Date: 11 January 2019
Our ref: Cabinet/Supplementary Agenda
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CABINET

15 JANUARY 2019

A meeting of the Cabinet will be held at **7.00 pm on Tuesday, 15 January 2019** in the Council Offices.

Membership:

Councillor Bayford (Chairman); Councillors: Savage, Ashbee, Game and I Gregory

SUPPLEMENTARY AGENDA

Item No	Subject
7.	**BUDGET 2019-20 REPORT** (Pages 3 - 72)

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Chief Executive: Madeline Homer

BUDGET 2019-20

Cabinet	**15 January 2019**
Report Author	**Tim Willis, Deputy Chief Executive and s151 Officer**
Portfolio Holder	**Cllr Ian Gregory, Cabinet Member for Financial Services and Estates**
Status	**For Decision**
Classification:	**Unrestricted**
Key Decision	**Non-key**
Reasons for Key	**Budget and Policy Framework**
Ward:	**All wards**

Executive Summary:

This report presents the budget for the General Fund, Housing Revenue Account, Capital Programme and the Treasury Management Strategy documents for 2019-20.

Recommendation(s):

1. Cabinet agrees and recommends to Council the following:

<u>General Fund</u>

1.1 That the General Fund revenue budget estimates for 2019-20 are approved.

<u>Housing Revenue Account</u>

1.2 That the HRA budget estimates for 2019-20 to 2022-23 are approved.

<u>Capital Programme</u>

1.3 That the General Fund and Housing Revenue Account budgets for 2019-20 are approved.

<u>Treasury Management</u>

1.4 That the Treasury Management Statement, Minimum Revenue Provision Policy Statement, Annual Investment Strategy, Capital Strategy and Non-Treasury Investments Report for 2019-20, as shown in Annex 3, are approved.

1.5 That the Flexible Use of Capital Receipts Strategy for 2019-20 as shown in Annex 2 is approved.

1.6 That the Section 151 Officer's Assurance Statement as set out in section 14 of this report is noted.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications of the budget are laid out within the body of the report.
Legal	Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Deputy Chief Executive and this report is helping to carry out this function. The requirements of other relevant statute have been referenced within the body of this report, where relevant.
Corporate	Corporate priorities can only be delivered with robust finances. Both the draft budget and the level of reserves recommended in this report are believed to be sufficient to contribute towards meeting those priorities and to deliver services.
Equality Act 2010 & Public Sector Equality Duty	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it. Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

Please indicate which aim is relevant to the report.	
Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,	
Advance equality of opportunity between people who share a protected characteristic and people who do not share it	
Foster good relations between people who share a protected characteristic and people who do not share it.	

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	✓
Promoting inward investment and job creation	✓
Supporting neighbourhoods	✓

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✔
Supporting the Workforce	
Promoting open communications	✓

1. INTRODUCTION

1.1 In September Cabinet approved the Medium Term Financial Strategy for 2019-23. The Strategy set out that, for 2019-20, there was a funding gap of £1.8m that needed to be met in order to arrive at a balanced General Fund budget.

1.2 Fees and charges have now been considered and approved by Cabinet on 15 November. They were then examined by the Finance, Budget and Performance Scrutiny Panel on 20 November and finally approved by Council on 6 December. Additional income of £189k will be generated in 2019-20 from the changes and has been built into the proposed budget.

1.3 The funding gap has been identified, but involves a number of actions and commitment to deliver the savings for next year. Unless this plan is adhered to, the council could be at significant risk of overspending the proposed budget. Grant Thornton, the council's external auditor, has already commented that the council's reserves do not provide much room for manoeuvre should savings not be identified (Grant Thornton Audit Findings Report 25 July 2018). But it is not just the identification of savings, it is the actual realisation of them.

1.4 This report considers:

1) The General Fund budget proposals for 2019-20.
2) The Housing Revenue Account (HRA) proposals for 2019-20 onwards.
3) The Capital Programme 2019-20 onwards.
4) Treasury Management Strategy documents for 2019-20.
5) Flexible Use of Capital Receipts Strategy 2019-20.

2. BACKGROUND

2.1 The budget has been prepared against a backdrop of significant funding uncertainty. The provisional settlement for 2019-20 was published on 13 December but the findings of the Fair Funding Review and review of Business Rates Retention that are to follow, mean that the council's future financial outlook is extremely difficult to judge. Whilst this report provides some future estimates (on capital and HRA) it is the 2019-20 financial year that remains the focus for consideration.

2.2 The objectives of the previously agreed Budget Strategy are to:

1. Adequately resource the council's statutory services and corporate priorities set out within the Corporate Plan.

2. Maintain a balanced General Fund such that income from council tax, business rates, grants and fees and charges is sufficient to meet its expenditure.
3. To keep council tax increases as low as possible so as to avoid triggering a local referendum.
4. To maintain the General Reserve at a level that is sufficient to cover financial risks and provide an adequate working capital.
5. To maximise the council's income by promptly raising all monies due and minimise the level of arrears and debt write offs, so as to optimise treasury management potential.
6. To actively engage local residents in the financial choices facing the council.
7. To have due regard to the impact on the general public and business communities from charges levied by the council as set out within its approved fees and charges.

3. 2019-20 PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT

3.1 The announcement of the provisional Local Government Finance settlement for 2019-20 was made on 13 December. The settlement is broadly in line with the indicative 2019-20 figures provided by Government a year ago.

3.2 Key points from the announcement are as follows:

- The Kent and Medway bid to be a pilot for 75% business rates retention in 2019-20 was unsuccessful. Therefore, the council will be part of a Kent pool under 50% business rates retention (as in 2017-18).

- Government published the 2019-20 New Homes Bonus provisional allocations. The baseline threshold over which growth is measured has remained at 0.4% and the number of years that Bonus is paid remains at four years as previously. The council is to receive Year 9 New Homes Bonus of £13k for 2019-20. Table 3 illustrates the impact on the council of the changes since 2017-18 onwards. From 2018-19 to 2019-20 the reduction in New Homes Bonus is over £400k.

- There is a surplus on the Government's Business Rates Levy account which is being re-distributed to local authorities. The council is to receive £76k on a one-off basis.

- The confirmation that shire district councils will be allowed increases in council tax of up to 3%, or up to and including £5, whichever is higher. For Thanet, the 3% measure is the higher and is currently being used to inform the proposed council tax.

- A further reduction in the council's funding allocation from the Government towards housing benefit administration of £78k.

3.3 The funding announced in the Provisional Finance Settlement for 2019-20 is outlined in Table 1 below.

Table 1 - Provisional Government Funding

	2018-19 Actual £000	**2019-20 Provisional £000**
Revenue Support Grant	0	**97**
Business Rates Baseline	13,104	**13,405**
Tariff payable to Government	(7,434)	**(8,432)**
Settlement Funding Assessment	5,670	**5,070**

4. BUSINESS RATES RETENTION

4.1 The council is currently part of the Kent wide Pilot for 100% business rates retention. The pilot allows for levies payable to the Government, arising from growth, to be significantly reduced. Experience to date shows that the Pilot has been successful in retaining significant growth above baseline.

4.2 However, the application for Kent to be a pilot for 75% Business Rates Retention in 2019-20 has been unsuccessful. Instead, Thanet will be part of the 50% rates retention Kent pool.

4.3 The council’s anticipated business rates budget for 2019-20 is £5.5m, made up as follows:

Table 2 - Anticipated Business Rates 2019-20

	£000
Business rates baseline	**13,405**
Anticipated growth above baseline	**572**
Less: tariff	**(8,432)**
Business rates retained	**5,545**

5. NEW HOMES BONUS

5.1 The New Homes Bonus was introduced from 2011-12 as a financial incentive and reward for housing growth. The growth is based on a national average Council Tax value of additional homes including any properties brought back into use. There is also an additional premium for affordable homes.

5.2 Following changes introduced in 2017-18 the scheme is based on a 4 year period commencing from 2018-19 and growth over baseline of 0.4% is taken into account.

5.3 For 2019-20 the council is expected to receive £600k in New Homes Bonus. This is £400k lower than the 2018-19 allocation. The profile of the expected grant payments is outlined in Table 3.

Table 3 - New Homes Bonus (anticipated for 2019-20)

	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Scheme Year	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Year 3	403					
Year 4	562					
Year 5	425	425				
Year 6	485	485	485			
Year 7	5	5	5	5		
Year 8		96	96	96	96	
Year 9			13	13	13	13
TOTAL	**1,880**	**1,011**	**599**	**114**	**109**	**13**

5.4 The New Homes Bonus is a flexible, non ring-fenced grant for local authorities to spend as they deem appropriate. This can include:

- Re-investing in housing or infrastructure.
- Support for local services or facilities.
- General financial support to hold down council tax levels.

5.5 The council has used the Bonus to support the General Fund Budget for 2019-20.

6.0 COUNCIL TAX BASE AND COLLECTION RATE

6.1 Under section 33 of the Local Government Finance Act 1992 (as amended) and supporting Regulations, the council must make an annual calculation of its tax base. The tax base is the total number of properties on which Council Tax will be charged expressed as a band D equivalent, after allowing for discounts, exemptions and losses on collection. The method of calculation is prescribed in the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012.

6.2 The tax base is used in the calculation of the Council Tax Requirement, to produce the standard amount of Council Tax for a band D property, in relation to both the District and the major precepting authorities.

6.3 As in previous years, the calculation of the tax base has been amended to take account of the Council Tax Support Scheme (CTSS). The replacement of Council Tax Benefit with CTSS effectively reduces the tax base, as CTSS is provided as a discount against the Council Tax liability rather than a rebate which was previously repaid to the Council via Government Subsidy.

6.4 The impact of CTSS, has, in part, been offset by the previously approved changes to the council tax discounts. The resultant tax base for 2019-20 is 43,763 and is being considered by Cabinet for approval on this same agenda. This compares to a figure of 42,905 for 2018-19.

6.5 The calculation of the Council Tax Base for a given year includes an assumption of the percentage of amounts due which are actually collected. The forecast collection rate has been assumed as 98.0% and has been included within the budget calculations. Note - Please see Section 8 for Council Tax increase implications.

7. COLLECTION FUND

Council Tax

7.1 Following a calculation of the income and expenditure in the Collection Fund relating to council tax for this year, it is estimated that there will be an accumulated surplus of over £800k to be distributed by 31 March 2019. Table 4 shows how this will be distributed. This estimate remains to be finalised.

Table 4 - Estimated Collection Fund surplus distribution (to be finalised)

Authority	Amount £000
Thanet District Council	100
Kent County Council	625
Kent Police and Crime Commissioner	78
Kent Fire and Rescue Service	36

7.2 The distribution is prescribed by legislation. The surplus has to be shared amongst the major precepting authorities in accordance with their original precept value (for Thanet this equates to about 13%). The amount of surplus must then be included within the budget for 2019-20 to reduce the Council Tax Requirement for the year.

