

21 January 2021 at 7.00 pm

This meeting will be held virtually via Zoom,  
and livestreamed here:

[https://www.youtube.com/channel/UCIT1f\\_F5OfvTzxjZk6Zqn6g](https://www.youtube.com/channel/UCIT1f_F5OfvTzxjZk6Zqn6g)

Published: 13.01.21



# Finance & Investment Advisory Committee

## Membership:

Chairman, Cllr. Grint; Vice-Chairman, Cllr. Dickins

Cllrs. Abraham, Bayley, Carroll, Clack, Clayton, Penny Cole, Harrison, Hogarth and Reay and a vacancy

## Agenda

	Pages	Contact
Apologies for Absence		
1. <b>Minutes</b> To agree the minutes of the meeting of the Committee held on 21 October 2020, as a correct record.	(Pages 1 - 6)	
2. <b>Declarations of Interest</b> Any interests not already registered.		
3. <b>Actions from Previous Meeting (if any)</b>		
4. <b>Update from Portfolio Holder</b>		
5. <b>Referral from Cabinet or the Audit Committee (if any)</b>		
6. <b>Discretionary Rate Relief</b>	(Pages 7 - 28)	Sue Cressall Tel: 01732 227041
7. <b>Treasury Management Strategy</b>	(Pages 29 - 80)	Roy Parsons Tel: 01732 227204
8. <b>Financial Performance Indicators 2020/21 - to the end of November 2020</b>	(Pages 81 - 88)	Alan Mitchell Tel: 01732227483
9. <b>Financial Results 2021/21 - to the end of November 2020</b>	(Pages 89 - 124)	Alan Mitchell Tel: 01732227483
10. <b>Property Investment Strategy Update</b>	(Pages 125 - 152)	Adrian Rowbotham Tel: 01732 227153

11. **Work Plan**

(Pages 153 - 154)

**EXEMPT INFORMATION**

At the time of preparing this agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public.

If you wish to obtain further factual information on any of the agenda items listed above, please contact the named officer prior to the day of the meeting.

Should you need this agenda or any of the reports in a different format, or have any other queries concerning this agenda or the meeting please contact Democratic Services on 01732 227000 or [democratic.services@sevenoaks.gov.uk](mailto:democratic.services@sevenoaks.gov.uk).

**FINANCE & INVESTMENT ADVISORY COMMITTEE**

Minutes of the meeting held on 21 October 2020 commencing at 7.00 pm

Present: Cllr. Grint (Chairman)

Cllr. Dickins (Vice Chairman)

Cllrs. Abraham, Bayley, Clack, Clayton, and Harrison

Apologies for absence were received from Cllrs. Penny Cole and Hogarth

69. Minutes

Resolved: That the Minutes of the meeting of the Finance & Investment Advisory Committee held on 8 September 2020 be approved and signed by the Chairman as a correct record.

70. Declarations of Interest

No additional declarations of interest were made.

71. Actions from Previous Meeting

The Portfolio Holder advised that following a question raised at the meeting of the Committee on 8 July 2020, Cabinet had agreed to no longer fund or provide the Council's dedicated 'Sevenoaks Switch and Save' Scheme and instead promote existing nationally recognised energy switching comparison services and support local residents to access them at no cost to the Council.

72. Update from Portfolio Holder

The Finance and Investment Portfolio Holder updated Members and there were four main themes to his update. New money of £48,385, had been received which related to COVID-19. Accommodation funding had been received of £98,000 that could be used towards the expenditure on homelessness to date, but this was likely to be at the cost of other initiatives.

There were two additional COVID-19 schemes being developed by Government. One for support grants to provide to businesses to support them in the event of a local lockdown and the second was a payment for those on low incomes who had to self isolate due to Test and Trace. Sencio Leisure had requested a further 6-month payment holiday on their loan from the Council.

The Portfolio Holder also gave a message of thanks for Officers' continued enthusiasm and commitment.

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### Finance & Investment Advisory Committee - 21 October 2020

#### 73. Referral from Cabinet or the Audit Committee

There were none.

#### 74. Financial Performance Indicators 2020/21- to the end of August 2020

The Head of Finance presented the report which set out nine internally set performance indicators covering activities that support information provided in the regular financial monitoring statements. Members' attention was drawn to three areas including: Audit actions, outstanding debts and treasury management which were all affected due to COVID-19.

Members praised Officers for their work with processing housing benefits and collection of council tax during the uncertain times of COVID-19. The Council Tax and Recovery Manager advised that this was monitored closely and was largely due to early contact with customers and setting up of payment plans.

Resolved: That the report be noted.

#### 75. Financial Results 2020/21- to the end of August 2020

The Head of Finance presented the report on the Council's financial results 2020/21 to the end of August 2020, which showed the end of year position was currently forecast to be an unfavourable variance of £3.0m which was largely due to COVID-19. This represented 19.4% of the net service expenditure totalling £15.581m.

He went on to further explain that due to COVID-19 the Government had issued a sales, fees and charges compensation scheme, to recover some of the income that had been lost due to the Coronavirus. To date the council had requested compensation of £1.2m which would reduce the end of year forecast to £1.8m. It was expected that the full year claim for compensation would be £2.3m, which would leave a deficit of £0.7m.

#### Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That it be recommended to Cabinet that the report be noted.

#### 76. Budget 2021/22: Review of Service Dashboards and Service Change Impact Assessments (SCIAS)

The Deputy Chief Executive & Chief Officer - Finance & Trading, presented the report which set out updates to the 2021/22 budget within the existing framework of the 10-year budget and savings plan. The report presented growth and savings

items that had been identified which needed to be considered, and requested further suggestions from Members, before finalising the budget for 2021/22.

Informed by the latest information from Government and discussions with Cabinet, it was proposed that the Council continued to set a revenue budget that assumed no direct funding from Government through the Revenue Support Grant or New Homes Bonus. This would result in the Council continuing to be financially self-sufficient. To achieve this aim and to ensure a balanced budget position over the next 10-year period would be more challenging this year due to the financial impact of the Covid-19 pandemic.

The budget process would be shorter with the Council's budget set at the November Council meeting instead of the February Council meeting. This should enable any changes to be implemented before 1 April 2021 and minimise the period of uncertainty for staff.

The annual budget gap included in the report was £826,000 which was largely due to Covid-19. Growth and savings proposals had been identified in the report for this Committee but Members were asked for their suggestions in order to contribute to reducing the budget gap, and their recommendations would be considered by Cabinet as part of the process to set a balanced 10-year budget. By addressing the issues this year, the Council would once again be in a strong financial position that other councils would aspire to.

In response to questions regarding SCIA 16 (Asset Maintenance), Members were advised that the reduction would not have a detrimental impact on the Council's assets as the budget had, in previous years, been increased to reflect the maintenance needs of assets. The savings would partly be achieved by a reduction in the budget for leisure. Members were further advised in relation to SCIA 19 (Council Tax), those in rented accommodation would only become liable for the payment of Council Tax once the tenancy agreement had been signed. There was discretion under legislation to look at individual cases.

#### Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That it be recommended to Cabinet that the growth and saving proposals identified in Appendices F & G to the report (SCIAs 13 - 19) applicable to this Advisory Committee, which had the support of the Advisory Committee, be considered.

#### 77. Capital Programme & Asset Maintenance 2021/24

The Head of Finance presented a report which set out the proposed Capital and Asset Maintenance programmes for 2021/24 together with proposed funding. Members' attention was brought to the supplementary agenda, which detailed the Capital Strategy 2020/21, as required by CIPFA code of Practice. The Strategy set out how the council would manage the investment and financing of capital resources to contribute towards the achievement of its key objectives and

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### Finance & Investment Advisory Committee - 21 October 2020

priorities and how the associated risks were managed as well as future financial stability.

The capital projects proposed were set out Appendix A, and included capital programme feasibility studies, vehicle replacement programme and disabled facility grants, which was from the Better Care Fund. The full funding and proposals were set out in Appendix B to the report and the anticipated capital receipts were shown in Table 1 of the report.

The Head of Finance responded to Members questions and advised that in terms of possible investment opportunities it was important there was greater transparency to complete capital programme feasibility studies to get a capital scheme up to a certain level where decisions and schemes can be investigated further. Certain expenditure could be incurred for due diligence and it was proposed that a budget be allocated so that it could be more clearly reported.

In each of the schemes that were past feasibility and due diligence stages, separate approval would be requested for the full scheme cost which would include costs incurred at these initial stages.

#### Public Sector Equality Duty

Members noted that consideration had been given to impacts under the Public Sector Equality Duty.

Resolved: That the report be noted and forwarded to Cabinet.

#### 78. Risk and Assumptions for Budget 2021/22

The Head of Finance presented a report which set out the risks and assumptions built in to the 2021/22 draft budget

The financial assumptions included in the 10-year budget were as follows:

- Government Support: - no Revenue Support Grant or New Homes Bonus in 2020/21.
- Council Tax: 2% in 21/22 and future years.
- Business Rates Retention safety-net in 20/21 plus 2% in later years.
- Interest Receipts: £188,000 from 21/22.
- Pay Costs: 2.0% in all years.
- Non-pay costs: 2.25% in all years.
- Income: 2.5% in all years except for off-street car parks which are an average of 3.5% from 2019/20 -23/24. This was expected to be revised for 2021/22 due to the ongoing impacts on Car Parking usage due to the COVID-19 pandemic.

Members were advised that there were some typographical errors on the risk assessment matrix for the financial risks budget 2021/22 and risk 16 needed to be in the very likely x minimal box and risk 17 needed to be next to risk 13, in the very likely x major box.

Resolved: That the report be noted, and forwarded to Cabinet.

79. Work Plan

The work plan was noted with the removal of the Capital Strategy 2021/22 for the 21 January 2021 meeting as it had been reported to this meeting.

THE MEETING WAS CONCLUDED AT 8.07 PM

CHAIRMAN

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**DISCRETIONARY RATE RELIEF**

**Finance & Investment Advisory Committee - 21 January 2021**

**Report of:** Deputy Chief Executive and Chief Officer - Customer and Resources

**Status:** For Decision

**Also considered by:**

- Cabinet 11 February 2021

**Key Decision:** No

**Executive Summary:**

The Council requires potential recipients of discretionary rate relief to submit a formal application every two years. This report sets out the proposals for awarding discretionary rate relief for 2021/2022 to ratepayers who have already submitted an application, or who are expected to have submitted an application by 1 March 2021.

