particular the development of the Otterpool Park Garden Town. This is a long term project which has the potential to offer significant rewards for the council. However, it is likely to require significant investment over a long period and the risks of this will need to managed robustly in the future in order to realize the benefits of the garden town proposal.

Savings proposals
A risk based approach is particularly important when it comes to the delivery of savings contained within budgets. 2017/18 service budgets have been prepared after taking into account £1.22m budget savings that were approved by Cabinet in November 2016.

Funding Assumptions
Following the Government's introduction of the Business Rates Retention Scheme in 2013/14, the council's funding is no longer solely based on a guaranteed amount of grant. Business rates funding is dependent on the council's ability to retain and grow its business rates base. As a result, estimates have had to be made for the level of income taking into account various assumptions about the number of businesses, appeals against rateable values and levels of collection. I am satisfied that the estimates and assumptions used are reasonable based on the information available to the council at the current time. However, the degree of volatility in business rates is difficult to predict and it is important to note that the council has balances within the business rates reserve to help mitigate against subsequent adverse changes. It should also be noted that, although the Council is to remain within a Kent Business Rates Pool in 2017/18, the budget estimate has taken a prudent stance and is not based on any assumed benefits that may accrue from being in the Pool.

Similarly, New Homes Bonus funding is paid into an earmarked reserve rather than being applied to support the budget in the year it is received.

Council funding from RSG has reduced by 51% compared to 2016/17. The impact has been managed and the council remains able to set a balanced budget.

The budget has been prepared based on a council tax increase of 1.99%; this remains to be approved by full Council. The proposed increase is within the Government's cap. Collection rates have been prudently estimated based on current collection levels.

Mitigating Risks
To assist with mitigating the risks associated with budget preparation there is a CMT contingency of £196k within the budget to allow for unforeseen events and to assist with ensuring corporate priorities are delivered.

Robust and timely monitoring of key savings delivery plans will continue to be carried out throughout the year.

Stringent budget monitoring will continue to be undertaken, with particular emphasis being placed on monitoring income targets, salary costs, high-risk expenditure items and volatile funding sources. Prompt responses to in-year projected deficits will be demanded by Cabinet Members and Senior Officers. Members receive quarterly monitoring reports and the Leader and Cabinet Member for Finance receive monthly reports of spend against budget together with the Corporate Management Team and the Heads of Service. All budget managers receive monitoring reports within10 working days of the period end.

The financial monitoring system covers both revenue and capital expenditure and work is being undertaken to bring forward and continually improve the budget preparation process. A timetable for the 2018/19 budget setting process has already been drafted. Additionally, the deadline for completion of the draft MTFS has been brought forward so that it can inform the council of its financial position at an earlier stage this year.

Both the understanding of the council's financial position and the commitment to ensure delivery of balanced budgets will continue to be developed across all service areas enabling the council to be more effective in its financial planning and management. Ongoing training is being provided together with training events on specific topics. In addition, the finance team continues to focus on ensuring that its customers receive relevant, timely, professional and accurate information and that any projected overspends can be identified early on and addressed promptly.

Conclusion

In conclusion, therefore, the 2017/18 General Fund estimates are considered to be robust on the basis that a rigorous process has been applied in setting the estimates and that:

- Stringent monitoring, together with prompt responses to variances is actioned
- Total net expenditure is maintained within approved budgets, and
- Early consideration is undertaken to set out the strategy for addressing future years funding shortfalls

4. Adequacy of Reserves

The requirement for financial reserves is acknowledged in statute (Local Government Finance Act 1992). The level of working balances and reserves held by a council is not prescribed. The minimum prudent level of reserves that the council should maintain is a matter of judgment.

The current approach of the council reflects the guidance issued within LAAP Bulletin 99. This sets out that reserves should be held for three main purposes:

- a **working balance** to help cushion the impact of uneven cashflows and avoid the need for temporary borrowing;
- a **contingency** to cushion the impact of unexpected events or emergencies;
- **earmarked reserves** to meet known or predicted requirements.