Retained Business Rates

7.3 It is currently anticipated that there will be no surplus/deficit on the business rates Collection Fund.

7.4 The impact of any changes, to the estimated yield, from being in a Pool, will be managed through the Collection Fund in the normal manner.

8. GENERAL FUND REVENUE BUDGET 2019-20

8.1 The MTFS 2019-23 was agreed by Cabinet on 18 September and set out themes to be adopted to address the projected funding gap of £1.832m for 2019-20 and contribute towards the gap for future years. These were as follows:

- Transforming the way we work, particularly through effectively realising the benefits digital technology can offer.
- Exploring alternative and sustainable income streams, for example in the trade waste area.
- Explore and look to invest in commercial opportunities that can generate positive economic returns to the district (cash returns or by promoting growth). The council can look to use some of its benefits from being in the Kent Business Rates Pool to good effect in this way.
- Focusing on making better use of the significant assets the council owns such as the Port of Ramsgate, Dreamland, office accommodation.
- Ongoing financial stewardship i.e. review of 2017-18 actual spend, 2018-19 base budget, appropriateness of reserve levels, fees and charges.

8.2 The proposed budget for 2019-20, which deals with the funding gap identified within the MTFS, is summarised in Table 5 below.

Table 5 - Summary General Fund Revenue Budget 2019-20

	£000	**£000**
Opening Funding Position		16,800
Budget pressures (including inflation but excluding funding)		1,083
Income generation and efficiencies	-1,050	
Fees and charges	-190	
Total Savings		-1,240
Net Budget Requirement		**16,643**
Funded by:		
Government funding (including RSG, business rates and		-6,338

New Homes Bonus)		
Collection Fund surplus		-100
Council Tax income		-10,205
Net Financing		**-16,643**
Tax Base		**43,763**
Indicative Band D Council Tax		**£233.19**
% Increase on Band D		**2.98%**
£ increase on Band D		**£6.75**
General Reserve b/fwd		**2,011**
Contribution to/from reserve		**-**
General Reserve c/fwd		**2,011**

Addressing the funding gap

8.3 Savings, efficiencies and increases in income are proposed to bridge the funding gap in 2019-20 of £1.35m as outlined below in Table 6. The MTFS budget gap of £1.832m has increased slightly because of a small fees and charges income shortfall (£12k). The main change has been to net off the £500k growth for the port, which had previously been included in the £1.832m budget gap.

Table 6 - Income generation and efficiencies 2019-20

Proposed Savings	**£000**
Corporate resources savings	-170
Ramsgate Port (£230k in a full year, £130k in 2019-20)	-130
Organisational efficiencies	-250
Additional investment income	-40
Business transformation vacant post	-70
Cleaning and facilities management review	-40
Facilities within the district	-175

Reduction in homelessness growth	-150
Efficiencies in EK Services (£50k in a full year, £25k in 2019-20)	-25
Total for services	**-1,050**
Additional business rates income included within funding	-300
Final total	**-1,350**

8.4 In view of the financial pressures that were identified within the MTFS, the council has had to make some tough decisions. It has reviewed a number of services where savings and/or efficiencies can be realised in order to arrive at a deliverable/balanced budget. The largest single item is related to the port, which is proposed to have £500k growth removed and a further £130k savings, totalling £630k (or £730k in a full year). This recognises that in the absence of a ferry operation, the port will undertake significant cost reductions to start to reduce its budgeted deficit. The key decision point for the port is the Council meeting on 7 February, which sets the 2019-20 budget. If there is not a confirmed, contracted ferry operation by the end of January when the Council budget report is published, the cost savings will be recommended and if approved, will be actioned. Any further delay would require alternative savings to be identified, which is too late to inform the presentation of a balanced budget to Council.

MTFS 2019-23

8.5 On the basis that the savings detailed above are deliverable and remain permanent the projected updated General Fund deficit over the medium term is as follows:

Table 7 - Updated General Fund deficit projection

	2019-20	2020-21	2021-22	2022-23
	£000	£000	£000	£000
Updated deficit	-	962	1,001	1,112

Work must commence on addressing the deficit for 2020-21 onwards as soon as the year end out-turn and reserves position has been determined. If permanent deliverable savings can be realised in 2020-21 it will make a significant contribution to reducing the deficit thereafter.

Working Balances and Reserves

8.6 Section 32 of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their Council Tax Requirement.

8.7 The Section 151 Officer is responsible for providing advice so that decisions taken on reserves represent proper stewardship of public funds. Reserves should be set at a level at least sufficient to meet any unexpected increase in expenditure or shortfall in income in the ensuing year that cannot be met from within the approved budget. Any decision that fails to take into account his advice may require a report to be made to the council under Section 114 of the Local Government Finance Act 1988.

8.8 Section 25 of the Local Government Act 2003 includes a duty on the Section 151 Officer to report, at the time the Council Tax is set, on the robustness of the budget calculations as well as the adequacy of the council's reserves and other matters (see Section 13 'Section 151 Officer's Assurance').

8.9 The Act also provides an enabling power for the Secretary of State to specify a statutory minimum level of reserves (Section 26 of the 2003 Act). The level of reserves is also a factor the external auditor will consider in appraising the council's financial standing. In providing advice to the council on the level of reserves, the Section 151 Officer has also had regard to professional guidance provided by CIPFA.

8.10 These safeguards are further reinforced through detailed scrutiny by our external auditors, which includes a methodology to assess the financial performance and standing of the authority.

8.11 When reviewing medium term financial plans and preparing annual budgets, Members should consider the establishment and maintenance of reserves. These may be held for three main purposes:

(i) As a working balance to help cushion the impact of unexpected budgetary pressures.
(ii) As a contingency to cushion the impact of significant unexpected events or emergencies.
(iii) As a means of building up funds to meet known or predicted requirements and again to prevent significant fluctuations in net budget cost between years (earmarked reserves).

8.12 General Fund reserves consist of a number of earmarked reserves, together with the unallocated general reserve.

8.13 All reserves and balances form part of the General Fund but the Housing Revenue Account balance is specifically 'ring fenced' for use in connection with that account.

8.14 In addition to the cash-backed reserves described above, local authorities maintain a number of other reserves in the balance sheet. Some are required for statutory reasons and other reserves are required to comply with proper accounting practice. In either case these balances are not available for investment.

8.15 As part of the MTFS approved in February 2017, a minimum General Fund reserve of £2.0m was agreed. In accordance with best practice, an annual risk assessment is undertaken to check the level required for 2019-20. Revised calculations show that the assessed level should remain at £2.0m.

8.16 Although this report on adequacy of reserves is specific to 2019-20, the council should bear in mind that adequacy should also be judged against longer-term plans.

8.17 The council is currently predicting a significant funding gap after 2019-20 with the General Fund reserve depleted during 2022-23, if the future funding gap is not addressed. Whilst it is not permissible or feasible for the council to rely on the use of reserves on an ongoing basis to balance its budget, it may apply reserves as part of a short term strategy to manage, for example, a period of transition during which efficiency savings are identified to provide a longer term solution. Until the budgets for each year are balanced it is prudent for the council to plan on maintaining a level of reserves in excess of the minimum recommended level.

8.18 In addition to the General Fund reserve, the council keeps a number of earmarked reserves on the Balance Sheet. These reserves are required in order to comply with proper accounting practice, whilst others have been created to earmark resources for known or predicted liabilities. The balance of these Reserves as at 1 April 2018, including capital reserves, was around £42 million.

8.19 A summary of the projected reserves, allowing for the budget proposals, is shown in Table 8 below for information.

Table 8 Council Reserves

Reserves	31 Mar 18	Movement	31 Mar 19	Movement	31 Mar 20
	£000	£000	£000	£000	£000
General Fund	2,011	-	2,011*	-	2,011
HRA - Balances Reserve	7,753	(1,110)	6,643	175	6,818
Earmarked - GF	7,777	581	8,358	141	8,499
HRA - New Properties/ Repairs Reserve	5,244	(534)	4,710	(452)	4,258
Capital	9,221	(3,947)	5,274	(2,472)	2,802

receipts					
HRA - Major Repairs Reserve	10,019	(2,246)	7,773	1,232	9,005
Total	**42,025**	**(7,256)**	**34,769**	**(1,376)**	**33,393**

* The quarter 2 monitoring position projects a current overspend of £680k. Should this overspend not be dealt with by year end the General Fund reserve will stand at £1,331k.

Residents Survey 2018

8.20 A residents survey was undertaken during September and October 2018 covering a range of questions about the local area, the services the council provides and feedback on the council's performance. It also asked for views on the future budget and what residents would do if a service they cared about was at risk of being cut.

8.21 The council received 736 responses, a response rate of 12%.

8.22 It was found from the responses that nearly two-thirds were surprised that the council receives such a small proportion of the overall Council Tax bill. Almost 40% of respondents showed agreement to the statement that the council provides value for money for the Council Tax that is paid. Residents were more likely to support transferring services to parish/town councils and reducing councillor numbers if a service was at risk of being cut. However, they would be less likely to support an increase in council tax or make one off donations in such a case.

8.23 Respondents felt that the three things that most need improving in Thanet are clean streets, feeling safe and thriving towns. The council's budget and Medium Term Financial Strategy supports the corporate priorities set out within the Corporate Plan which very much focuses on delivering in these areas of concern.

9. Council Tax Referendum and Council Tax

9.1 As part of the 2011 Localism Act, Council Tax capping in England has been abolished and replaced by new powers for residents to approve or veto excessive tax increases through a referendum. If the residents vote against the increase, the council will have to revert to a Council Tax level that is compliant with the Government's proposed increase.

9.2 A Council Tax referendum principle of 3% & over and £5 will apply for 2019-20 to all shire districts.

9.3 The provisional settlement shows that the Government will continue to defer the setting of referendum principles for towns and parishes.

9.4 To hold a referendum is a costly exercise to undertake, with estimates in excess of £50,000, and would have to come from the council's budget. This means that other savings would have to be identified to fund it. In addition, the council would have to have justifiable cause to put to the electorate for what is regarded as an excessive increase.

9.5 The financial effect of a 2.99% rise is as follows:

Table 9 – Council Tax Increase yields

Year	2.99% Increase £000
2019-20	296
2020-21	305

10. GENERAL FUND CAPITAL PROGRAMME

10.1 This section considers the Capital Programme and supporting strategy for the period 2019-20 to 2022-23.

10.2 A minimum level of £10k has been set for capital expenditure on a fixed asset which is expected to be in use for more than one year. Expenditure below this value is not treated as capital and is therefore not recorded on the asset register or funded from capital resources. Capital expenditure also includes qualifying grants and loans, such as those provided for the enhancement of buildings to increase the extent to which they can be used by a disabled or elderly person. Capital expenditure can be met from borrowing, capital receipts, capital grants or revenue contributions.