**This report supports the Key Aim of:** Supporting and developing the local economy and providing value for money

**Portfolio Holder:** Cllr Matthew Dickins

**Contact Officers:** Sue Cressall Ext. 7041

Paula Porter Ext. 7277

**Recommendation to Finance & Investment Advisory Committee:** members are asked to recommend that Cabinet approve the proposals for granting relief from business rates for 2021/2022 set out in Appendix B.

**Recommendation to Cabinet:** members are asked to approve the proposals for granting relief from business rates for 2021/2022 set out in Appendix B.

**Reason for recommendation:** Relief from business rates provides organisations with valuable support and contributes to the Council's commitment to supporting and developing the local economy.

**Introduction and Background**

- 1 Charities and sports organisations that have charitable status currently receive 80% mandatory relief. In order to qualify for the mandatory relief the organisation must be established for charitable purposes only and the premises must be wholly or mainly used for charitable purposes. Sports clubs

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registered with HMRC as community amateur sports clubs are also entitled to 80% mandatory relief.

Certain types of business in rural villages may qualify for 50% mandatory rate relief subject to the rateable value of the property being under specified limits.

- 2 Section 47 of the Local Government Finance Act 1988 (as amended by s69 of the Localism Act 2011) provides local authorities with powers to grant discretionary rate relief of up to 100% to any ratepayer.
- 3 Discretionary rate relief can be awarded in isolation or given to ‘top-up’ a mandatory award.
- 4 However, unless one of the following apply, authorities may only grant discretionary rate relief if satisfied that it would be reasonable to do so, having regard to the interests of the council tax payers:
  - The ratepayer is a charity or trustees for a charity, and the property is wholly or mainly used for charitable purposes; or
  - The ratepayer is a community amateur sports club and the property is wholly or mainly used for the purpose of the club and other such clubs; or
  - The ratepayer is entitled to mandatory rural rate relief; or
  - All or part of the property is occupied by non-profit making organisations whose main objects are charitable or are otherwise philanthropic or religious or concerned with education, social welfare, science, literature or the fine arts; or
  - The property is occupied by a club, society or other non-profit making organisation and it is wholly or mainly used for purposes of recreation.
- 5 Authorities should have easily understood guidelines for deciding whether or not to grant relief and for determining the amount of relief which should be based on the consideration of the merits of each individual case. However, as the range of bodies that may be eligible for discretionary rate relief is wide, not all the suggested criteria will be applicable in each case.
- 6 The Council currently grants discretionary rate relief over the following categories:
  - Discretionary rate relief up to 100% of rates bill (but usual award is 80%);
  - Village Shop rate relief at 50% of rates bill;
  - Hardship relief up to 80% of rates bill; and
  - Discretionary ‘top-up’ relief to take total relief up to 100% of the rates bill.

- 7 Members reviewed the criteria for granting discretionary rate relief to charities, not for profit organisations, discretionary rural rate relief and hardship relief in February 2013 and this is attached at Appendix A.
- 8 The Government announced the intention to double mandatory rural rate relief to 100% from 1 April 2018 onwards. However, this still requires an amendment to primary legislation which cannot be implemented by 1 April 2021. Local Authorities are advised to use discretionary powers to award the additional 50% relief which will be reimbursed by way of a section 31 grant.
- 9 Officers also recommend the award of discretionary rural rate relief to those businesses offering some or all of the service of a Post Office or General Store which is essential to the community but do not qualify for mandatory rural rate relief because of the rateable value. The recommendation is to award discretionary rural rate relief after application of other reliefs so as to give the ratepayers 100% relief from business rates.
- 10 Applications from ratepayers falling outside of these criteria will be considered on their merits and individual recommendations will be made having regard to the interests of the District's council tax payers.

#### **Approach taken to reviewing applications**

- 11 The full list of applications, together with officer recommendations, is attached at Appendix B. Each application has been considered on its own merits, however in reviewing applications against the criteria, similar organisations were considered together, to ensure consistency of approach.
- 12 The criteria was applied as follows for discretionary rate relief and discretionary top-up relief:
  - Links to Council priorities - the extent to which the activities supported the Council's priorities was assessed, including support/activities for vulnerable or socially excluded groups.
  - Evidence of financial need including reserve levels and assets - all organisations were requested to provide financial information and reserve levels were compared to annual expenditure, to assess financial need. The ability to generate income was also considered. In addition, for sports clubs, consideration was given to whether they had applied to become community amateur sports clubs (CASCs).
  - Membership within the District - where it appeared that a substantial proportion of the membership was from outside the District, this was taken into account in putting forward a recommendation.
  - Membership open to all - where membership is restricted to a particular group or locations, or is dependent on recommendations from existing members this has been taken into account, as not all residents would be able to benefit from the relief granted.

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- Membership fee levels - fee levels were assessed to consider whether they were so high that they could exclude some in the local community.
  - Bar activity and profits - if the bar is the main activity an organisation was unlikely to be recommended for relief. Any profits are expected to be used to fund club expenses.
- 13 For discretionary village shop relief, officers considered the benefits of the shop/business to the local community when compared with the cost of the relief. It is recommended that the village shops receive relief due to the benefit they provide to local communities.
- 14 Where a ratepayer receives 100% small business rate relief the recommendation is for no discretionary rate relief or village shop relief to be granted, since the businesses already receive maximum support.
- 15 There is no formal appeals process against the Council's decisions on the discretionary reliefs referred to in this report. The current approach is however to re-consider decisions in the light of any representations made by the ratepayers.

### Applications for 2021/2022

- 16 Appendix B contains the details of each applicant to be considered for relief for 2021/2022 and detailed recommendations of the level of relief to be applied. All applicants fall to be considered under the criteria set out in Appendix A.
- 17 In the Spending Review on 25 November 2020 the Chancellor announced a multiplier freeze for 2021/2022. Although still subject to final confirmation, it is anticipated that the small business non-domestic rating multiplier will be set at 49.9p and the standard non-domestic rating multiplier will be set at 51.2p.
- 18 The estimated level of relief is based upon the multipliers set out in paragraph 17. Ultimately, should the multipliers change a further report setting out the revised relief awards will be submitted.
- 19 If applications are approved, the estimated total gross relief granted would be £195,345.
- 20 Members should be aware that the requirement for relief can change during the financial year as a result of rateable value changes, vacations etc. Therefore, some of these awards may not ultimately require full funding.

### Other options Considered and/or rejected

- 21 Members have discretion not to grant rate relief or to vary the amount of relief awarded. No recommendation is being made to reduce or remove relief because relief from business rates provides organisations with

valuable support and contributes to the Council's commitment to supporting and developing the local economy.

## **Key Implications**

### Financial

- 22 Since 1 April 2013 all discretionary relief granted has come under the provisions of the business rate retention scheme.
- 23 The cost of relief is initially shared between central government (50%) and local authorities (50%). Of this Sevenoaks District Council is required to fund 40%. However, due to the complexities of business rates retention, the actual impact is likely to be significantly lower.
- 24 Appendix B only refers to the gross discretionary rate relief proposed.
- 25 S31 grants will be made to compensate for the top-up to mandatory rural rate relief.

### Legal Implications and Risk Assessment Statement

- 26 There are no legal issues.

### Risk Assessment Statement

- 27 New organisations may request relief after the deadline for receipt of applications and so would not be able to receive discretionary relief until the next annual review. In order to address urgent cases the Chief Officer for Customer and Resources determines any relief to be awarded under delegated authority. These organisations would then apply in the usual way for the next round.
- 28 A biennial application process may seem to be an additional burden for businesses, many of whom are small. Officers have taken account of this in designing the application process so as to minimise the administrative burden on applicants.

### Equality Assessment

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

## **Conclusions**

- 30 There are clear benefits to the business community of awarding discretionary rate relief and therefore the proposals are submitted for endorsement as per Appendix B.

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### **Appendices**

Appendix A - Policy for considering applications for Discretionary Rate Relief

Appendix B - List of organisations proposed to receive relief

### **Background Papers**

None

**Jim Carrington-West**

**Deputy Chief Executive and Chief Officer - Customer & Resources**

## Policy for considering applications for Discretionary Rate Relief

### Charitable and not for profit organisations

Under National Non-Domestic Rate (NNDR) legislation the Council has the power to award discretionary rate relief to certain charitable or not for profit organisations where the following conditions are satisfied.

All or part of the property is occupied by one or more institutions or organisations which are:

- Not established for profit, **and**
- Whose main objects are charitable or are otherwise philanthropic or religious or concerned with education, social welfare, science, literature or the fine arts; or
- Used wholly or mainly for recreation by a not-for-profit club or society.

Discretionary rate relief cannot be awarded if the ratepayer is a billing or precepting authority.

The process for considering applications is as follows:

- Not-for-profit organisations are asked to apply for discretionary rate relief (in isolation or as ‘top-up’ every two years, all applications to be considered at the same time.
- Cabinet to decide annually which organisations are to receive relief based on criteria including how the organisation assists the Council to achieve its priorities (see below). This includes deciding the level of relief to be granted in each case.

Criteria	Explanation
Links to Council priorities	The extent to which the activities of the organisation support the Council’s priorities as set out in the Corporate Plan, and specifically supporting and developing the local economy and providing good value for money through a balanced budget.
Evidence of financial need including reserve levels and assets	Organisations with high levels of reserves (covering more than 12 months’ expenditure) or who cannot demonstrate a financial need would not be a priority for rate relief.

Membership within District	As 40% of the relief is funded by SDC taxpayers priority will be given to those organisations with a high proportion of members from within the District.
Membership open to all	To give all residents an opportunity to benefit from the rate relief, priority should be given to organisations where membership is open to all.
Membership fee levels	Where membership fees are charged they should not be so high as to exclude any of the community.
Extent to which activity is based around Bar and use of profits from it	Priority would not be given to those organisations where the bar is the main activity. It would be expected that any profits from the bar would be put back to fund club expenses.

Discretionary rural rate relief

Certain types of business in rural villages, with a population below 3,000, may qualify for rate relief of 50%. Businesses that qualify for this relief are the sole general store and the sole post office in the village, provided it has a rateable value of up to £8,500, any food shop with a rateable value of up to £8,500 and the sole pub and the sole petrol station in the village provided it has a rateable value of up to £12,500. The Council has discretion to give further relief on the remaining bill on such property.