The consequences of not keeping a minimum prudent level of reserves can be serious. In the event of a major problem, or a series of events, the council could be forced to cut spending during the year in a damaging and arbitrary way.

The council reviews annually the adequacy of the reserve levels taking into account the council's exposure to risk, the systems of internal control, the robustness of the estimates, adequacy of financial management arrangements, our track record on budget monitoring, the strength of financial reporting, capacity to manage in year budget pressures and cash flow requirements to determine appropriate levels for the reserves. The monitoring and control systems in place are robust and identify at an early stage any significant variations within the council's activities.

Having considered these risks within the review undertaken last year, the conclusion is that minimum levels should remain as currently specified within the Medium Term Financial Strategy:

- General Reserve £2.8 million
- Capital Programme £0.5 million
- Housing Revenue Account level £2 million

The General Reserve balance is forecast to reduce from £5.7m to £3.9m by 31 March 2018. The withdrawal from the General Reserve in 2017/18 is to fund the Medium Term Capital Programme in order to ensure future financial sustainability. In view of the economic and financial environment the council is working within over the medium term, it is believed that this represents an acceptable level.

The year-end HRA revenue reserve balance as at 31 March 2018 is forecast to be £3.722m.

The council has other reserves ear-marked for specific purposes. These are currently under review in order to ensure the optimal use of reserves. Details of these reserves and forecast balances can be found in the General Fund Budget and Council Tax Requirement 2017/18 report.

Tim Madden CPFA
Chief Finance Officer
7 February 2017

Appendix 6

EQUALITY IMPACT ASSESSMENT

Directorate: Organisational Change
Service: Finance

Accountable Officer: Tim Madden
Telephone & e-mail: 01303 853371 tim.madden@shepway.gov.uk

Date of assessment: 7 February 2017

Names & job titles of people carrying out the assessment:
Pat Main, Head of Finance

Name of service/function/policy etc: General Fund Revenue Budget 2017/18
Is this new or existing? Annual production of Council's General Fund Budget and Council Tax Setting.

Stage 1: Screening Stage

1. Briefly describe its aims & objectives

The council's Corporate Plan informs preparation of the Medium Term Financial Strategy (MTFS) and Budget Strategy which underpin preparation of the General Fund Revenue Budget each year.

The Budget is the detailed financial plan of how the council will operate its day to day activities to achieve corporate objectives.

2. Are there external considerations? (legislation/government directive etc.)

The council is required comply with the Local Government Finance Act 1992 (as amended) and associated legislation when setting the budget and council tax.

3. Who are the stakeholders and what are their interests?

The main stakeholders are local taxpayers, the electorate, Members and central government.

The General Fund budget report sets out planned expenditure and income for day to day service delivery activities. It informs taxpayers and the electorate about how council tax, government grants, business rates and other sources of income are utilised. It enables them to see in financial terms how Corporate Plan objectives will be delivered and how the council will deliver services and statutory functions during the year.

Members approve the budget and council tax. Their responsibility is to ensure that there are adequate resources to deliver policies and services and that approved budgets are used for the specified purpose. Stakeholders are consulted during budget-setting and may challenge the council if they identify any matters of concern in how these responsibilities are fulfilled.

Actual expenditure and income compared to the approved budget is monitored on a monthly basis throughout the year and is reported to Members every quarter. The approved budget is also reported to Central Government via an annual return.

4. What outcomes do we want to achieve and for whom?

The aim is to achieve a balanced budget that reflects the Medium Term Financial Strategy and Budget Strategy to satisfy the stakeholders as identified in 3. Also to ensure that the council's statutory responsibilities are fulfilled.

5. Has any consultation/research been carried out?

Yes.

Internally - consultation took place with the Corporate Management Team (CMT), Cabinet Members, Heads of Service and budget managers through their involvement in setting strategies. This informs the MTFS, the Budget Strategy, the annual budget and the fees & charges strategy. Heads of Service/budget managers are also asked to revise their service plans on an annual basis. This assists the detailed setting of the budget. The budgets are set in consultation with budget managers and signed off by service heads. Ultimately the budget is reviewed by CMT, Overview & Scrutiny Committee and Cabinet before being approved by Full Council.