10.3 Due to the complex and large scale nature of capital projects, the original budgets have to be based on estimations that often need revising as the project advances. This in turn leads to re-phasing of the capital programme, in order to keep the overall costs within the agreed bottom line.

10.4 **The Asset Management Plan**

10.5 By far the largest element of the council's capital worth (as represented by the fixed asset values on the balance sheet) is in its property holdings, with a total of £244 million showing as the net book value of all property assets as at 31 March 2018 (after depreciation has been applied). In line with Government and best practice guidelines, the council is required to have prepared and published an Asset Management Plan (AMP) which outlines its approach to its material asset holdings. This is to ensure that it acts responsibly in terms of undertaking a stewardship role over valuable public assets whilst deriving the maximum use from them in terms of service delivery so that value for money is able to be evidenced.

10.6 The council's Asset Management Plan outlines the principles, criteria and processes that form the cornerstone of the Capital Programme. This requires a continuous assessment of the relative value of an asset (both financial and non-financial) in order to ensure that the council's investment in its assets is working to optimum effect. This is especially important in the current financial climate, where assets that are no longer viable or surplus to requirements need to be disposed of in order to reduce the council's liabilities and to generate capital receipts to fund new developments or be transferred for Community benefit.

10.7 **The Capital Budget Strategy**

10.8 Although the Asset Management Plan is used to inform the contents of the capital budget, it is only one element. In order to ensure that the capital budget is able to meet the council's needs in the wider sense and to manage the impact on the revenue budget, the development and use of the Capital Programme is underpinned by a Capital Budget Strategy as follows:

- To maintain an affordable four-year rolling capital programme.
- To ensure capital resources are aligned with the Council's strategic vision and corporate priorities.
- To undertake Prudential Borrowing only where there are sufficient monies to meet in full the implications of capital expenditure, both borrowing and running costs.
- To maximise available resources by actively seeking external funding and disposal of surplus assets.
- To engage local residents in the allocation of capital resources where appropriate.

10.9 Due to the limited availability of capital receipts and the need to contain the level of borrowing undertaken to minimise the revenue impact, it has been necessary to review the Capital Programme. This is to ensure sufficient funding is available for existing schemes that have commenced and that any new projects are of the highest corporate priority and/or reduce the pressure on the revenue account.

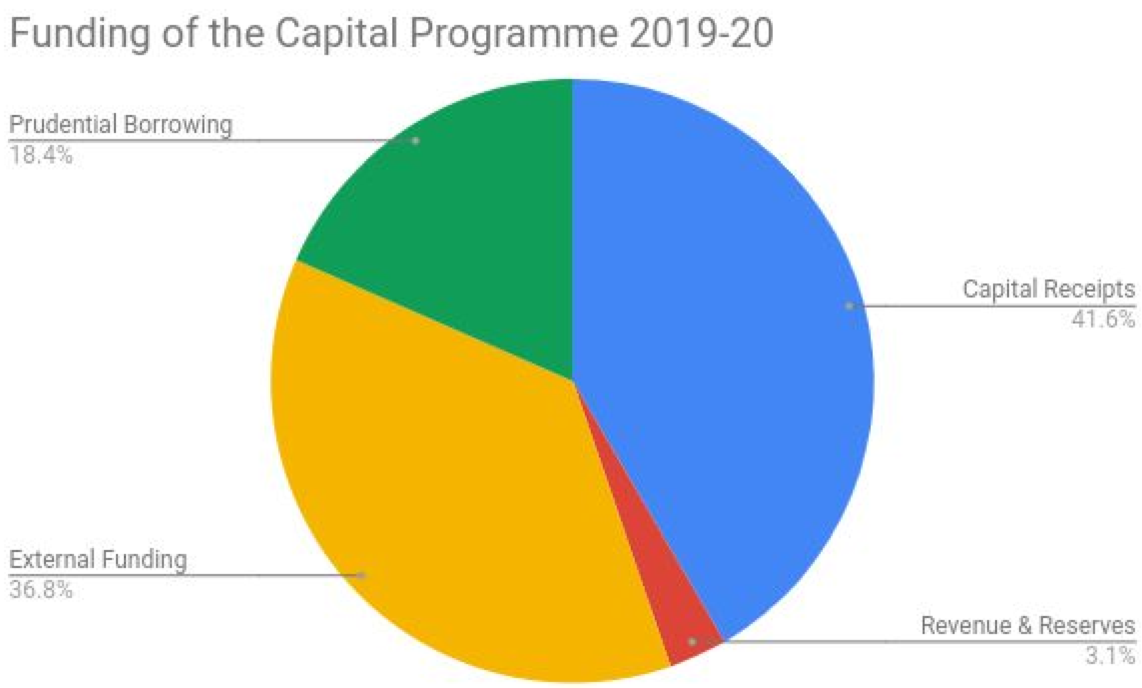
10.10 Applications for Capital Bids have been reviewed by the Corporate Management Team and scored against a weighted matrix to ensure they focus on the council's core priorities, health and safety requirements, the generation or protection of income streams and affordability. The level of resources available raises a number of issues and risks for future years, which need to be addressed. Over the past few years the council has seen significant constraints in its available capital receipts. It is difficult to estimate the funding level achievable as a number of changes often arise to the asset disposal programme once the consultation process has been completed. In the event that sufficient disposals cannot be realised in 2019-20 onwards this will result in a need to reduce or defer the capital programme or to borrow, thus increasing the revenue pressure on the General Fund. Regular monitoring will need to be reported back to members and the Capital Programme adjusted accordingly.

10.11 There is limited scope for future investment in new assets or making improvements to existing buildings. The Asset Management Plan is key in delivering resources to the Capital Budget Strategy and reducing the size of the council's asset and property portfolio. It is imperative that limited resources do not damage the council's ability to maintain its significant income streams as assets deteriorate from lack of investment. The current portfolio is not maintainable with the current funding available for repairs and maintenance and resources available and given the council's funding position this is unlikely to improve. It is likely that over the next four years some difficult decisions will need to be made on some of the asset holdings. There are limited capital resources to fund any overspends/new requirements which could occur during the financial year. Any additional schemes during the financial year are likely to require an existing scheme to be deferred or funds re-allocated unless there is headroom in the General Fund to borrow.

10.12 **Available Capital Funding**

10.13 Capital expenditure can be financed from revenue resources, capital grants, usable capital receipts and borrowing. The General Fund can only be used to fund General Fund related capital expenditure, and the Housing Revenue Account (HRA) can only finance expenditure on HRA assets; there can be no cross subsidisation between accounts. In both cases, the revenue resources are limited.

A summary of the 2019-2023 capital resources utilised to fund the Capital Programme is detailed in Annex 1, but shown graphically below.



10.14 **Capital Grants** – these are offered by external funders to assist with certain types of expenditure. Capital grants include: Environment Agency, Lottery funding and European grants. The Better Care Fund allocation for 2019-20 is estimated at £2.789m of which £2.420m has been set aside to fund the Disabled Facilities Grants within the capital programme with the rest being utilised by County for other disabled adaptations. The 2019-20 Capital Programme also includes projects to bolster Thanet's sea defences (funded by the Environment Agency) and the restoration, refurbishment and modernisation of Ellington Park, Ramsgate (funded by the Heritage Lottery Fund).

10.15 **Capital Receipts** – When a fixed asset is sold, provided that the sale receipt is over £10k, the income has to be treated as a "capital receipt", which means that it can only be used to fund capital expenditure. All of the monies received from the disposal of General Fund assets are available to the council for use.

10.16 Before the start of each financial year, a Flexible Use of Capital Receipts Strategy should be prepared as part of the Annual Budget documents. This sets out the rare occasions the council can apply to Government to capitalise expenditure that would normally be deemed as revenue. Government has advised that the council can apply to capitalise the costs of transformational revenue reform projects. The Capital Receipts Strategy is set out in Annex 2 and details the criteria where this may be considered as per guidance issued by Government.

10.17 The level of capital receipts available from the sale of surplus assets has been very constrained over the last few years. Reasons for this have included the economic situation, assets being removed from the disposal list following consultation, and capital funding being switched from reserves to capital receipts wherever possible due to significant pressures on the council's revenue budget. Members should note that an estimated £5.181m in capital receipts has been forecast to fund the 2019-20 programme derived in part from the asset disposal report present to Cabinet on 14 June 2018. This will be monitored closely during the financial year, as it may be necessary to adjust the programme in year depending on asset disposal and funding outcomes.

10.18 **Unsupported Borrowing** – The Local Government Act 2003 gave local authorities the ability to borrow for capital expenditure above the level supported by Government Grant, provided that such action complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Prudential Borrowing ("The Prudential Code"); the objectives of which are to ensure that capital investment plans are affordable, prudent and sustainable. Essentially, it provides a number of controls to ensure that the council does not incur additional debt without fully understanding the financial implications both now and in the future. It is anticipated that borrowing of £2.296m will be required to support the General Fund Capital Programme in 2019-20.

10.19 **Capital Projects Reserve** – Balances in this reserve were materially reduced in 2015-16 due to significant pressures on the council's budget, and it is anticipated this will continue in 2019-20 onwards.

10.20 The Capital Programmes for 2019-20 to 2022-23

10.21 The following budget amounts have been re-profiled from the 2018-19 capital programme to 2019-20: Homelessness Accommodation (£1,630,000), Ramsgate Flood and Coast Protection Scheme (£1,060,000), Westbrook to St Mildred's Sea Wall Work (£600,000), Ramsgate Port Berth 2/3 & 4/5 Replacement (£450,000).

10.22 **Existing Programmes already agreed** – Programmes already agreed from previous years within the four year programme are the Disabled Facilities Grants, Ellington Park, Northdown Road Townscape Heritage, Dreamland, Homelessness Accommodation, End User Computing Refresh of Devices, IT Infrastructure, Property Enhancement Programme, Vehicle & Equipment Replacement Programme, Royal Harbour (Leopold Street) Multi-Storey Car Park, Louisa Bay to Dumpton Gap Sea Wall Work, Westbrook to St Mildred's Sea Wall Work, Viking Bay Flood Defence Scheme, Stone Bay Sea Wall Work, Ramsgate Harbour Water Supply Upgrade, Ramsgate Flood and Coast Protection Scheme, Broadstairs Flood and Coast Protection Scheme, Ramsgate Harbour Sluice Gate, Replacement of Lead Lights at Port, Ramsgate Harbour Fuel Barge Access Ramp and Ramsgate Port Berth 2/3 & 4/5 Replacement.

The Email System Replacement project previously agreed is no longer required, as the council has subsequently moved to Gmail as part of the End User Computing Refresh of Devices project.

10.23 **Funding position** - Due to continuing pressure on the council's funding position, the new capital projects below are predominantly 'spend to save', income generation, health and safety and externally funded projects. The absence of a new Asset Management Plan and comprehensive disposals programme has made it difficult to project the estimated capital receipt income anticipated over the next 4 years. Those capital projects that have no identified funding source and are reliant on capital receipts may need to be reconsidered, once capital receipts have been received and the project funding identified.