The Council may decide to give up to 100% relief to any other business in such a rural village, with a rateable value of up to £16,500, if it is satisfied that the business is of benefit to the community and having regard to the interests of its council tax payers.

Hardship Relief

Hardship relief is granted in exceptional circumstances, any business can apply for hardship relief if they can show the following:

- The business would suffer hardship if relief was not granted; and
- It is in the interests of council tax payers for relief to be granted.

An application needs to be supported by current trading figures as well as previous audited accounts or accounts accepted by HMRC. In assessing an



application regard will be had to employment issues for the company or any related business and the impact that the loss of business would have on the local area. The current approval process is that the Finance Team carries out a review of the business's accounts and the Chief Finance Officer decides whether hardship relief is appropriate based on each case's merits. In practice hardship relief has been granted in only exceptional cases to date.

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Ref	Organisation name and property description/address	Property Type	Parish	% for 2021/22	Estimated Relief for 2021/22	Recommendation/comments
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	<b>DISCRETIONARY RELIEF</b>					
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30731480	Doctrina Education Ltd 69c London Road, Sevenoaks TN13 1AX	Office	Sevenoaks	80	£6,487.00	Recommended - subject to application being received by 1 March 2021
30556849	Hospices of Hope Trading Ltd 11-13 High Street, Otford TN14 5PG	Shop	Otford	80	£10,878.20	Recommended
30733226	Kent Downs AONB Unit The Tea Barn, Shoreham TN14 7UB	Office	Shoreham	80	£3,792.40	Recommended - subject to application being received by 1 March 2021
30570319	New Ash Green Village Assoc Ltd Ash Road, New Ash Green DA3 8HH	Hall	Ash	80	£3,233.52	Recommended
30557491	New Ash Green Village Assoc Ltd Punch Croft, New Ash Green DA3 8HR	Sports Ground	Ash	80	£6,686.60	Recommended
30578788	New Ash Green Village Assoc Ltd Centre Road, New Ash Green DA3 8HH	Office	Ash	80	£4,690.60	Recommended

Ref	Organisation name and property description/address	Property Type	Parish	% for 2021/22	Relief for 2021/22	Recommendation/comments
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30553475	New Ash Green Village Assoc Ltd Ash Road, New Ash Green DA3 8JY	Workshop	Ash	80	£5,489.00	Recommended
30709346	RACDV Sales Ltd 36 Swanley Centre, Swanley BR8 7TL	Shop	Swanley	80	£5,788.40	Recommended

Ref	Organisation name and property description/address	Property Type	Parish	% for 2021/22	Relief for 2021/22	Recommendation/comments
	<b>TOP-UP RELIEF</b>					
30550568	10th Sevenoaks (Weald's Own) Scout Group R/O 13-16 Glebe Road, Weald TN14 6PB	Hall	Weald	20	£332.80	Recommended
30562165	15th Sevenoaks (Otford) Scout Group Station Road, Otford TN14 5QU	Hall	Otford	20	£312.32	Recommended
30569944	16th Sevenoaks (Ide Hill) Scout Group Camberwell Lane, Ide Hill TN14 6JL	Hall	Sundridge	20	£125.44	Recommended
30565195	17th Sevenoaks (Westerham) Scout Group Hortons Way, Westerham TN16 1BT	Hall	Westerham	20	£235.52	Recommended
30557095	1st Crockenhill Scout Group Stones Cross Road, Swanley BR8 8LT	Hall	Swanley	20	£184.92	Recommended

Ref	Organisation name and property description/address	Property type	Parish	% for 2021/22	Relief for 2021/22	Recommendation/comments
30561414	1st Edenbridge Scout Group Station Road, Edenbridge TN8 5HP	Hall	Edenbridge	20	£227.84	Recommended
30558593	1st Eynsford & Farningham Scout Group Priory Lane, Eynsford DA4 0AY	Hall	Eynsford	20	£250.88	Recommended
30565812	1st Horton Kirby Scout Group Horton Road, Horton Kirby DA4 9BN	Hall	Horton Kirby	20	£256.00	Recommended
30558555	1st Sevenoaks Scout Group 57 Oakhill Road, Sevenoaks TN13 1NT	Hall	Sevenoaks	20	£373.76	Recommended
30562080	3rd Sevenoaks (Riverhead) Scout Group Bradbourne Vale Road, Sevenoaks TN13 3QQ	Hall	Sevenoaks	20	£327.68	Recommended
30567641	4th Sevenoaks (St Johns) Scout Group Mill Lane, Sevenoaks TN14 5BU	Hall	Sevenoaks	20	£778.24	Recommended

Ref	Organisation name and property description/address	Property Type	Parish	% for 2021/22	Relief for 2021/22	Recommendation/comments
30573417	6th Sevenoaks (Kemsing) Scout Group Heaverhad Road, Kemsing TN15 6NE	Hall	Kemsing	20	£204.80	Recommended - subject to application being received by 1 March 2021
30566792	7th Sevenoaks (Halstead) Scout Group Shoreham Lane, Halstead TN14 7BY	Hall	Halstead	20	£112.64	Recommended - subject to application being received by 1 March 2021
30556245	7th Tonbridge (Eden Valley) Scout Group Kiln Lane, Leigh TN11 8RT	Hall	Leigh	20	£266.24	Recommended
30638543	Age UK Sevenoaks & Tonbridge The Old Meeting House, St Johns Road, Sevenoaks TN13 3LR	Hall	Sevenoaks	20	£1,971.20	Recommended
30612176	Badgers Mount Memorial Hall Highland Road, Badgers Mount TN14 7BA	Hall	Badgers Mount	20	£409.60	Recommended
30741845	Chiddingstone Nursery School Hill Hoath Road, Chiddingstone TN8 7AD	Day Nursery	Chiddingstone	20	£880.64	Recommended

Ref	Organisation name and property description/address	Property Type	Parish	% for 2021/22	Relief for 2021/22	Recommendation/comments
30735406	Citizens Advice in North & West Kent 38 Swanley Centre, Swanley BR8 7TQ	Shop	Swanley	20	£1,126.40	Recommended
30574069	Citizens Advice in North & West Kent Buckhurst Lane, Sevenoaks TN13 1HW	Offices	Sevenoaks	20	£911.36	Recommended
30604373	Eden Valley Museum Trust Church House, R/O 72 High Street Edenbridge TN8 5AR	Museum	Edenbridge	20	£1,074.55	Recommended
30693953	Edenbridge & Westerham Citizens Advice Bureau The Eden Centre, Edenbridge TN8 6BY	Office	Edenbridge	20	£1,638.40	Recommended
30569890	Farningham Village Hall High Street, Farningham DA4 0DH	Hall	Farningham	20	£409.60	Recommended
30558982	Fawkham Village Hall Valley Road, Fawkham DA3 8NA	Hall	Fawkham	20	£624.64	Recommended

Ref	Organisation name and property description/address	Property Type	Parish	% for 2021/22	Relief for 2021/22	Recommendation/comments
30554416	Halstead Village Hall Knockholt Road, Halstead TN14 7EX	Hall	Halstead	20	£327.68	Recommended
30675078	Hartley Village Hall Ash Road, Hartley DA3 8EL	Hall	Hartley	20	£307.20	Recommended
30721865	Hextable Community Collective 39 Egerton Avenue, Hextable BR8 7LG	School	Hextable	20	£2,867.20	Recommended
30555785	Ide Hill Village Hall Management Ide Hill, Sevenoaks TN14 6JG	Store	Sundridge	20	£227.84	Recommended
30570296	Ide Hill Village Hall Management Ide Hill, Sevenoaks TN14 6JG	Hall	Sundridge	20	£291.84	Recommended
30702369	Kingsdown Village Hall Gamecock Meadow, London Road West Kingsdown TN15 6BZ	Hall	West Kingsdown	20	£1,843.20	Recommended
30658332	Longfield & Hartley Scout Group Larkwell Lane, Hartley DA3 7EQ	Club House	Hartley	20	£522.24	Recommended



Ref	Organisation name and property description/address	Property Type	Parish	% for 2021/22	Relief for 2021/22	Recommendation/comments
30557156	Oxford Village Memorial Hall High Street, Oxford TN14 5PQ	Hall	Oxford	20	£727.04	Recommended
30722288	Rainbow Pre-School Coolings Green & Pleasant Main Road, Knockholt TN14 7LJ	Day Nursery	Knockholt	20	£839.68	Recommended
30610552	Remap 2010 Unit D9 Chaucer Business Park, Kemsing TN15 6YU	Office	Kemsing	20	£1,075.20	Recommended
30643088	Riverside Players Unit 11 Furlongs Farm, Riverside Eynsford DA4 0AE	Store	Eynsford	20	£232.96	Recommended
30758171	Samaritans of East Surrey 105 St Johns Hill, Sevenoaks TN13 3PE	Office	Sevenoaks	20	£1,024.00	Recommended
30744370	Second Chance Animal Rescue Bournewoods, Stones Cross Road Swanley BR8 8LT	Animal Sanctuary	Swanley	20	£1,280.00	Recommended

Ref	Organisation name and property description/address	Property Type	Parish	% for 2021/22	Relief for 2021/22	Recommendation/comments
30575161	Sevenoaks District Scout Council School Lane, Seal TN15 0BE	Hall	Seal	20	£286.72	Recommended
30605970	Sevenoaks Leisure Ltd White Oak Leisure Centre, Swanley BR8 7BT	Leisure Centre	Swanley	20	£41,984.00	Recommended
30607556	Sevenoaks Leisure Ltd Buckhurst Lane, Sevenoaks TN13 1LW	Leisure Centre	Sevenoaks	20	£25,856.00	Recommended
30607570	Sevenoaks Leisure Ltd Lullingstone Golf Club, Orpington BR6 7PX	Restaurant	Shoreham	20	£1,013.76	Recommended
30607563	Sevenoaks Leisure Ltd Edenbridge Leisure Centre TN8 5LU	Leisure Centre	Edenbridge	20	£22,528.00	Recommended
30734694	Sevenoaks Leisure Ltd Edenbridge Local Office TN8 5LU	Office	Edenbridge	20	£645.12	Recommended
30550339	Shoreham Village Hall 25 High Street, Shoreham TN14 7TB	Hall	Shoreham	20	£404.48	Recommended