Externally - during November 2016 the Council undertook budget consultation with key stakeholder representatives. The target audience and communication channels included:

Group	**Channel**
Residents	• Council website and social media • Online survey • Dedicated e-mail address • Option to receive/submit information by post
Business Community	• Attendance at Shepway Business Advisory Board
Other Community Groups	Direct engagement with: • Community Safety Partnership • Shepway Homelessness Forum • Shepway Older Person's Forum • Shepway Employment and Training Forum • Voluntary and Community Sector Forum • Youth Advisory Group
Town and Parish Councils.	Direct communication to invite feedback.

The revised Council Tax Reduction Scheme was also subject to extensive consultation prior to approval in December 2016.

6. Are there any concerns at this stage which indicate the possibility of inequalities/negative impacts? (Consider and identify any evidence you have - equality data relating to usage and satisfaction levels, complaints, comments, research, outcomes of review, feedback and issues raised at previous consultations, known inequalities) If so please provide details.

All these considerations will have been taken into account when EIAs have been completed by Service Heads for strategies that affect their services. For example the Council Tax reduction scheme. Any negative impacts will have been reviewed at that stage. The process for EIAs is part of the annual service planning process and all completed EIAs are coordinated centrally. In addition, all reports to CMT, Cabinet and Council require implications to be considered – this includes financial implications.

7. Could a particular protected characteristic be affected differently in either a negative or positive way? (Positive – it could benefit, **Negative** – it could disadvantage, **Neutral** – neither positive nor negative impact or **Not sure?)**

	Type of impact, reason & any evidence
Disability	Not applicable – individual service strategies and plans will address these impacts before they are included in the budget.
Race (including Gypsy & Traveller)	Not applicable – individual service strategies and plans will address these impacts before they are included in the budget.
Age	Not applicable – individual service strategies and plans will address these impacts before they are included in the budget.
Gender	Not applicable – individual service strategies and plans will address these impacts before they are included in the budget.
Transgender	Not applicable – individual service strategies and plans will address these impacts before they are included in the budget.
Sexual Orientation	Not applicable – individual service strategies and plans will address these impacts before they are included in the budget.
Religion/Belief	Not applicable – individual service strategies and plans will address these impacts before they are included in the budget.
Pregnancy & Maternity	Not applicable – individual service strategies and plans will address these impacts before they are

	included in the budget.
Marriage/ Civil Partnership Status	Not applicable – individual service strategies and plans will address these impacts before they are included in the budget.

8. Could other socio-economic groups be affected e.g. carers, ex-offenders, low incomes?

Yes – This will have been considered through the Corporate Plan and individual strategies and service plans before they are included in the budget.

9. Are there any human rights implications?

Yes – This will have been considered through the Corporate Plan and individual strategies and service plans before they are included in the budget.

10. Is there an opportunity to promote equality and/or good community relations?

Yes – This will have been considered through the Corporate Plan and individual strategies and service plans before they are included in the budget

11. If you have indicated a negative impact for any group is that impact legal? (not discriminatory under anti-discrimination legislation)

Not applicable

12. Is any part of this policy/service to be carried out wholly or partly by contractors?

No

Please note that normally you should proceed to a Stage 2: Full Equality Impact Assessment Report if you have identified actual, or the potential to cause, adverse impact or discrimination against different groups in the community. (Refer to Quick Guidance Notes at front of template document)

13. Is a Stage 2: Full Equality Impact Assessment Report required?

No

14. Date by which Stage 2 is to be completed and actions

N/A

Please complete

We are satisfied that an initial screening has been carried out and a full impact assessment **is not required***.

Completed by:	Pat Main	Date: 7 February 2017
Role:	Head of Finance	
Countersigned by:	Tim Madden	Date: 7 February 2017
Role:	Corporate Director, Organisational Change (Chief Finance Officer)	