10.24 **New Capital Projects**

10.25 Capital bids for the forthcoming years have been reviewed and scored. Where projects require prudential borrowing further details can be found within the attached Annex 3.

Capital Table 1: New Capital Projects

New Capital Project	Project Outline
Printer Renewal	Purchase rather than lease printers, where cost-effective to do so.
New Air Conditioning for Server Room	Replace old air conditioning so that IT servers do not overheat.
Parkway Railway Station	Assist in the establishment of a new railway station in Thanet.
Office Accommodation	Ensure the council's office accommodation remains as cost-effective as possible.
Memorials for Children's Area in Margate Cemetery	Redesign of the children's area in Margate Cemetery, including the introduction of memorials appropriate for the loss of a child.
Automatic Cremator Charging Equipment	Installation of an automatic charger (to site coffins correctly in the cremator) and strengthening of the catafalque (used to support coffins).

10.26 **The Draft Capital Budgets 2019-20 to 2022-23**

10.27 The draft General Fund Capital Expenditure Budget for 2019-20 that is proposed for Members' approval is £12.456m (including 2018-19 re-profiling identified below), which will be funded in the main from capital grants, usable capital receipts and prudential borrowing. This is shown in summary format below.

Capital Table 2: Draft Capital Programme 2019-2023

	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Statutory and Mandatory Schemes	0	2,420	2,420	2,420	2,420
Schemes Continuing from Prior Years	450	1,473	0	0	0
Annual Enhancement Schemes	0	805	2,492	739	1,037
Wholly/Part Externally Funded Schemes	1,660	693	3,260	780	260
Construction, Replacements and Enhancements	1,630	3,250	5,189	0	0
Capitalised Salaries	0	75	75	75	75
Total Capital Programme	**3,740**	**8,716**	**13,436**	**4,014**	**3,792**

Expenditure					
Capital Resources Used:					
Capital Receipts and Reserves	446	5,037	503	314	612
Capital Grants and Contributions	1,500	3,088	5,630	3,200	2,680
Contributions from Revenue	64	25	50	0	0
Prudential Borrowing	1,730	566	7,253	500	500
Total Funding	**3,740**	**8,716**	**13,436**	**4,014**	**3,792**

11.0 Housing Revenue Account Budget and Housing Capital Programme

11.1 The council's responsibilities in respect of the need to keep a Housing Revenue Account (HRA) are contained within Section 74 of the Local Government and Housing Act 1989 ('The Act') and its use is heavily prescribed through statute. The HRA records all of the revenue expenditure and income relating to land, dwellings and other buildings provided under Part II of the Housing Act 1985 and corresponding earlier legislation. It must be kept separate from the General Fund Revenue Account and therefore is to all intents and purposes ring-fenced. Although the HRA for an individual year may result in a deficit, it is a requirement of 'The Act' that overall it must maintain a surplus, which means that expenditure must be carefully planned to remain within the limits of the anticipated income streams over the medium term.

11.2 The Housing Revenue Account Strategy

11.3 The main strategic objectives of the Housing Revenue Account, which provide the underlying principles for financial planning, and allow the council to remain within the legislation, are as follows:

- To maintain a Housing Revenue Account that is self-financing and reflects both the requirements of residents and the strategic visions and priorities of the council.
- To maintain current Housing Stock at Decent Homes Plus standard.
- To increase or improve the council's housing stock through new build and bringing empty properties back into use.
- To consider the disposal of stock that is not viable to generate capital receipts for re-investment in new or existing stock.
- To maximise the recovery of rental incomes by moving void properties to "target rent", reducing the number of void properties and minimising the level of rent arrears and debt write offs.
- To maintain a minimum level of HRA reserves of £800k but with a target level of reserves of £1m.

11.4 **Details of the HRA expenditure estimates**

11.4.1 **Contract and Price Inflation** - For direct expenditure budgets, price increases have been included at 2.5%, which is the best estimate of the level of inflation at this point in time, unless there is a known inflation factor within a specific contract, in which case this has been used.

11.4.2 **Repairs and Maintenance -** The net revenue budget has increased by £84k in most part to reflect contractual inflation.

11.4.3 **Supervision and Management General** – EKH have submitted proposals in regards to the management fee and a business case for additional staff, mainly in relation to rent collection and universal credit support.

Thanet are included in the EKH Northgate single system project. Any additional costs relating to the project will be reflected in 2018-19.

A new fees and charges schedule for 2019-20 were approved by Council on 6 December 2018.

11.4.4 **Bad or Doubtful Debts Provision** – The provision for bad or doubtful debts for 2019-20 will increase to £200k.

Due to increased rent arrears and the effects of universal credit, it is anticipated that bad debts will increase and so the budget for the provision for bad and doubtful debts has been increased by £30k, while mitigating actions are under review.

11.4.5 **Depreciation for Fixed Assets** – The estimated depreciation charge for dwellings is calculated at £3.6m in 2019-20, the depreciation charge for other HRA assets is estimated to be £110k.

11.4.6 **Debt charges** – Since the self-financing settlement, the council has operated a two loan pool approach whereby the HRA and GF are each responsible for the repayment of their own apportionment of loans. As part of the self-financing settlement, the HRA currently has its debt capped at £27.792m. As at 1 October 2018 the HRA had £20.04m of loans outstanding. A loan repayment of £888k becomes due for repayment on 1st April 2019.

11.5 Details of the HRA income estimates

11.5.1 **Rent Increases** – Social rents have been set based on government rent guidance. Affordable Rents are linked to local market rents and to the Local Housing Allowance for the area. Rents are applied to individual properties at the lower of either 80% of the local market rent or the Local Housing Allowance.

For 2019-20 social and affordable rents will be decreased by 1% in line with the government rent guidance. Across the whole stock the average rent is £80.36, this is an average decrease of £0.77p per property.

For 2020-21 to 2024-25 an estimated 2% inflationary increase has been assumed.

AVERAGE RENTS 2019-20		
PROPERTY TYPE	SOCIAL RENT	AFFORDABLE RENT (inclusive of service charges)
BEDSITS	£55.72	-
1 BED HOUSE	£76.17	£76.17
1 BED FLAT	£65.78	£72.13
2 BED HOUSE/BUNGALOW	£82.01	£96.46
2 BED FLAT	£73.77	£104.77
3 BED HOUSE	£91.84	£115.93
3 BED FLAT	£85.38	£135.45
4 BED HOUSE	£100.56	£146.81
4 BED FLAT	£88.16	£143.43
5 BED HOUSE	£108.55	-

11.5.2 **Non Dwelling Rents** - Income generated from aerials on tower blocks is expected to increase by £19k as a number of leases are due for renewal. Garage rents are to remain at £12 per week. All sites are being reviewed for development and regeneration opportunities, as well as a new planned maintenance programme.

11.5.3 **Service Charge Increases** – Service charges are calculated based on actual cost. Tenant service charge increases continue to be capped at £3 a week.

11.5.4 **Heating Charges** – Heating charges will be recovered on actual cost based on usage and contract price and then apportioned across the block dependant on bedroom size.

11.5.5 **Investment Income** – This consists of interest accruing on mortgages granted in respect of Right to Buy sales and interest on HRA balances. The budget for 2019-20 of £240k is based on achieving an average interest rate of 1%.

11.6 The Housing Revenue Account Reserves

11.6.1 The council operates three HRA reserves: a HRA Major Repairs Reserve, the HRA Balance Reserve and the HRA New Properties Reserve:

11.6.2 **Housing Revenue Account Major Repairs Reserve** –. An amount equivalent of the actual depreciation charge for dwellings is transferred to the

Major Repairs Reserve to fund capital works to the existing stock. The estimated transfer to the Major Repairs Reserve for 2019-20 is £3.6m.

This funding, together with previous allocations of supported borrowing and revenue contributions, with good management, has enabled the council to maintain the housing stock in a good condition. The council currently maintains its social housing to Decent Homes Plus standard.

11.6.3 **Housing Revenue Account Balance Reserve** – This reserve holds the balance of the HRA Account and is used to draw down to balance the revenue budget and smooth out any peaks and troughs within the 30 year business plan. It is maintained by annual contributions from the HRA. As at 1 April 2018 this reserve balance was £6.71m.

11.6.4 **HRA New Properties Reserve** – This reserve holds funds set aside to fund either new build properties or the acquisition of suitable properties for use within the HRA. Earmarked match funding for the Margate Intervention, New Build Programme and 141 Acquisition Programme has been set aside in this reserve as agreed by Cabinet. As at 1 April 2018 this reserve balance was £5.37m and is due to be drawn down during the 2018-19 and 2019-20 programmes. Income generated from affordable rents will continue to be set aside in this reserve for re-investment.

DRAFT - HOUSING REVENUE ACCOUNT BUDGET				
	2019-20	**2020-21**	**2021-22**	**2022-23**
	£'000	**£'000**	**£'000**	**£'000**
Income				
Dwelling Rents (gross)	-12,345	-12,701	-13,174	-13,437
Non-dwelling Rents (gross)	-227	-227	-227	-227
Charges for services and facilities	-466	-480	-503	-528
Contributions towards expenditure	-366	-366	-366	-368
Income Sub Total	**-13,404**	**-13,774**	**-14,270**	**-14,560**
Expenditure				
Repairs & Maintenance	3,361	3,271	3,337	3,405
Supervision & Management – General	3,163	3,065	2,972	2,944
Supervision & Management – Special	741	780	821	866
Rents, rates, taxes and other charges	254	258	268	279
Bad or doubtful debts provision	200	200	200	200
Depreciation/impairment of fixed assets	3,754	3,754	3,754	3,754
Capital Expenditure funded from HRA	1,370	3,067	1,606	300
Debt Management Costs	9	9	9	9
Expenditure Sub Total	**12,852**	**14,404**	**12,967**	**11,757**
Net Costs of Services Sub Total	**-552**	**630**	**-1,303**	**-2,803**
Share of Members and Democratic Core	148	151	154	157
HRA Investment Income	-240	-360	-420	-420
Debt Interest Charges	946	1,022	1,204	1,370
Government Grants and Contributions	0	0	0	0
Adjustments made between accounting basis and funding basis	117	-2,335	-821	588
(Surplus)/Deficit on HRA	**419**	**-892**	**-1,186**	**-1,108**
Housing Revenue Account Balance:				
Estimated Surplus at Beginning of Year	-6,714	-6,295	-7,187	-8,373
(Surplus)/Deficit for Year	419	-892	-1,186	-1,108
Estimated Surplus at End of Year	**-6,295**	**-7,187**	**-8,373**	**-9,481**

11.7 The HRA Capital Programmes for 2019-20 to 2022-23

11.7.1 The major works capital programme budgets have been allocated according to the latest stock condition survey report.