Ref	Organisation name and property description/address	Property Type	Parish	% for 2021/22	Relief for 2021/22	Recommendation/comments
30671342	Stag Community Arts Centre Stag Theatre, Sevenoaks TN13 1ZZ	Theatre & Cinema	Sevenoaks	20	£5,939.20	Recommended
30556276	Sundridge Village Hall Main Road, Sundridge TN14 6EJ	Hall	Sundridge	20	£307.20	Recommended - subject to application being received by 1 March 2021
30720022	Swanley & District Foodbank 11 Lynden Way, Swanley BR8 7DN	Shop	Swanley	20	£532.48	Recommended
30719305	The Kent Firefighting Museum Woodlands Nurseries, Ash TN15 7EG	Museum	Ash	20	£404.48	Recommended
30569487	Ash Village Hall The Street, Ash TN15 7HA	Hall	Ash	20	£276.48	Recommended
30554812	West Kent Mind Day Centre, Glen Dunlop House St Johns Road, Sevenoaks TN13 3LW	Day Centre	Sevenoaks	20	£501.76	Recommended

Ref	Organisation name and property description/address	Property Type	Parish	% for 2021/22	Relief for 2021/22	Recommendation/comments
<b>RURAL RATE RELIEF</b>						
30729951	Jay Balaji Ltd 35 High Street, Shoreham TN14 7TB	Post Office	Shoreham	100	£4,790.40	Recommended - subject to application being received by 1 March 2021
30602841	Seal Supermarket Ltd 21 High Street, Seal TN15 0AN	Shop	Seal	100	£6,029.58	Recommended
30697481	Ide Hill Community Shop CIC Ide Hill Village Hall, Ide Hill TN14 6JG	Shop	Sundridge	50	£2,624.00	Recommended
30551899	Mr Alan Johnson Park View, High Street, Leigh TN11 8RL	Shop	Leigh	50	£1,587.20	Recommended
30756564	Mr R G Martin 27 High Street, Seal TN15 0AN	Shop	Seal	50	£2,176.00	Recommended
30572421	Mr N Stokes Essington House, Eynsford DA4 0AB	Shop	Eynsford	50	£1,766.40	Recommended

Ref	Organisation name and property description/address	Property Type	Parish	% for 2021/22	Relief for 2021/22	Recommendation/comments
30556207	Penshurst Place Forge Garage, High Street Penshurst, TN11 8BU	Petrol Filling Station	Penshurst	50	£1,536.00	Recommended
30669516	Rafferty Investments Ltd Darenth House, Eynsford DA4 0AA	Shop	Eynsford	50	£2,508.80	Recommended

<u>Discretionary Rate Relief</u>		Number	Relief 2021/22
Total Officer Recommended		8	£47,045.72
Total Officer Rejected		0	£0.00
<u>Top-Up Relief</u>		Number	Amount
Total Officer Recommended		49	£125,281.23
Total Officer Rejected		0	£0.00
<u>Rural Rate Relief</u>		Number	Amount
Total Officer Recommended		8	£23,018.38
Total Officer Rejected		0	£0.00

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**TREASURY MANAGEMENT STRATEGY 2021/22**

**Finance & Investment Advisory Committee - 21 January 2021**

**Report of:** Deputy Chief Executive and Chief Officer - Finance & Trading

**Status:** For Decision

**Also considered by:**

- Cabinet - 11 February 2021
- Council - 23 February 2021

**Key Decision:** No

**Executive Summary:** The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by investment guidance issued subsequent to the Act). This sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Annual Investment Strategy remains largely the same as for 2020/21 with the addition of Bond, Property, Equity and Multi-Asset Funds as an alternative investment option.

**This report supports the Key Aim of:** efficient management of the Council’s resources.

**Portfolio Holder:** Cllr. Matthew Dickins

**Contact Officer:** Roy Parsons, Ext. 7204

**Recommendation to Finance & Investment Advisory Committee:**

That the report be noted and comments forwarded to Cabinet.

**Recommendation to Cabinet:**

That, subject to the comments of the Finance & Investment Advisory Committee, Cabinet recommend that Council approve the Treasury Management Strategy for 2021/22.

**Recommendation to Council:**

That the Treasury Management Strategy for 2021/22 be approved.

**Reason for recommendations:** To ensure that an appropriate and effective annual Treasury Management Strategy is drawn up in advance of the forthcoming financial year, which meets both legislative and best practice requirements.

**Background**

- 1 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.
- 2 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.
- 3 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.
- 4 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.
- 5 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

*"The management of the local authority's 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.”*

## Introduction

### Reporting requirements - Capital Strategy

- 6 The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, 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; and
  - the implications for future financial sustainability.
- 7 The aim of this capital strategy is to ensure that Members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- 8 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:
  - the corporate governance arrangements for these types of activities;
  - any service objectives relating to the investments;
  - the expected income, costs and resulting contribution;
  - the debt related to the activity and the associated interest costs;
  - the payback period (MRP policy);
  - for non-loan type investments, the cost against the current market value; and
  - the risks associated with each activity.
- 9 Where a physical asset is being bought, details of market research, advisers used (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.
- 10 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.
- 11 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

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- 12 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

### Reporting requirements - Treasury Management

- 13 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Finance & Investment Advisory Committee.

- a) Prudential and treasury indicators and treasury strategy (this report) -

The first, and most important report 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.

### Treasury Management Strategy for 2021/22

- 14 The strategy for 2021/22 covers two main areas:

#### *Capital issues*

- the capital expenditure plans and the associated prudential indicators; and
- 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 the use of external service providers.
- 15 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

#### Training

- 16 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 on 14 November 2018 and further training will be arranged as required.
- 17 The training needs of treasury management officers are reviewed periodically.

#### Treasury management consultants

- 18 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.
- 19 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. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury management advisors.
- 20 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.
- 21 The scope of investments within the Council's operations now includes both conventional treasury investments (the placing of residual cash from the Council's functions) and more commercial type investments, such as investment properties. The commercial type investments require specialist property advisers.

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### The Capital Prudential Indicators 2021/22 - 2023/24

- 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.

#### Capital Expenditure

- 23 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 note the capital expenditure forecasts:

Capital expenditure	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital expenditure	11,197	9,690	16,344	5,777	2,121
Commercial activities/non-financial investments*	0	5,000	5,000	5,000	5,795
<b>Total</b>	<b>11,197</b>	<b>14,690</b>	<b>21,344</b>	<b>10,777</b>	<b>7,916</b>

\* Commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties etc

- 24 The above financing need excludes other long term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.
- 25 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 need (borrowing) although this may be funded through internal borrowing initially.

Financing of capital expenditure	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital expenditure	11,197	14,690	21,344	10,777	7,916
<b>Financed by:</b>					
Capital receipts	5,819	7,021	4,041	3,284	108
Capital grants	1,100	2,000	2,590	1,100	1,100

Financing of capital expenditure	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital Reserves	548	549	563	563	563
Mixed funding & Property Investment Strategy	3,730	5,120	6,150	5,830	6,145
Internal borrowing	0	0	0	0	0
Revenue - contribution to capital reserve	0	0	0	0	0
<b>Net financing need for the year</b>	<b>0</b>	<b>0</b>	<b>8,000</b>	<b>0</b>	<b>0</b>

26 The net financing need for commercial activities/non-financial investments included in the above table against expenditure is shown below.

Commercial activities/non-financial investments	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital expenditure	0	0	0	0	0
Financing costs	0	0	0	0	0
<b>Net financing need for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Percentage of total net financing need	0%	0%	0%	0%	0%

The Council's Borrowing Need (the Capital Financing Requirement)

27 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 through a revenue or capital resource, will increase the CFR.

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- 28 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used.
- 29 The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes.
- 30 The Council is asked to approve the CFR projections below:

	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
<b>Capital Financing Requirement</b>					
CFR - Services	21,989	25,811	26,085	34,359	34,633
CFR - Commercial activities/non-financial investments	0	0	0	0	0
<b>Total CFR</b>	25,811	26,085	34,359	34,633	34,907
<b>Movement in CFR</b>	3,822	274	8,274	274	274
<b>Movement in CFR represented by:</b>					
Net financing need for the year (above)	0	0	8,000	0	0
<u>Add</u> MRP/VRP and other financing movements	3,822	274	274	274	274
<b>Movement in CFR</b>	3,822	274	8,274	274	274

Note:- The MRP / VRP includes finance lease annual principal payments

- 31 A key aspect of the regulatory and professional guidance is that elected Members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown above demonstrate the scope of this activity and, by approving these figures, Members consider the scale proportionate to the Authority's remaining activity.

Core Funds and Expected Investment Balances

- 32 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 on-going 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	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Fund balances / reserves	21,310	19,882	18,972	18,813	18,459
Capital receipts	789	10	3,053	1,010	10
Provisions	409	409	409	409	409
Other	0	0	0	0	0
<b>Total core funds</b>	<b>22,508</b>	<b>20,301</b>	<b>22,434</b>	<b>20,232</b>	<b>18,878</b>
Working capital*	9,033	9,133	9,233	9,333	9,433
Under/(over) borrowing	20,263	20,660	29,060	29,463	29,870
<b>Expected investments</b>	<b>11,278</b>	<b>8,774</b>	<b>2,607</b>	<b>102</b>	<b>-1,559</b>

\*Working capital balances shown are estimated year end; these may be higher mid year

**Minimum revenue provision (MRP) policy statement**

- 33 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).
- 34 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 can change the method of calculating MRP on an annual basis but once a method has been approved for a particular year, any assets purchased through

## Agenda Item 7

borrowing that year must continue to have MRP charged in the same way. The Council cannot change the method of calculating MRP on individual assets.

35 The Council is recommended to approve the following MRP statement:

36 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be based on CFR. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

37 From 1 April 2008 for all unsupported borrowing (i.e. not supported by the Revenue Support Grant), including finance leases, the MRP policy will be either:

- 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); or
- Depreciation method - MRP will follow standard depreciation accounting procedures.

These options provide for a reduction in the borrowing need over approximately the asset's life. Repayments included in finance leases are applied as MRP.

38 It is proposed to use the 'asset life method' in the calculation of the Council's MRP. In choosing to do so, there are two options available:

- Equal instalments - where the principal repayment made is the same in each year; or
- Annuity - where the principal repayments increase over the life of the asset.