11.7.2 Due to continuing financial pressures and ongoing health and safety priorities, the Environmental Improvement Programme budget remains suspended.

11.7.3 A new planned maintenance budget has been allocated for 2019-20 to refurbish all garages in need of major repairs.

11.7.4 The current new build programme is progressing well. Phase 1 is due to complete in November 2018, delivering 11 affordable homes. Phase 2 and 3 are due to start on site in 2019-20, delivering 40 units. 5 affordable homes are due to complete in 2019-20 and the remaining 35 in 2020-21.

11.7.5 The Margate Housing Intervention is also continuing to make progress. 24 Ethelbert Crescent is due to complete in 2019-20, delivering 3 affordable homes. Godwin Road and Warwick Road developments have both encountered problems, however both projects are now scheduled to complete late 2019-20.

11.7.6 The 141 replacement acquisitions programme is to continue into 2019-20. 5 new properties have been acquired so far, and a number of homes are currently being considered for future purchases.

11.7.7 The draft Housing Revenue Capital Programme for 2019-20 that is proposed for Members' approval is £12,788k, which will be funded from the HRA reserves, revenue contributions to capital, grant, prudential borrowing and 141 receipts.

11.7.8 A summary of this programme and the proposed funding sources are shown in the following tables:

HRA CAPITAL PROGRAMME					
	2018-19 Slippage	**2019-20**	**2020-21**	**2021-22**	**2022-23**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Major Works					
Re-Roofing	575	600	300	300	300
Window & Door Replacements	0	120	120	120	120
Kitchen Replacements	0	450	450	450	450
Bathroom Replacements	0	150	150	150	150
Rewiring	0	270	150	150	150
Heating	0	300	300	300	300
Fire Precaution Works	446	40	40	40	40
Planned Refurbishments (Door Entry and Entrance Doors)	0	50	50	50	50
Structural Repairs	1,040	360	360	360	360
Thermal Insulation	0	30	30	30	30
Lift Refurbishment & Replacements	239	200	120	0	0
Garages	0	150	80	0	0
Total Major Works	**2,300**	**2,720**	**2,150**	**1,950**	**1,950**
Revenue Contribution to Capital					
Disabled Adaptations	0	300	300	300	300
Development Programme Re-Profiled					
Margate Housing Intervention		2,588	1,072	0	0
New Build Programme Phase 2		2,240	0	0	0
New Build Programme Phase 3		3,940	557	0	0
New Development Programmes					
New Build Programme Phase 4		1,000	3,500	4,332	0
Total HRA Capital Expenditure	**2,300**	**12,788**	**7,579**	**6,582**	**2,250**

HRA CAPITAL PROGRAMME FUNDING				
	2019-20	2020-21	2021-22	2022-23
	£'000	£'000	£'000	£'000
Total HRA Capital Programme Expenditure				
HRA Major Repairs Reserve	2,720	2,150	1,950	1,950
HRA Revenue Contributions	856	300	300	300
New Properties Reserve	1,034	1,072	0	0
Prudential Borrowing	6,409	3,007	3,032	0
Capital Grant	192	0	0	0
Capital Receipts	1,149	0	0	0
141 Capital Receipts	428	1,050	1,300	0
Total Funding	**12,788**	**7,579**	**6,582**	**2,250**

12. Treasury Management 2019-20

12.1 The Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2019-20 were considered by Governance and Audit Committee on 5 December 2018. The report to the Committee and annexes are attached as Annex 3.

12.2 The Committee agreed to approve the report and annexes and that it be approved by Cabinet and Full Council.

12.3 Cabinet is asked to consider and approve all of the Treasury Management strategy documents for 2019-20 for recommendation to Full Council.

13. Flexible Use of Capital Receipts Strategy 2019-20

13.1 Before the start of each financial year, a Flexible Use of Capital Receipts Strategy should be prepared as part of the Annual Budget documents. This sets out the rare occasions the council can apply to Government to capitalise expenditure that would normally be deemed as revenue. Government has advised that the council can apply to capitalise the costs of transformational revenue reform projects. The Capital Receipts Strategy is set out in Annex 2 and details the criteria where this may be considered as per guidance issued by Government.

14. Section 151 Officer's Assurance Statement

General Fund

14.1 Section 25 of the Local Government Act 2003 requires that, when the council is considering next year's budget and Council Tax levels, the council's Section 151 Officer (the Deputy Chief Executive) must report on:

- The robustness of the estimates, and
- The adequacy of the proposed financial reserves.

14.2 The estimates are considered to be robust. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and fees and charges income.

Housing Revenue Account (HRA)

14.3 Section 25 of the Local Government Act 2003 also requires that, when the council is considering the HRA budget and rent levels, the council's Section 151 Officer (the Deputy Chief Executive) must report on:

- The robustness of the estimates, and
- The adequacy of the proposed financial reserves.

14.4 The estimates are considered robust. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and income.

15. Council Tax Requirement 2019-20

15.1 The full Council Tax resolution will be included within a separate report to Full Council on 28 February 2019.

16. Options

16.1 The scenario presented in this report, and the recommendations following, have been drafted to meet the requirements of agreed budget strategies and to take account of prevailing economic conditions. Any of the assumptions could be varied; however, there would be too many possible permutations to present in this report.

Contact Officer:	Interim Head of Financial and Procurement Services
Reporting to:	Tim Willis, Deputy Chief Executive and s151 Officer

Annex List

Annex 1	General Fund Capital Programme
Annex 2	Flexible Use of Capital Receipts Strategy
Annex 3	Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2019-20

Background Papers

Title	Held in Financial Services

Corporate Consultation

Finance	N/A
Legal	Sophia Nartey, Interim Head of Legal Services

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Annex 1 General Fund Capital Programme

Capital Programme £000	Capital Bid Score	Directorate	Estimated Slippage 2018/19	2019/20	2020/21	2021/22	2022/23
STATUTORY/MANDATORY							
Disabled Facilities Grants	104	Corporate Resources		2,420	2,420	2,420	2,420
ONGOING SCHEMES FROM PREVIOUS YEARS							
Dreamland	n/a	Corporate Governance		400			
Ramsgate Harbour Water Supply Upgrade	102	Operational Services		50			
Ramsgate Port Berth 2/3 & 4/5 Replacement/Improvement	100	Operational Services	450	1,023			
ANNUAL/REGULAR ENHANCEMENT PROGRAMMES							
Vehicle & Equipment Replacement Programme	128	Operational Services		566	2,253	500	500
Property Enhancement Programme	n/a	Corporate Governance		80	80	80	80
End User Computing - Refresh of Devices	104	Corporate Resources					298
Computing Infrastructure	108	Corporate Resources		159	159	159	159
WHOLLY/PARTLY EXTERNALLY FUNDED							
Louisa Bay to Dumpton Gap Sea Wall Work	121	Operational Services			1,000		
Westbrook to St Mildred's Sea Wall Work	121	Operational Services	600				
Viking Bay Flood Defence Scheme	121	Operational Services		200			
Stone Bay Sea Wall Work	121	Operational Services			1,000		
Ramsgate Flood and Coast Protection Scheme	112	Operational Services	1,060				
Broadstairs Flood and Coast Protection Scheme	112	Operational Services				520	
Ellington Park	120	Corporate Governance		493	1,000		
Northdown Road Townscape Heritage	104	Corporate Governance			260	260	260
CONSTRUCTION, REPLACEMENT & ENHANCEMENT							
Memorials for Children's Area in Margate Cemetery	102	Operational Services		25			
Royal Harbour (Leopold Street) Multi-Storey Car Park	111	Corporate Governance			3,000		
Printer Renewal	107	Corporate Governance			79		
Replacement of Lead Lights at Port	110	Operational Services		80			
Ramsgate Harbour Sluice Gate	109	Operational Services		75			
Port of Ramsgate - Fuel Barge Access Ramp	107	Operational Services		25			
New Air Conditioning for Server Room	107	Corporate Governance			110		
Automatic Cremator Charging Equipment	102	Operational Services		45			
Parkway Railway Station	n/a	Corporate Governance			2,000		
Office Accommodation	n/a	Corporate Governance		3,000			
Homelessness Accommodation	115	Corporate Resources	1,630				
Capitalised Salaries				75	75	75	75
Total for the Year			**3,740**	**8,716**	**13,436**	**4,014**	**3,792**

General Fund Capital Programme Funded By

	Slippage	2019/20	2020/21	2021/22	2022/23
Capital Receipts	144	5,037	503	314	612
Reserves	302	0	0	0	0
Capital Grants & Contributions	1,500	3,088	5,630	3,200	2,680
Contributions from Revenue	64	25	50	0	0
Prudential Borrowing	1,730	566	7,253	500	500
Total for the Year	**3,740**	**8,716**	**13,436**	**4,014**	**3,792**

Analysis of Prudential Borrowing	Budget Area	Slippage	2019/20	2020/21	2021/22	2022/23	Total	MRP Life	£pa	cost at 3%
Royal Harbour (Leopold Street) Multi-Storey Car Park	Car parking			3,000			3,000	50	60	90
Parkway Railway station	Regeneration			2,000			2,000	50	40	60
Ramsgate Port Berth 2/3 & 4/5 Replacement/Improvement	Ramsgate port	100					100	10	10	3
Homelessness Accommodation	Housing	1,630					1,630	10	163	49
Vehicle & Equipment Replacement Programme	Operational services		566	2,253	500	500	3,819	6	637	115
Total		**1,730**	**566**	**7,253**	**500**	**500**	**10,549**		**910**	**316**

Agenda Item 7
Annex 1

Annex 2 - Flexible Use of Capital Receipts Strategy

1.0 Flexible Use of Capital Receipts

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

1.2 The above initiative has subsequently been extended by the government for a further three years. Accordingly, capital receipts which have been received from 1 April 2016 to 31 March 2022 may now be used to fund revenue expenditure incurred during this period which is forecast to generate ongoing savings to the council's net service expenditure.

1.3 The guidance itself gives examples of the type of expenditure that can be funded from this source although it is not exhaustive. This includes:

- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation.

- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible.

A more comprehensive list is provided in section 2 - Guidance below.

1.4 This provides an opportunity for the council to invest in some significant projects during this period to embed efficiencies for future years. As previously reported, capital receipts are being used to fund (a) a Corporate Restructure that is being conducted by the Chief Executive (which will reduce the establishment costs of the council, delivering long-term savings), and (b) delivering Digitally Enabled Services (which will reduce costs and also improve customer service). Hence, the use of capital receipts will result in significant ongoing savings for the council. Notification was duly given by the council to the Department for Communities and Local Government (DCLG).

1.5 It was previously estimated that these projects would produce significant ongoing savings, as set out below.

Project Name	Project Description	Estimated Qualifying Expenditure £'000	Estimated Annual Savings £'000
Corporate Restructure	To review and update the organisational structure to deliver efficiencies	800	814
Digitally Enabled Services	To adopt digital technology to enable new ways of working	200	50

1.6 As reported to Cabinet on 26 July 2018 in the 2017-18 Provisional Outturn and Annual Treasury Management Review, during 2017-18 expenditure on the Corporate Restructure and Digitally Enabled Services projects was £287k and £32k respectively, and the remaining budgets of £513k for Corporate Restructure and £168k for Digitally Enabled Services (giving £681k in aggregate) were carried forward into 2018-19.

1.7 The following 2019-20 Treasury Management Strategy Statement Prudential Indicator will be impacted by the use of £681k of General Fund capital receipts:

> **Ratio of Financing Costs to Revenue Stream**: The 2019-20, 2020-21 and 2021-22 General Fund ratios (to one decimal place) increase by 0.0%, 0.1% and 0.0% respectively.

This is calculated on the assumption that the flexible use of capital receipts does not increase the council's revenue stream but does increase the council's funding requirement by £681k.

1.8 As the above projects continue to progress, further updates to this strategy will be presented.

1.9 Cabinet is recommended to consider and agree this revised Capital Receipts Strategy and recommend it to council.

2.0 Flexible Use of Capital Receipts – Guidance

To support local authorities deliver more efficient and sustainable services, under the Local Government Act 2003 section 15(1) the government allows local authorities to spend up to 100% of their capital receipts on the revenue costs of reform projects (revenue reform costs) and issued revised guidance in March 2016 and subsequently.

Accordingly the Council can treat as capital expenditure, any expenditure that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services for any of the public sector delivery partners.

Revenue Reform Costs must be properly incurred by 31 March 2022 and can only be met from capital receipts which have been received from 1 April 2016 to 31 March 2022. Revenue Reform Costs cannot be financed from (i) Right to Buy receipts, (ii) pre 1 April 2016 capital receipts, and/or (iii) borrowing.

Revenue Reform Costs that generate ongoing savings may be funded from the Council's capital receipts for the following:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;

- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief-executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue; and
- Integrating public facing services across two or more public sector bodies to generate savings or to transform service delivery.

On a project by project basis details of the expected savings/service transformation will be provided.

The impact on the Council's Prudential Indicators from Revenue Reform Costs being treated as capital expenditure is:

- Estimated and actual capital expenditure will increase by the amount of the Revenue Reform Costs;
- Balance Sheet resources (capital receipts) will decrease by the amount of the Revenue Reform Costs;
- The 'incremental impact on capital investment decisions on the band D council tax' and the ratio of 'financing costs to net revenue stream' may increase or decrease depending on whether the reduction in treasury interest income from the utilisation of capital receipts is greater or less than any relevant revenue savings/enhancements achieved from successful implementation of the reform project(s).

Effect

Utilisation of capital receipts to fund expenditure that would usually be funded from revenue resources diverts the receipts available for re-investment in existing assets or the creation of new ones.

The Council is using capital receipts to fund the redundancy costs of the corporate restructure and the costs of digitally enabled services.

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ANNEX 3: TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT, ANNUAL INVESTMENT STRATEGY, CAPITAL STRATEGY AND NON-TREASURY INVESTMENTS REPORT FOR 2019-20

1 INTRODUCTION

1.1 Background

The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer-term cash flow planning, to ensure that the council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Revised reporting is required for the 2019-20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare additional reports which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

For this council, these additional reports are the Capital Strategy and the Non-Treasury Investments Report.

1.2.2 Treasury Management reporting

The council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the council. This role is undertaken by the Governance and Audit Committee.

1.3 Treasury Management Strategy for 2019-20

The strategy for 2019-20 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was last undertaken by members on 21 September 2015 and further training will be arranged following the local elections in May 2019.

The training needs of treasury management officers are periodically reviewed.

1.5 External service providers

The council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The council uses the Institutional Cash Distributors (ICD) Portal to invest or redeem trades in its Money Market Funds (MMFs). The portal provides advanced reporting tools so that the authority can assess its exposure to certain banks or countries.

Some investments via the ICD portal are made via JP Morgan who act as a clearing house for seven of the nine MMFs the council currently uses. The clearing house allows the authority to make several investments in different MMFs but only requires one payment to the clearing house, therefore saving the authority costs in CHAPS fees.

2 THE CAPITAL PRUDENTIAL INDICATORS 2019-20 – 2021-22

The council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
General Fund	6.234	13.512	12.456	13.436	4.014
HRA	4.492	7.408	15.909	7.579	6.582
Total	**10.726**	**20.920**	**28.365**	**21.015**	**10.596**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £m	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
General Fund	6.234	13.512	12.456	13.436	4.014
HRA	4.492	7.408	15.909	7.579	6.582
Total	**10.726**	**20.920**	**28.365**	**21.015**	**10.596**
Financed by:					
Capital receipts - GF	1.816	4.161	5.181	0.503	0.314

Capital receipts - HRA	0.434	0.655	1.577	1.050	1.300
Capital grants - GF	3.206	4.511	4.588	5.630	3.200
Capital grants - HRA	0.376	1.857	0.192	0.000	0.000
Reserves - GF	0.211	0.202	0.302	0.000	0.000
Reserves - HRA	2.881	4.486	6.875	3.222	1.950
Revenue - GF	0.000	0.006	0.089	0.050	0.000
Revenue - HRA	0.392	0.410	0.856	0.300	0.300
Net financing need for the year	**1.410**	**4.632**	**8.705**	**10.260**	**3.532**

Other long term liabilities: The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the council's Capital Financing Requirement (CFR). The CFR is simply the total historic 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 indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of scheme include a borrowing facility and so the council is not required to separately borrow for these schemes. The council had £2.911m of long term liabilities (excluding pensions) as at 31 March 2018.

The council is asked to approve the CFR projections below:

£m	**2017-18 Actual**	**2018-19 Estimate**	**2019-20 Estimate**	**2020-21 Estimate**	**2021-22 Estimate**
Capital Financing Requirement					
CFR – General Fund	23.812	27.086	28.086	33.442	32.235
CFR – HRA	20.787	20.786	26.337	29.210	32.056
Total CFR	**44.599**	**47.872**	**54.423**	**62.652**	**64.291**
Movement in CFR	**(2.484)**	**3.273**	**6.551**	**8.229**	**1.639**

Movement in CFR represented by					
Net financing need for the year (above)	1.410	4.632	8.705	10.260	3.532
Less HRA – loan repayments	0.000	0.000	(0.858)	(0.134)	(0.186)

Less GF – liability repayments	(2.963)	(0.294)	(0.000)	(0.347)	(0.000)
Less MRP/VRP and other financing movements	(0.931)	(1.065)	(1.296)	(1.550)	(1.707)
Movement in CFR	**(2.484)**	**3.273**	**6.551**	**8.229**	**1.639**

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
Fund balances / reserves	19.826	18.848	15.717	17.157	18.267
Capital receipts	9.221	4.006	2.429	1.379	0.079
Earmarked reserves	13.021	8.819	8.285	7.833	8.706
Total core funds	**42.068**	**31.673**	**26.431**	**26.369**	**27.052**
Balances incl working capital*	9.416	6.789	11.880	14.899	13.670
(Under)/over borrowing	(10.602)	(10.462)	(10.311)	(13.268)	(12.722)
Expected investments	**40.882**	**28.000**	**28.000**	**28.000**	**28.000**

*Working capital balances shown are estimated year end; these may be different mid-year.

2.4 Minimum revenue provision (MRP) policy statement

The council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the full council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former MHCLG regulations (option 1).

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

Repayments included in annual PFI or finance leases are applied as MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory MRP, VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose any cumulative overpayment made each year.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity and the council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2018 and for the position as at 30 September 2018 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual 31 March 2018	**Actual 31 March 2018**	**Actual 30 Sept 2018**	**Actual 30 Sept 2018**
Treasury Investments	**£000**	**%**	**£000**	**%**
Banks	17.814	43.6	18.287	38.5
Money Market Funds	23.068	56.4	29.210	61.5
Total (all managed in-house)	40.882	100.0	47.497	100.0
Treasury External Borrowing				
PWLB	26.547	85.4	26.236	85.3
LOBOs	4.500	14.5	4.500	14.6
Salix	0.039	0.1	0.035	0.1
Total	**31.086**	**100.0**	**30.771**	**100.0**
Net treasury investments / (borrowing)	**9.796**		**16.726**	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
External Debt					
Debt at 1 April	31.669	31.086	35.133	42.175	48.134
Expected change in Debt	(0.583)	4.047	7.042	5.959	2.525
Other long-term liabilities (OLTL) at 1 April	3.264	2.911	2.277	1.937	1.250
Expected change in OLTL	(0.353)	(0.634)	(0.340)	(0.687)	(0.340)
Actual gross debt at 31 March	**33.997**	**37.410**	**44.112**	**49.384**	**51.569**
The Capital Financing Requirement	44.599	47.872	54.423	62.652	64.291
Under / (over) borrowing	**10.602**	**10.462**	**10.311**	**13.268**	**12.722**

Within the range of prudential indicators there are a number of key indicators to ensure that the council operates its activities within well defined limits. One of these is that the council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019-20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Section 151 Officer reports that the council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
Debt	55.000	63.000	71.000	73.000
Other long term liabilities (incl leases)	22.000	20.000	20.000	20.000
Total	77.000	83.000	91.000	93.000

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full council.

It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The council is asked to approve the following authorised limit:

Authorised limit £m	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
Debt	60.000	68.000	76.000	78.000
Other long term liabilities (incl leases)	27.000	25.000	25.000	25.000
Total	87.000	93.000	101.000	103.000

Historically the Council has also been limited to a maximum HRA CFR through the HRA self-financing regime. However, the HRA cap that controls local authority borrowing for house building was abolished from 29 October 2018 in the Budget.

Composition of Operational Boundary and Authorised Limit

Debt (in both the Operational Boundary and Authorised Limit above) for 2019-20 onwards includes:

a) £3m to allow for capital expenditure being incurred in advance of generating capital receipts to fund this expenditure. As this is anticipated to be a relatively short-term timing difference it has not been reflected elsewhere in this report.

b) £5m to allow for any commercial activities/non-financial investments that the council may pursue. This has not been reflected elsewhere in this report, pending the formulation and approval of any such items.

Other long term liabilities (in both the Operational Boundary and Authorised Limit above) includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16). Once full details are known, the Operational Boundary and/or Authorised Limit may need to be revised for approval. The impact of IFRS 16 has not been reflected elsewhere in this report, pending further information from CIPFA.

3.3 Link's economic and interest rate forecast (issued by Link on 30 October 2018)

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link's central view.