39 Of the two options, the annuity method seems to be the most suitable for the Council at this time, particularly for assets that generate income. It matches the repayment profile to how the benefits of the asset financed by borrowing are consumed over its useful life (i.e. it reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years). Interest will be greater at the beginning of the loan, at which time all of the principal is outstanding, so the amount of principal repayment is lower in the initial years. The schedule of charges produced by the annuity method results in a consistent charge of principal and interest over an asset's life, taking into account the real value of the annual charges when they fall due.

40 MRP commences in the financial year following that in which the expenditure is incurred, or in the year following that in which the relevant asset becomes operational. This enables an MRP "holiday" to be taken in relation to assets which take more than one year to be completed before they become operational.



- 41 MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision 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 the cumulative overpayment made each year. Up until the 31 March 2020 the total VRP overpayments have been nil.

### The Borrowing and Repayment Strategy

- 42 The capital expenditure plans set out above 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 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.

### Current portfolio position

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

	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
<b>External debt</b>					
Debt at 1 April	5,134	5,015	4,892	4,766	4,637
Expected change in Debt	-119	-123	-126	-129	-133
Other long-term liabilities (OLTL)	533	533	533	533	533
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	5,548	5,425	5,299	5,170	5,037
The Capital Financing Requirement (CFR)	25,811	26,085	34,359	34,633	34,907

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Under / (over) borrowing	20,263	20,660	29,060	29,463	29,870
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- 44 Within the above figures, the level of debt relating to commercial activities/non-financial investments is:

	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
<b>External debt for commercial activities/non-financial investments</b>					
Actual debt at 31 March	0	0	0	0	0
Percentage of total external debt	0	0	0	0	0

- 45 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 2021/22 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.
- 46 The Deputy Chief Executive and Chief Officer - Finance & Trading 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.

### Treasury Indicators: Limits to Borrowing Activity

#### The operational boundary

- 47 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.

<b>Operational boundary</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>
Debt	30,000	30,000	30,000	30,000
Other long term liabilities	533	533	533	533
Commercial activities / non-financial investments				
<b>Total</b>	<b>30,533</b>	<b>30,533</b>	<b>30,533</b>	<b>30,533</b>

The authorised limit for external debt

48 This is a 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.

49 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.

50 The Council is asked to approve the following authorised limit:

<b>Authorised limit</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>
Debt	35,000	35,000	35,000	35,000
Other long term liabilities	533	533	533	533
Commercial activities / non-financial investments				
<b>Total</b>	<b>35,533</b>	<b>35,533</b>	<b>35,533</b>	<b>35,533</b>

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### Prospects for interest rates

- 51 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 their central view.

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

- 52 Appendix A draws together a number of current City views on the prospects for short term and longer fixed interest rates. Appendix B contains Link Asset Services' latest economic background report and the risks for interest rates as at the beginning of December 2020.

### Borrowing Strategy

- 53 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement or CFR) 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.
- 54 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Deputy Chief Executive and Chief Officer - Finance & Trading 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, then long term borrowings will be postponed.*
  - *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 start date and 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.*

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

Policy on borrowing in advance of need

- 56 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.
- 57 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.

Debt rescheduling

- 58 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the level of debt is low.
- 59 If rescheduling were to be carried out, it will be reported to Cabinet at the earliest meeting following its action.

New financial institutions as a source of borrowing

- 60 Consideration will also need to be given to sourcing funding at cheaper rates from the following:
- Local authorities (primarily shorter dated maturities)
  - Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
  - Municipal Bonds Agency
- 61 The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

Affordability prudential indicators

- 62 The previous sections cover 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. Members are asked to note the following indicators:

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### Ratio of financing costs to net revenue stream

- 63 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.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Services	1%	1%	1%	1%	1%
Commercial activities / non-financial investments	0%	0%	0%	0%	0%
<b>Total</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>

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

### Maturity structure of borrowing

- 64 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.

- 65 Members are asked to note the following treasury indicators and limits:

<b>Maturity structure of fixed interest rate borrowing 2021/22</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%
<b>Maturity structure of variable interest rate borrowing 2021/22</b>		

	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

## Annual Investment Strategy

### Current investment portfolio position

- 66 The Council’s treasury portfolio position at 1 December 2020 appears in Appendix C.

### Loans to other organisations

- 67 The Council has loaned money to other organisations. Details appear in Appendix C.

### Investment policy - management of risk

- 68 The Ministry of Housing, Communities and Local Government (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 (a separate report).

- 69 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

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

- 71 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:-

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- a) 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.
- b) Credit 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.
- c) Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- d) This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix D 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 or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding 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.
- e) The Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio (see paragraph 77).
- f) Lending limits (amounts and maturity) for each counterparty will be set through applying the table in paragraph 79.
- g) This authority will set a limit for the amount of its investments which are invested for longer than 365 days (see paragraph 92).
- h) Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see Appendix E and paragraphs 84 and 85).
- i) This authority has engaged external consultants, Link Asset Services, 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.
- j) All investments will be denominated in sterling.
- k) As a result of the change in accounting standards for 2020/21 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. In November 2018, the Ministry of Housing, Communities and Local Government (MHCLG) concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending on 31 March 2023.

- 72 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 94). Regular monitoring of investment performance will be carried out during the year.

#### Creditworthiness policy

- 73 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.
- 74 The Deputy Chief Executive and Chief Officer - Finance & Trading 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.
- 75 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 counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions

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- 76 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:
- Banks 1 (Good credit quality). UK banks having, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):
    - i. Short Term - F1
    - ii. Long Term - A-
  - Banks 2 (Good credit quality). Non-UK banks domiciled in a country which has a minimum sovereign Long Term rating of AA- and having, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where appropriate):
    - i. Short Term - F1
    - ii. Long Term - A-
  - Banks 3 (Part nationalised UK Bank - Royal Bank of Scotland). This bank can be included provided it continues to be part nationalised or it meets the rating requirements in Banks 1 above.
  - Banks 4 (The Council's own banker for transactional purposes, if it falls below the above criteria). Balances will be minimised in both monetary size and time invested.
  - Bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
  - Building societies. The Council will use all societies which:
    - i. Meet the ratings for banks outlined above; or
    - ii. Have assets in excess of £3bn;  
or meet both criteria.
  - Money Market Funds (MMFs). Minimum AAA credit rating from at least two of the three rating agencies and with a fund size in excess of £1bn. New EU regulations implemented in January 2019 changed fund valuation methodology from Constant Net Asset Valuation (CNAV) to either Low Volatility Net Asset Valuation (LVNAV) or CNAV. As a consequence, the Council approves the use of Money Market Funds that operate under CNAV (those that invest exclusively in government securities) or operate under LVNAV (all other liquidity funds)
  - Bond, Property, Equity or Multi-Asset Funds.
  - UK Government (including gilts, Treasury Bills and the DMADF).
  - Local authorities, housing associations, parish councils etc.
- 77 A limit of 50% will be applied to the use of non-specified investments.

- 78 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.
- 79 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):

	<b>Fitch Long Term Rating (or equivalent)</b>	<b>Money and/or % Limit</b>	<b>Time Limit</b>
Banks 1	A-	£7m	2 years
Banks 2	A-	£5m	2 years
Banks 3	N/A	£7m	2 years
Banks 4	N/A	£7m	1 day
Bank subsidiaries	A-	£7m	2 years
Rated building societies (assets over £3bn)	N/A	£5m	2 years
Unrated building societies (assets over £3bn)	N/A	£3m	1 year
Money Market Funds (CNAV)	AAA	£5m (per Fund)	Liquid
Money Market Funds (LVNAV)	AAA	£5m (per Fund)	Liquid
Bond, Property, Equity & Multi-Asset Funds	N/A	£5m (per Fund)	Liquid
UK Government DMADF	UK sovereign rating	£5m	6 months

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Local authorities, housing associations etc	N/A	£5m (each)	2 years
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80 The proposed criteria for specified and non-specified investments are shown in Appendix D.

### Creditworthiness issues

81 Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30 June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks.

82 All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

### Other limits

83 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

84 The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

85 In addition:

- no more than 15% of the total fund will be placed with any non-UK country at any time. The only country, other than the UK, currently approved for investment is Sweden;
- total investment in any single institution, or institutions within a group of companies, is limited to 25% of the total fund at the time an investment is placed;

### Investment Strategy

86 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).

87 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.

88 Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

89 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 (the long term forecast is for periods over 10 years in the future):

- 2020/21 0.10%
- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%
- 2024/25 0.25%
- Later years 2.00%

90 The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the coronavirus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.

91 There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

92 Members are asked to note the following treasury indicator and limit. These limits are set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment. They are based on the availability of funds after each year-end.

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Upper limit for principal sums invested for longer than 365 days	2021/22 £m	2022/23 £m	2023/24 £m
Limit for principal sums invested for longer than 365 days	£10m	£10m	£10m
Current investments at 1/12/20 in excess of 1 year maturing in each year	-	-	-

- 93 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

### Investment risk benchmarking

- 94 The Council will use an investment benchmark to assess the performance of its portfolio. The benchmarks will be 7 day and 3 month LIBID un-compounded.

### End of year investment report

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

### Scheme of delegation

- 96 The guidance notes accompanying the revised Code also require that a statement of the Council's scheme of delegation in relation to treasury management is produced as part of the Annual Investment Strategy. This appears at Appendix F.

### Role of the Section 151 officer

- 97 As with the scheme of delegation mentioned in the previous paragraph, a statement of the role of the Section 151 officer is also required. This appears at Appendix G.

## Key Implications

### Financial

The management of the Council's investment portfolio and cash-flow generated balances plays an important part in the financial planning of the authority. The security of its capital and liquidity of its investments is of paramount importance.

### Legal Implications and Risk Assessment Statement

Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.

This treasury management strategy report fulfils the requirements of The Chartered Institute of Public Finance & Accountancy's Code of Practice on Treasury Management 2017.

Treasury management has two main risks :

- Fluctuations in interest rates can result in a reduction in income from investments; and
- A counterparty to which the Council has lent money fails to repay the loan at the required time.

Consideration of risk is integral in our approach to treasury management. The movement in previous years towards having a restricted lending list of better quality institutions but higher individual limits with those institutions has reduced the chances of a default. But if a default did occur, the potential loss would be greater.

These risks are mitigated by the annual investment strategy which has been prepared on the basis of achieving the optimum return on investments commensurate with proper levels of security and liquidity. However, Members should recognise that in the current economic climate, these remain significant risks and that the strategy needs to be constantly monitored.

### Equality Assessment

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

### **Conclusions**

The effect of the proposals set out in this report is to allow the Council to effectively and efficiently manage cash balances.