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%
12 Month LIBID	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%	3.60%	3.70%
50yr PWLB Rate	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.40%	3.50%

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the Monetary Policy Committee (MPC) came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. It is unlikely that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Similarly, the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The overall longer run future trend is for gilt yields, and consequently Public Works Loan Board (PWLB) rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Federal Reserve (Fed) has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We have, therefore, seen US 10 year bond Treasury yields rise above

3.2% during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investment and borrowing rates

- Investment returns are likely to remain low during 2019-20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry (the difference between higher borrowing costs and lower investment returns) to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing strategy

The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2019-20 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

- The authority would not look to borrow more than 18 months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Cabinet at the earliest meeting following its action.

3.7 Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy - management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy and Non-Treasury Investments Report (separate reports).

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the

most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists under the categories of ‘specified’ and ‘non-specified’ investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments at £5m (see paragraphs 4.2 and 4.4).

6. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraphs 4.2 and 4.4).

8. Investments will only be placed with counterparties from foreign countries which have a specified minimum **sovereign rating**, (see paragraph 4.3). This does not apply to pooled investment vehicles.

9. This authority has engaged **external consultants**, (see paragraph 1.5) to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

10. All investments will be denominated in **sterling**.

11. As a result of the change in accounting standards for 2018-19 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. The Ministry of Housing, Communities and Local Government (MHCLG), are currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria are unchanged from last year apart from changing the duration threshold from 364 to 365 days (in line with revised investment guidance).

4.2 Creditworthiness policy

The primary principle governing the council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the council's prudential indicators covering the maximum principal sums invested.

The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum council criteria may be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the council will only use banks which:
  i. are UK banks; and/or
  ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AA-

  and have, as a minimum, the following credit rating from at least one of Fitch, Moody's and Standard and Poors (where rated):

  i. Short term – F1 (or equivalent)
  ii. Long term – A (or equivalent)
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland Group ring-fenced operations. This bank can be included provided it continues to be part nationalised or it meets the above criteria.
- Banks 3 – The council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

- Bank subsidiary and treasury operations: If separately rated, the council will use those that meet the ratings/criteria for banks outlined above. If not separately rated, the council will use these where the parent bank has the necessary ratings/criteria outlined above.
- Building societies: The council will use all societies which meet the ratings/criteria for banks outlined above.
- Pooled investment vehicles (including money market funds, enhanced money market funds and bond funds) – AAA
- UK Government (including gilts, treasury bills and the DMADF)
- Local authorities, parish councils, community councils, companies controlled by the council (either alone or with other public sector organisations) etc
- Housing associations
- Supranational institutions

A limit of £5m will be applied to the use of investments with a maturity of over 365 days.

Use of additional information other than credit ratings. Additional requirements under the Code require the council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long Term Rating (or equivalent)*	Money Limit	Time Limit
Higher quality	**AA-**	**£6m per institution**	**370 days**
Medium quality	**A**	**£5m per institution**	**370 days**
Part nationalised	**N/A**	**£7m per institution**	**370 days**
Debt Management Account Deposit Facility	**UK sovereign rating**	**unlimited**	**6 months**
Pooled investment vehicles (including money market funds, enhanced money market funds and bond funds)	**AAA**	**£6m per fund**	**370 days**
Local authorities, parish councils, community councils, companies	**N/A**	**£4m per institution**	**5 years**

controlled by the Council (either alone or with other public sector organisations), Supranational institutions etc			

**The institution must have this minimum credit rating from at least one of Fitch, Moody's, and Standard and Poors (where rated).*

UK banks – ring fencing
The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings (and any other metrics considered) will be considered for investment purposes.

4.3 Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the council's investments.

The council has determined that it will only use approved counterparties from the UK (irrespective of the UK sovereign credit rating) or other countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- no more than £5m will be placed with any non-UK country at any time (this limit applies to each non-UK country individually and not to non-UK countries in total);
- limits in place above will apply to a group of companies;

The above restrictions do not apply to pooled investment vehicles (including money market funds, enhanced money market funds and bond funds). The council only invests in sterling denominated pooled investment vehicles.

4.4 Investment strategy

In-house funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Link's Investment returns expectations (issued by Link on 30 October 2018): Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

2018-19	0.75%
2019-20	1.00%
2020-21	1.50%
2021-22	2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2018-19	0.75%
2019-20	1.00%
2020-21	1.50%
2021-22	1.75%
2022-23	1.75%
2023-24	2.00%
Later years	2.75%

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit: -

Upper limit for principal sums invested for longer than 365 days			
£m	**2019-20**	**2020-21**	**2021-22**
Principal sums invested for longer than 365 days	£5m	£5m	£5m
Investments as at 31 September 2018 invested for longer than 365 days	£nil	£nil	£nil

For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, pooled investment vehicles and term deposits in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio (excluding unrated investments).

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be 0.5 years, with a maximum of 5 years.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

And in addition that the security benchmark for each individual year is (excluding unrated investments):

	1 year	2 years	3 years	4 years	5 years
Maximum	**0.05%**	**0.05%**	**0.05%**	**0.05%**	**0.05%**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7 Use of external fund managers

It is the Council's policy not to use external fund managers for any part of its investment portfolio.

5 NEXT STEPS

Under the Treasury Management Code of Practice it is required that the Governance and Audit Committee, Cabinet and council approve this report and annexes.

This report and annexes is to go to council for approval. The next council meeting is on 7 February 2019.

6 DISCLAIMER

This report (including its annexes) is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019-20 – 2021-22 AND MRP STATEMENT

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1. Capital expenditure

Capital expenditure £m	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
General Fund	6.234	13.512	12.456	13.436	4.014
HRA	4.492	7.408	15.909	7.579	6.582
Total	**10.726**	**20.920**	**28.365**	**21.015**	**10.596**

2. Affordability prudential indicators

The previous section covers the overall capital and control of borrowing prudential indicators but, within this framework, 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 Council's overall finances. The Council is asked to approve the following indicators:

a. 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.

%	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
General Fund	6.0%	8.6%	10.9%	13.7%	14.8%
HRA	5.8%	6.0%	5.7%	5.2%	5.9%

The estimates of financing costs include current commitments and the proposals in this budget report.

b. HRA ratios

£	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
HRA debt £m*	20.040	20.040	25.857	25.723	28.687
HRA rents £m	13.006	12.925	12.499	12.854	13.327
Ratio of debt to rents %	154.1%	155.0%	206.9%	200.1%	215.3%

£	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
HRA debt £m	20.040	20.040	25.857	25.723	28.687
Number of HRA dwellings	3,015	3,017	3,022	3,044	3,034
Debt per dwelling £	6,647	6,642	8,556	8,451	9,455

3. Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2019-20		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to under 2 years	0%	50%
2 years to under 5 years	0%	50%
5 years to under 10 years	0%	55%
10 years to under 20 years	0%	50%
20 years to under 30 years	0%	50%
30 years to under 40 years	0%	50%
40 years to under 50 years	0%	50%
50 years and above	0%	50%

Maturity structure of variable interest rate borrowing 2019-20		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to under 2 years	0%	50%
2 years to under 5 years	0%	50%
5 years to under 10 years	0%	55%
10 years to under 20 years	0%	50%
20 years to under 30 years	0%	50%
30 years to under 40 years	0%	50%
40 years to under 50 years	0%	50%
50 years and above	0%	50%

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This council adopts the Code and will apply its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of the annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the council will use. These are high security (i.e. high credit rating, although this is defined by the council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments - These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.

3. Local authorities, housing associations, parish councils, community councils, companies controlled by the council (either alone or with other public sector organisations).
4. Pooled investment vehicles (such as money market funds, enhanced money market funds and bond funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles rated AAA by Standard and Poor's, Moody's and/or Fitch rating agencies (where rated).
5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum short term rating of F1 (or the equivalent) and minimum long term rating of A (or the equivalent) as rated by at least one of Standard and Poor's, Moody's and/or Fitch rating agencies (where rated).
6. Any part nationalised UK bank or building society.
7. Any subsidiary and treasury operations that meet the above criteria or, if not separately rated, where the parent bank or building society has the necessary ratings outlined above.
8. The council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

Within these bodies, and in accordance with the Code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies, as set out in the council's annual investment strategy.

Non-specified investments

Non-specified investments are any other type of investment (i.e. not defined as specified above). The council may only use non-specified investments with a maturity of no more than 5 years and which otherwise meet the above criteria for specified investments.

The council has applied a limit of £5m for investments with a maturity of over 365 days.

The monitoring of investment counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

GUIDANCE ON TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY (TMSS)

Prudential Code

The Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice for capital finance, to which local authorities must have regard.

Capital Expenditure

The Capital Expenditure table (section 2.1) is split between the Council's Housing Revenue Account (HRA) and General Fund (GF or non-HRA).

The table also shows the resources used to fund the capital expenditure (being capital receipts from the sale of assets, capital grants, capital reserves and revenue) and any shortfall in resources. This shortfall is described as the 'net financing need' and represents the Council's borrowing need.

Borrowing Need (Capital Financing Requirement)

The Capital Financing Requirement (CFR) represents the Council's aggregate borrowing need. i.e. the element of the capital programme that cannot be funded.

The table (section 2.2) shows how the net financing need (borrowing requirement) increases the CFR.

So that the CFR does not increase indefinitely, an annual resource contribution from revenue must be set against it (called the Minimum Revenue Provision or MRP), which is shown in the table.

Core Funds and Expected Investment Balances

This table (section 2.3) shows that the Council may satisfy its net financing need by borrowing from its own reserves or cashflow (internal borrowing) rather than from an external provider (external borrowing).

Either form of borrowing may only be undertaken for capital expenditure purposes.

MRP Policy Statement

This describes the method for calculating the annual MRP contribution described above (section 2.4).

Borrowing

Current portfolio position – this table (section 3.1) shows that the Council's debt is not more than the CFR because, as above, the CFR represents the Council's aggregate borrowing need.

Borrowing limits (section 3.2) – there are various general controls on the Council's borrowing activity (operational boundary, authorised limit, fixed and variable interest rate exposures, and maturity profiles).

Annual Investment Strategy

This section (section 4) sets out general controls on the Council's investment activity to safeguard the security and liquidity of its investments, including:

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.
- Minimum size of the Council's bank overdraft facility.

Ratio of Financing Costs to Net Revenue Stream

This table shows (separately for HRA and GF) the percentage of the Council's revenue stream that is used to finance the CFR (net interest payable and MRP).

CAPITAL STRATEGY 2019-20

1. Background

A revision to the CIPFA Prudential Code for Capital Finance in Local Authorities was issued in December 2017 (with guidance notes issued in September 2018), with a new requirement being that local authorities produce a Capital Strategy for consideration and approval by Members.

The Capital Strategy forms part of this council's integrated revenue, capital and balance sheet planning. Capital expenditure and associated investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. Due consideration is given to both risk and reward, and impact on the achievement of priority outcomes.

2. Priorities and Objectives

Like most councils, this council has capital expenditure needs that far exceed its potential capital resources, particularly given public sector funding cuts and resource pressures.