In line with the revised CIPFA Code of Practice on Treasury Management, the Annual Treasury Strategy Statement must be considered by Council and this is planned for its meeting on 23 February 2021. Given the current uncertainties in the financial markets and the implications of Brexit, the Council may need to consider amending its strategy during the year.

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### **Appendices**

Appendix A - Prospects for interest rates

Appendix B - Economic background and interest rate risks

Appendix C - Investment portfolio at 1 December 2020

Appendix D - Specified and non-specified investments

Appendix E - Approved countries for investments

Appendix F - Treasury management scheme of delegation

Appendix G - The treasury management role of the S151 officer

### **Background Papers**

None

**Adrian Rowbotham**

**Deputy Chief Executive and Chief Officer - Finance & Trading**



**APPENDIX A: Prospects for interest rates**

- 1 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. Link provided the following forecasts on 11 August 2020. However, following the conclusion of the review of PWLB margins over gilt yields on 25 November 2020, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

- 2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November 2020, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

**Gilt yields / PWLB rates**

- 3 There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major

impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

- 4 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.
- 5 As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. 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 (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

#### **Investment and borrowing rates**

- 6 Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- 7 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin

over gilt yields of 80 bps in October 2019 required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. It also introduced the following rates for borrowing for different types of capital expenditure: -

- PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
- PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

8 As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

9 On 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows:-

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

### **Borrowing for capital expenditure**

10 As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods. So an assessment of risk appetite in conjunction with budgetary pressures would be required to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.

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## APPENDIX B: Economic background and interest rate risks

### Economic background

- 1 **UK.** The Bank of England’s Monetary Policy Committee (MPC) kept Bank Rate unchanged on 5 November 2020. However, it revised its economic forecasts to take account of a second national lockdown from 5 November 2020 to 2 December 2020 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that “announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target”.
  
- 2 Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:
  - The economy would recover to reach its pre-pandemic level in Q1 2022
  - The Bank also expects there to be excess demand in the economy by Q4 2022.
  - CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the “inflation risks were judged to be balanced”.
  
- 3 Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the MPC this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.
  
- 4 One key addition to the Bank’s forward guidance in August was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate - until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase through to quarter 1 2024 but there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly.

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Inflation is unlikely to pose a threat requiring increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. It is expected to briefly peak at around 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.

- 5 However, the minutes did contain several references to downside risks. The MPC reiterated that the “recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside”. It also said “the risk of a more persistent period of elevated unemployment remained material”. Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2nd December 2020, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31<sup>st</sup> March 2021 will limit the degree of damage done.
- 6 As for upside risks, we have been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9 November 2020 was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, their phase three trials are still only two-thirds complete. More data needs to be collected to make sure there are no serious side effects. We don’t know exactly how long immunity will last or whether it is effective across all age groups. The Pfizer vaccine specifically also has demanding cold storage requirements of minus 70C that might make it more difficult to roll out. However, the logistics of production and deployment can surely be worked out over the next few months.
- 7 However, there has been even further encouraging news since then with another two vaccines announcing high success rates. Together, these three announcements have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021,

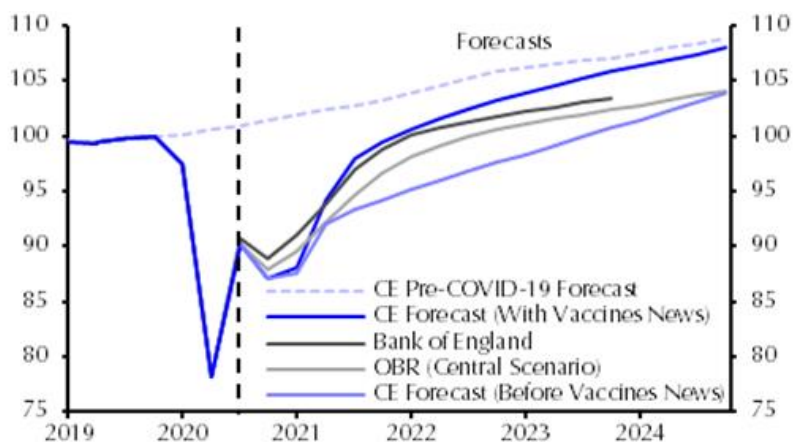
once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would still remain some years away. There is also a potential question as to whether the relatively optimistic outlook of the Monetary Policy Report was swayed by making positive assumptions around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.

- 8 Public borrowing is now forecast by the Office for Budget Responsibility (OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PwLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.
- 9 Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. However, the second national lockdown starting on 5 November 2020 for one month is expected to depress GDP by 8% in November while the rebound in December is likely to be muted and vulnerable to the previously mentioned downside risks. It was expected that the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, the graph below shows what Capital Economics forecast will happen now that there is high confidence that successful vaccines will be widely

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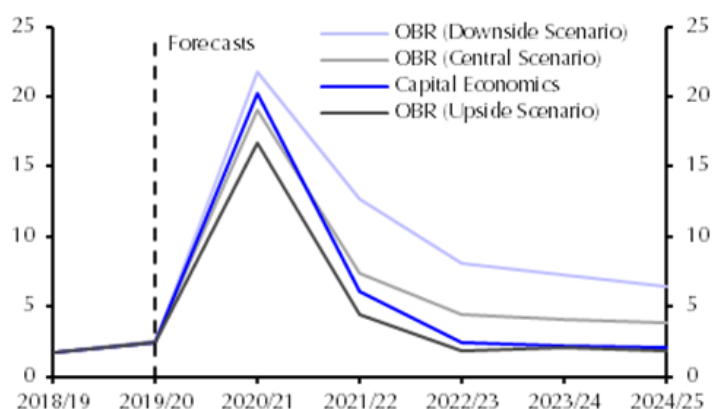
administered in the UK in the first half of 2021; this would cause a much quicker recovery than in their previous forecasts.

Chart: Level of real GDP (Q4 2019 = 100)



- 10 This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to 2% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assume that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (As a % of GDP)

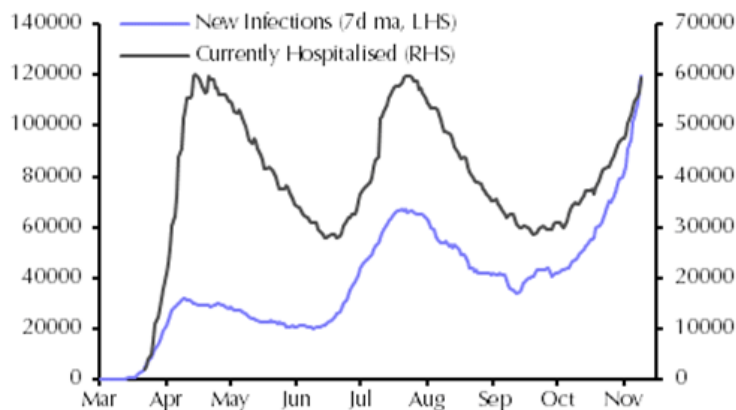


- 11 Capital Economics have not revised their forecasts for Bank Rate or gilt yields after this major revision of their forecasts for the speed of recovery of economic growth, as they are also forecasting that inflation is unlikely to be a significant threat and so gilt yields are unlikely to rise significantly from current levels.



- 12 There will still be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.
- 13 The Financial Policy Committee (FPC) report on 6 August 2020 revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.
- 14 **US.** The result of the November elections means that while the Democrats have gained the presidency and a majority in the House of Representatives, it looks as if the Republicans will retain their slim majority in the Senate. This means that the Democrats will not be able to do a massive fiscal stimulus, as they had been hoping to do after the elections, as they will have to get agreement from the Republicans. That would have resulted in another surge of debt issuance and could have put particular upward pressure on debt yields - which could then have also put upward pressure on gilt yields. On the other hand, equity prices leapt up on 9 November 2020 on the first news of a successful vaccine and have risen further during November as more vaccines announced successful results. This could cause a big shift in investor sentiment i.e. a swing to sell out of government debt to buy into equities which would normally be expected to cause debt prices to fall and yields to rise. However, the rise in yields has been quite muted so far and it is too early to say whether the Federal Reserve (Fed) would feel it necessary to take action to suppress any further rise in debt yields. It is likely that the next two years, and possibly four years in the US, could be a political stalemate where neither party can do anything radical.
- 15 The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a third wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the latest wave has been driven by a growing outbreak in the Midwest. The latest upturn poses a threat that the recovery in the economy could stall. This is the single biggest downside risk to the shorter term outlook - a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 New infections & hospitalisations



- 16 However, with the likelihood that highly effective vaccines are going to become progressively widely administered during 2021, this should mean that life will start to return to normal during quarter 2 of 2021. Consequently, there should be a sharp pick-up in growth during that quarter and a rapid return to the pre-pandemic level of growth by the end of the year.
- 17 After Chair Jerome Powell unveiled the Fed’s adoption of a flexible average inflation target in his Jackson Hole speech in late August, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *“it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee’s assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time.”* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal. The Fed’s meeting on 5 November 2020 was unremarkable - but at a politically sensitive time around the elections.

- 18 **EU.** The economy was recovering well towards the end of Q2 and into Q3 after a sharp drop in GDP caused by the virus, (e.g. France 18.9%, Italy 17.6%). However, growth is likely to stagnate during Q4, and Q1 of 2021, as a second wave of the virus has affected many countries, and is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the worst affected countries. With inflation expected to be unlikely to get much above 1% over the next two years, the European Central bank (ECB) has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. It is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support from governments. The current Pandemic Emergency Purchase Programme (PEPP) scheme of €1,350bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, the PEPP scheme is regarded as being a temporary measure during this crisis so it may need to be increased once the first PEPP runs out during early 2021. It could also decide to focus on using the Asset Purchase Programme to make more monthly purchases, rather than the PEPP scheme, and it does have other monetary policy options.
- 19 However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle during the closing and opening quarters of this year and next year respectively before it finally breaks through into strong growth in quarters 2 and 3. The ECB will now have to review whether more monetary support will be required to help recovery in the shorter term or to help individual countries more badly impacted by the pandemic.
- 20 **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.
- 21 However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

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- 22 **Japan.** Japan's success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. While the second wave of the virus has been abating, the economy has been continuing to recover at a reasonable pace from its earlier total contraction of 8.5% in GDP. However, there now appears to be the early stages of the start of a third wave. It has also been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. There has also been little progress on fundamental reform of the economy. The change of Prime Minister is not expected to result in any significant change in economic policy.
- 23 **World growth.** While Latin America and India have, until recently, been hotspots for virus infections, infection rates have begun to stabilise. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.
- 24 Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

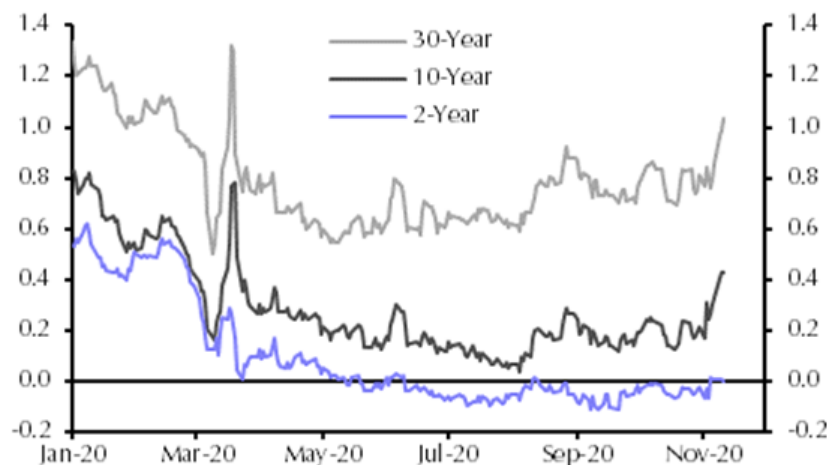
### Summary

- 25 Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments

could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

26 If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

27 The graph below as at 10 November 2020, shows how the 10 and 30 year gilt yields in the UK spiked up after the Pfizer vaccine announcement on the previous day, (though they have levelled off during late November at around the same elevated levels): -



### Interest rate forecasts and risks

28 Brexit. The interest rate forecasts provided by Link in Appendix A are predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31 December 2020. However, as the differences between a Brexit deal and a no deal are not as big as they once were, the economic costs of a no deal have diminished. The bigger risk is that relations between the UK and the EU deteriorate to such an extent that both sides start to unravel the agreements already put in place. So what really matters now is not whether there is a deal or a no deal, but what type of no deal it could be.

29 The differences between a deal and a no deal were much greater immediately after the EU Referendum in June 2016, and also just before the original Brexit deadline of 29 March 2019. That's partly because leaving the EU's Single Market

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and Customs Union makes this Brexit a relatively “hard” one. But it’s mostly because a lot of arrangements have already been put in place. Indeed, since the Withdrawal Agreement laid down the terms of the break-up, both the UK and the EU have made substantial progress in granting financial services equivalence and the UK has replicated the bulk of the trade deals it had with non-EU countries via the EU. In a no deal in these circumstances (a “cooperative no deal”), GDP in 2021 as a whole may be only 1.0% lower than if there were a deal. In this situation, financial services equivalence would probably be granted during 2021 and, if necessary, the UK and the EU would probably rollover any temporary arrangements in the future.

- 30 The real risk is if the UK and the EU completely fall out. The UK could override part or all of the Withdrawal Agreement while the EU could respond by starting legal proceedings and few measures could be implemented to mitigate the disruption on 1 January 2021. In such an “uncooperative no deal”, GDP could be 2.5% lower in 2021 as a whole than if there was a deal. The acrimony would probably continue beyond 2021 too, which may lead to fewer agreements in the future and the expiry of any temporary measures.
- 31 Relative to the slump in GDP endured during the COVID-19 crisis, any hit from a no deal would be small. But the pandemic does mean there is less scope for policy to respond. Even so, the Chancellor could loosen fiscal policy by about £10bn (0.5% of GDP) and target it at those sectors hit hardest. The Bank of England could also prop up demand, most likely through more gilt and corporate bond purchases rather than negative interest rates.
- 32 Brexit may reduce the economy’s potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID-19 crisis.
- 33 So, in summary, there is not likely to be any change in Bank Rate in 2020/21 and 2021/22 due to whatever outcome there is from the trade negotiations and while there will probably be some movement in gilt yields / PWLB rates after the deadline date, there will probably be minimal enduring impact beyond the initial reaction.

### The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that

safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

### Downside risks to current forecasts for UK gilt yields and PWLB rates

- UK - further national lockdowns or severe regional restrictions in major conurbations during 2021.
- UK / EU trade negotiations - if they were to cause significant economic disruption and downturn in the rate of growth.
- UK government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- UK - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- German minority government & general election in 2021. In the German general election of September 2017, Angela Merkel’s CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU. In November, Hungary and Poland threatened to veto the 7 year EU budget due to the inclusion of a rule of law requirement that poses major challenges to both countries. There has also been a rise in anti-immigration sentiment in Germany and France.

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- Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

### Upside risks to current forecasts for UK gilt yields and PWLB rates

- UK - a significant rise in inflationary pressures. These could be caused by an uncooperative Brexit deal or by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population which leads to a resumption of normal life and a return to full economic activity across all sectors of the economy.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.
- Post-Brexit - if a positive agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.



**APPENDIX C: CURRENT PORTFOLIO POSITION**

List of Investments as at:- 1-Dec-20

Reference	Name	Rating	Country	Group	Amount	Start Date	Comm Rate	End Date	Curr Rate	Terms
	Barclays Bank plc (Business Premium A/C)	A+	U.K.		1,443,000	01-Oct-11			0.01000%	Variable
	Svenska Handelsbanken AB (Deposit A/C)	AA	Sweden		0	23-Jul-14			0.00000%	Variable
	Svenska Handelsbanken AB (35 Day Notice A/C)	AA	Sweden		0	01-Sep-16			0.05000%	Variable
	Aberdeen Standard Liquidity Fund (Money Market Fund)	AAA	U.K.		2,300,000	11-May-12				Variable
	Insight Liquidity Fund (Money Market Fund)	AAA	U.K.		1,000,000	11-May-12				Variable
	BlackRock Liquidity Fund (Money Market Fund)	AAA	U.K.		1,900,000	13-Oct-16				Variable
	CCLA Public Sector Deposit Fund (Money Market Fund)	AAA	U.K.		5,000,000	08-Oct-18				Variable
IP1423	Close Brothers Ltd	A-	U.K.		2,000,000	08-Sep-20	0.80000%	07-Sep-21		1 Year
IP1420	Newcastle Building Society		U.K.		2,000,000	20-Jul-20	0.36000%	20-Apr-21		9 Months
IP1421	Newcastle Building Society		U.K.		1,000,000	31-Jul-20	0.32000%	29-Jan-21		6 Months
IP1425	Principality Building Society		U.K.		3,000,000	23-Nov-20	0.10000%	22-Mar-21		4 Months
IP1422	Thurrock Borough Council		U.K.		3,000,000	31-Jul-20	0.33000%	26-Feb-21		7 Months
IP1424	Thurrock Borough Council		U.K.		2,000,000	16-Sep-20	0.33000%	22-Mar-21		6 Months
IP1419	West Bromwich Building Society		U.K.		2,000,000	16-Jun-20	0.30000%	16-Dec-20		6 Months
	<b>Total Invested</b>				<u>26,643,000</u>					
	<b>Other Loans</b>									
	Sevenoaks Leisure Limited				529,648	02-Mar-18	6.00000%	02-Mar-28		10 Years

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**APPENDIX D - Treasury Management Practice (TMP1) - Credit and counterparty risk management**

- 1 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.
- 2 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 adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Deputy Chief executive and Chief Officer - Finance & Trading has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.
- 3 **Annual investment strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of 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.
- 4 The investment policy proposed for the Council is:

**Strategy guidelines** - The main strategy guidelines are contained in the body of the treasury management 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

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sterling investments which would not be defined as capital expenditure with:

- a) The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
- b) Supranational bonds of less than one year's duration.
- c) A local authority, parish council or community council.
- d) Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
- e) A body that is considered of a high credit quality (such as a bank or building society). This covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

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. These criteria are contained in the body of the treasury management strategy statement.

**Non-specified investments** -are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Non Specified Investment Category	Limit (£)
The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£7m
Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £3bn.	£3m
Any bank or building society that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£7m
Any non-rated subsidiary of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined	£7m

Non Specified Investment Category	Limit (£)
above.	
Share capital in a body corporate - The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.	£50k
Bond Funds. A pooled investment vehicle with a mix of corporate and government grade bonds. See note 1 below.	£5m
Other Funds - including Property, Equity and Multi-Asset Funds. These are pooled investment vehicles specialising in property, equities or a mixture of assets. The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. See note 1 below. This Authority will seek guidance on the status of any fund it may consider using.	£5m

NOTE 1. This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Within categories a and b, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are contained in the body of the treasury management strategy statement.

- 5 **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 Deputy Chief Executive and Chief Officer - Finance & Trading, and if required, new counterparties which meet the criteria will be added to the list.

## Agenda Item 7

### APPENDIX E - Approved countries for investments as at December 2020

This list is based on those countries which have sovereign ratings of AA- or higher and also (except for Luxembourg, Norway & Hong Kong) have banks operating in the sterling markets which have colour codes of green or above in the Link Asset Services credit worthiness service.

Based on lowest available rating from Fitch, Moody's and S&P

#### AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

#### AA+

- Canada
- Finland
- U.S.A.

#### AA

- Abu Dhabi (UAE)
- France

#### AA-

- Belgium
- Hong Kong
- Qatar
- United Kingdom

## **APPENDIX F - Treasury management scheme of delegation**

### Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

### Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

### Finance & Investment Advisory Committee

- reviewing the treasury management policy and procedures and making recommendations to Cabinet.

### APPENDIX G - The treasury management role of the section 151 officer

The S151 (responsible) officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments (which CIPFA has defined as being part of treasury management). Examples are as follows:-

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that Members are adequately informed and understand the risk exposures taken on by an authority;



- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above; and
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
  - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken; and
  - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

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**FINANCIAL PERFORMANCE INDICATORS 2020/21 - TO THE END OF NOVEMBER 2020**

**Finance & Investment Advisory Committee - 21 January 2021**

**Report of:** Deputy Chief Executive and Chief Officer - Finance and Trading

**Status:** For Consideration

**Key Decision:** No

**Executive Summary:** This report sets out the internally agreed Financial Performance Indicators

**This reports support the Key Aim of:** effective management of the Council's resources.

**Portfolio Holder:** Cllr. Matthew Dickins

**Contact Officers:** Alan Mitchell, Ext.7483

Adrian Rowbotham Ext. 7153

**Recommendation to Finance & Investment Committee:**

That the report be noted

**Reason for recommendation:**

This recommendation supports the sound control of the Councils finances

**Introduction and Background**

- 1 This report presents figures on nine internally set performance indicators covering activities that support information provided in the regular financial monitoring statements.
- 2 Information is provided on targets for the financial year.
- 3 Use of these indicators assists management in highlighting areas where performance has an impact on the financial outturn for the authority.