Accordingly, this council's Capital Protocol is that financial resources and assets are used to their maximum effect, and that Financial Procedure Rules and Contract Standing Orders are adhered to, with the following objectives:

a) Corporate Plan/council priorities, including any environmental impact, are considered when prioritising limited resources (see section 3 below).
b) All financial implications arising from the project are identified e.g. match funding requirements and ongoing unsupported revenue costs etc.
c) The correct authorisation is obtained to enter into an agreement for capital expenditure.
d) The project progresses as approved.
e) Monitoring takes place in a timely manner.
f) All expenditure is properly incurred and recorded.
g) All project outcomes, outputs and results are achieved.
h) There is an audit trail for all expenditure and income relating to the project.
i) Issues that may arise for project delivery are identified and considered appropriately e.g. legal, VAT and capacity issues.
j) Any significant changes to the project are considered in the overall prioritisation of the capital programme and the correct authorisation is obtained.

3. Corporate Priorities and Values

The council will use its corporate priorities to help prioritise its investment in, and disposal of, assets. The current corporate priorities are:

a) A clean and welcoming environment.
b) Supporting neighbourhoods.

c) Promoting inward investment and job creation.

Additionally, the following corporate values identify the way the council will work to deliver these priorities:

a) Delivering value for money.
b) Supporting the workforce.
c) Promoting open communications.

4. Revenue Implications

As per section 2b, council rules require that all financial implications arising from a capital project are identified, including revenue implications which can include:

a) The cost of borrowing (Minimum Revenue Provision and interest charges).
b) Loss of investment income from capital receipts.
c) Running costs associated with the project.
d) The positive impact of investment and economic growth on the council's tax base and business rates income.

Accordingly, a key consideration is that council capital schemes generate revenue savings and/or are externally funded.

5. Focussing the capital programme on delivering the council's priorities

The capital programme demands significant resources which, if not managed effectively, can actually impede what the council is looking to deliver. The Capital Strategy is to pay particular attention to better aligning the capital programme to the council's corporate values and priorities.

In particular:

Slippage will not be the acceptable norm - capital schemes will be at risk of having their council funding re-directed should there be delays that cannot be substantiated (schemes that are externally funded may require more flexibility however).

Assumptions that a council owned asset should be invested in or disposed of will be challenged - consideration of whether that asset could be better utilised will need to be evaluated and demonstrated.

Opportunities for non-treasury investment should be explored. Subject to (a) being able to stabilise its financial position, and (b) risk considerations, the council should consider investing in a wider choice of assets that can generate better economic returns. More information is given in the council's Non-Treasury Investments Report.

Corporate Management Team will be taking the lead on achieving the focus the capital programme requires.

6. Assessing and Monitoring Schemes

Officer arrangements for assessing and monitoring capital schemes is overseen by CMT (which includes the council's Section 151 Officer). The role of CMT in this regard is:

a) To coordinate all aspects of the council's Capital Programme including the assessment of bids, preparation of the programme, monitoring and post audit reviews.
b) To review annually the capital assessment and prioritisation methodology.
c) To evaluate and prioritise all projects submitted according to the council's prioritisation methodology.
d) To produce a capital programme based upon the prioritised scoring methodology .
e) To monitor capital schemes and to summarise all variation reports received by client officers.
f) To consider requests for capital bids during the year and, where the request is considered urgent, to score and prioritise within the whole programme, together with making funding arrangements.
g) To review the scheme evaluation reviews and ensure lessons learnt and where necessary, to amend the Capital Protocol.
h) To review all capital slippage and underspends at financial year end and re-evaluate with regards to the council's priorities and resources.

The criteria for capital bids include:

a) Meeting Corporate Priorities or requiring Health and Safety action.
b) Not having a revenue impact that cannot be funded.
c) Being clear as to the benefits the project provides.
d) Identifying how the project will be managed.
e) Having robust estimates for future costs and revenues.
f) The sensitivity of costs and revenues to both external and internal risks.

On the basis of recommendations drawn up by the CMT Capital Programme Group, Cabinet considers and approves the proposed draft capital programme for inclusion within the budget. This budget is then recommended to Full Council for approval of the final capital budgets for the year ahead. Cabinet is to receive quarterly capital budget monitoring reports and a final outturn report at year end showing scheme performance - specifically underspends, overspends and slippage supported by explanations.

7. Additional Resources and Links with External Bodies

Project appraisals consider additional and alternative funding sources, match funding requirements, bidding time frames and the likely success in being awarded grants.

Grants are allocated in relation to specific programmes or projects and this council aims to maximise such funding; developing appropriate partnership, joint working and cross agency initiatives to address council priority needs. Partners include central and local government, government agencies, representative bodies of the local community, voluntary groups, housing associations, health bodies, the police, and the private sector business community.

8. Asset Management

An Asset Management Plan is the report on the systematic preparation of information to optimise the deployment and utilisation of land, buildings and other assets. Accordingly the council's Asset Management Plan informs the links to both the council's capital strategy and capital programme.

9. The council's capital spending

Details of the Council's capital programme, capitalisation policies, capital financing, borrowing/funding restrictions, commercial activity, knowledge and skills, long-term liabilities and treasury management are shown in the following documents (which are all available on the Council's website www.thanet.gov.uk):

a) Medium Term Financial Strategy
b) Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy
c) Flexible Use of Capital Receipts Strategy
d) Statement of Accounts
e) Non-Treasury Investments Report
f) Budget monitoring reports

The council's Section 151 Officer is satisfied with the affordability and risk associated with this Capital Strategy and, where appropriate, has access to specialised advice to enable him to reach this conclusion.

NON-TREASURY INVESTMENTS REPORT 2019-20

1. Background

A revision to the CIPFA Treasury Management in the Public Services Code of Practice was issued in December 2017 (with guidance notes issued in July 2018), with a new requirement being that local authorities produce a Non-Treasury Investments Report for consideration and approval by Members.

'Treasury management investments' activity covers those investments which arise from the council's cash flows and debt management activity, and ultimately represents balances which need to be invested until the cash is required for use in the course of business.

'Non-treasury investments' are investments in financial assets and property primarily for service purposes and/or financial return that are not part of treasury management activity.

2. Permissible non-treasury investments

This council may:

a) purchase property for service and/or commercial purposes.
b) make investments for service purposes.
c) make loans for service purposes.

Service investments are held in relation to operational services (including regeneration) whereas commercial investments are held for mainly financial reasons.

3. Existing non-treasury investments

This council's existing non-treasury investments include:

a) Investment Property

The council's 2017/18 Statement of Accounts show a 31 March 2018 balance sheet value of £22,865,000 for investment property. These accounts disclose a net yield of £913,000 from investment property (rental income less direct operating expenses), which represents an annual percentage yield of 4.0%.

b) Investments and Loans

East Kent Housing Limited (EKH): EKH is a company limited by guarantee without share capital, owned and controlled by this council, together with Canterbury City Council, Dover District Council and Folkestone & Hythe District

Council. EKH, which was incorporated on 11 January 2011, is run as an Arms Length Management Organisation (ALMO) and its principal activity is to manage and maintain each of the four council's housing stock.

Your Leisure Kent Limited (YL): This council engages YL, which is an Industrial and Provident Society with charitable status, to run its leisure facilities. YL was registered on the Mutuals Public Register on 16 April 1999 and was called Thanet Leisure Force Limited until 26 March 2013. The principal activity of YL is to manage leisure, catering and entertainment facilities and associated service provision for the local communities of Dover and Thanet.

East Kent Opportunities LLP (EKO): To aid economic development and regeneration in Thanet, this Council in partnership with Kent County Council set up EKO as a limited liability partnership. EKO was incorporated on 4 March 2008 with this Council and Kent County Council having 50:50 ownership, control and economic participation in EKO.

The council acts as guarantor for EKH in respect of its pension liability and for YL in respect of certain loans taken out by YL. These arrangements are described in the Contingent Liabilities note to the council's Statement of Accounts.

In addition, the council makes loans from time to time to one or more of EKH, YL and EKO for service purposes.

4. Investment Management Practices

Non-treasury investments are subject to the council's normal approval processes for revenue and capital expenditure and need not comply with the specific requirements of the council's annual Treasury Management Strategy Statement and Investment Strategy. These processes ensure effective due diligence and consideration of the council's risk appetite (including proportionality in respect of overall resources), that independent and expert advice is taken where appropriate, that scrutiny arrangements are properly made, and that ongoing risk management is properly undertaken and acted upon.

Details of risk management, performance measurement and management, decision making, governance, due diligence, reporting and knowledge and skills are shown below and in the following documents (which are all available on the council's website www.thanet.gov.uk):

a) Medium Term Financial Strategy
b) Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy
c) Flexible Use of Capital Receipts Strategy
d) Statement of Accounts
e) Capital Strategy

The key principle of control of risk, and optimising returns consistent with the council's risk appetite, is applied across all investment activities (including any commercially based investments). Where any commercial investment does not give priority for security and liquidity over yield, whether because of the nature of the asset itself or for service reasons, then such a decision should be explicit, the additional risks set out clearly, and the impact on financial sustainability identified and reported.

5. Risk Management

The council's risk appetite for any non-treasury investment should be clearly determined, both individually and collectively, including the potential impact on the overall sustainability of the council if the investment does not perform as intended. Key considerations also include:

a) The significance of the amount and variability of both the investment income and capital value to balancing the council's budget.
b) How the investment is financed and its liquidity, given the council's cash flow requirements.
c) Maximum periods for which funds may prudently be committed.
d) The setting of quantitative indicators to better assess risk exposure (including how investments are funded and the rate of return over both the payback period of the investment and the length of any associated borrowing).

6. Performance Measurement and Management

Performance measurement and management of any non-treasury investment should include both the ongoing capital value/security and yield. Key considerations include:

a) Regular fair value assessments (at least annually), including the limitations and assumptions inherent in such assessments.
b) Procedures to highlight key ongoing risks and changes in market conditions that may adversely impact the security, liquidity and/or yield of any investment.
c) Ongoing repairs and other costs to maintain the income and value of any property investment.
d) Any mitigating action required and undertaken to protect the income and value of any investment.

7. Decision Making, Governance and Due Diligence

Decision making will be as open and transparent as possible, after allowing for any commercial sensitivity needs. Key considerations include:

a) The formulation and developments of business cases for approval.
b) Enhanced decision making and scrutiny, according to risk.
c) Arrangements for professional due diligence, including obtaining professional advice where appropriate.
d) The identification and quantification of any implied material subsidies in investments for service/regeneration purposes.

8. Reporting, Knowledge and Skills

Robust arrangements will be made for the assessment, implementation and monitoring of any non-treasury investments; including:

a) Reporting any material increase in risk to capital and/or yield.
b) Regularly reviewing performance and risk reporting arrangements.
c) Ensuring that the range of skills required (including finance, property and economic regeneration) are available, either in-house or externally sourced.
d) Arranging any specific staff training or qualifications that may be needed to meet future requirements (capacity, skills, knowledge and culture).