**Key Implications**

Financial

None.

## Agenda Item 8

### Legal Implications and Risk Assessment Statement.

There are no legal or human rights issues.

### Equality Assessment

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

#### **Appendices**

Appendix A - Performance Indicators


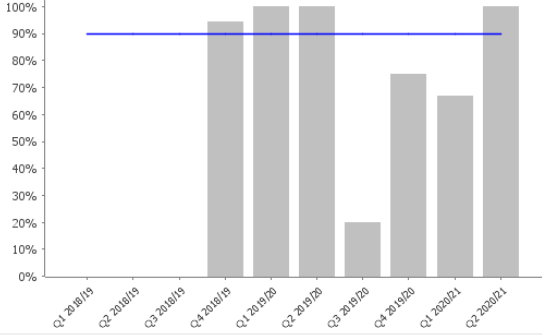


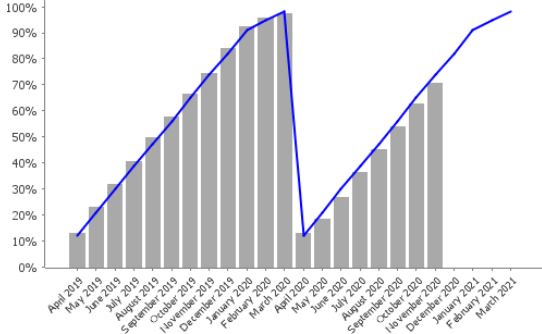

#### **Background Papers**

None

**Adrian Rowbotham,**

**Deputy Chief Executive and Chief Officer - Finance and Trading**

# Finance & Investment Advisory Committee - Performance report

Code	Description	Current Value	Current Target	Current Status	Performance Chart	Year to Date Value 2020/21	Year to Date Target 2020/21	Year to Date Status	Commentary
LPI_IA 1a	Sevenoaks: Audit actions fully implemented within agreed timescales	100%	90%			100%	90%		
LPI_BR 04	The percentage of business rates collected in-year (Cumulative)	70.4%	74%			70.4%	74%		Due to COVID-19 the collection rate has fallen below target


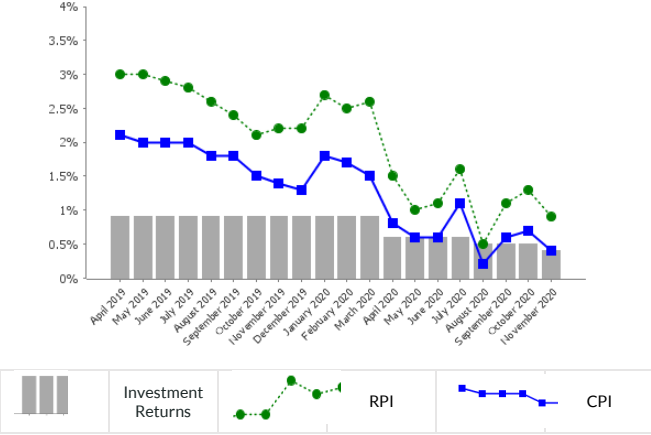

Code	Description	Current Value	Current Target	Current Status	Performance Chart	Year to Date Value 2020/21	Year to Date Target 2020/21	Year to Date Status	Commentary
LPI_CT 04	The percentage of council tax collected in-year (cumulative)	75.8%	75%			75.8%	75%		
LPI_FS 001	The percentage of undisputed invoices paid within 30 days or agreed terms	99%	99%			97.5%	99%		Following Government guidance regarding COVID-19 and financial support SDC did not pursue sundry debts until recently
LPI_FS 003	Sundry debts outstanding more than 61 days	£46,055	£30,000			£46,055	£30,000		Following Government guidance regarding COVID-19 and financial support SDC did not pursue sundry debts until recently. This, combined with the addition of Direct

Code	Description	Current Value	Current Target	Current Status	Performance Chart	Year to Date Value 2020/21	Year to Date Target 2020/21	Year to Date Status	Commentary																																										
									Services sundry debts now being included has led to a high debtor balance. The reminder process has now been reintroduced and will lead to a reduction in the outstanding balances																																										
PI_HB02	Average number of days to process a new claim for Housing Benefit (Monthly)	16	23	✔	<table border="1"> <caption>Monthly Average Number of Days to Process a New Claim for Housing Benefit</caption> <thead> <tr> <th>Month</th> <th>Average Days</th> </tr> </thead> <tbody> <tr><td>April 2019</td><td>24</td></tr> <tr><td>May 2019</td><td>14</td></tr> <tr><td>June 2019</td><td>16</td></tr> <tr><td>July 2019</td><td>13</td></tr> <tr><td>August 2019</td><td>12</td></tr> <tr><td>September 2019</td><td>12</td></tr> <tr><td>October 2019</td><td>18</td></tr> <tr><td>November 2019</td><td>14</td></tr> <tr><td>December 2019</td><td>20</td></tr> <tr><td>January 2020</td><td>24</td></tr> <tr><td>February 2020</td><td>21</td></tr> <tr><td>March 2020</td><td>16</td></tr> <tr><td>April 2020</td><td>21</td></tr> <tr><td>May 2020</td><td>22</td></tr> <tr><td>June 2020</td><td>23</td></tr> <tr><td>July 2020</td><td>14</td></tr> <tr><td>August 2020</td><td>13</td></tr> <tr><td>September 2020</td><td>18</td></tr> <tr><td>October 2020</td><td>12</td></tr> <tr><td>November 2020</td><td>16</td></tr> </tbody> </table>	Month	Average Days	April 2019	24	May 2019	14	June 2019	16	July 2019	13	August 2019	12	September 2019	12	October 2019	18	November 2019	14	December 2019	20	January 2020	24	February 2020	21	March 2020	16	April 2020	21	May 2020	22	June 2020	23	July 2020	14	August 2020	13	September 2020	18	October 2020	12	November 2020	16	16	23	✔	
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November 2020	16																																																		

Code	Description	Current Value	Current Target	Current Status	Performance Chart	Year to Date Value 2020/21	Year to Date Target 2020/21	Year to Date Status	Commentary
LPI_HB 04	Average number of days to process a change in circumstances for Housing Benefit (monthly)	8	9	🟢		8	9	🟢	
Page 86 of 101 MFS	Treasury Management - Actual vs Budget + Forecast	£64,597	£195,157	🔴		£64,597	£195,157	🔴	Due to COVID-19 the interest rates available have dropped significantly

Agenda Item 8



Code	Description	Current Value	Current Target	Current Status	Performance Chart	Year to Date Value 2020/21	Year to Date Target 2020/21	Year to Date Status	Commentary
TM FS 02	Treasury Management - Investment returns vs RPI vs CPI	0.4%	0.4%		 <p>The chart displays three data series from April 2019 to November 2020. The Y-axis represents percentage returns from 0% to 4%. Investment Returns are shown as grey bars, consistently hovering around 0.4-0.5%. RPI is a green dotted line with circular markers, starting at approximately 3.0% and ending at 1.0%. CPI is a blue solid line with square markers, starting at approximately 2.1% and ending at 0.4%. A legend at the bottom identifies the series: Investment Returns (bars), RPI (dotted line), and CPI (solid line).</p>	0.4%	0.4%		

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**FINANCIAL RESULTS 2020/21 - TO THE END OF NOVEMBER 2020**

**Finance & Investment Advisory Committee - 21 January 2021**

**Report of:** Deputy Chief Executive and Chief Officer - Finance & Trading

**Status:** For Consideration

**Also considered by:** Cabinet - 11 February 2021

**Key Decision:** No

**This report supports the Key Aim of: Effective Management of Council Resources**

**Portfolio Holder:** Cllr. Matthew Dickins

**Contact Officers:** Alan Mitchell, Ext. 7483

Adrian Rowbotham, Ext. 7153

**Recommendation to Finance and Investment Advisory Committee:**

That the report be noted, and any comments forwarded to Cabinet.

**Recommendation to Cabinet:**

Cabinet considers and comments from Finance and Investment Advisory Committee and notes the report.

**Reason for recommendation:** Sound financial governance of the Council.

**Introduction and Background**

- 1 The year-end position at the end of November was forecast to be an unfavourable variance of £22,000. The increase in expenditure or income losses which related to COVID-19 total £3.1m; this represents 19.9% of our net service expenditure totalling £15.581m.
- 2 The table below sets out the current position in terms of the Government's Income Compensation Scheme. Two claims have been submitted to date, July and November with a further claim and reconciliation at the end of March 2021.

**Table 1: COVID-19 Sales, Fees and Charges Compensation Scheme**

	<u>£m</u>
Projected total net claim	2,059
Net claim to November 2020	1,573

- 3 The financial cost of the COVID-19 pandemic started at the very end of March 2020 and therefore the financial cost was limited in 2019/20 and has already been reported. However, as the current forecast position shows, a far greater impact will be incurred within the 2020/21 financial year. This and the future financial impact has been addressed through the 10-year budget process which was approved by Council on 17 November 2020.

**Year to Date - Areas of Note**

- 4 The financial impact of Pay costs - the expenditure to date on staff costs is £48,000 below budget. The current Full Time Equivalent position as the split between SDC staff, Agency and Casual staff are detailed within the staffing stats (section 5) and the impact of salary variances are included within the Chief Officer commentaries.
- 5 The 2020/21 pay award was approved at 2.75%, which is 0.75% higher than budgeted. This has cost an additional £130,000.
- 6 Income - the Council receives a number of different income streams to help balance the budget; section 8 of the monitoring pack provides details in relation to the main streams. At the end of November, income as detailed within the report is significantly below budget. Some of this will be mitigated by the COVID-19 Sales, Fees and Charges Compensation scheme.
- 7 Investment Returns - the return to date on the treasury management investments held by the Council is lower than budget with interest received to date totalling £65,000 compared to a budget of £195,000. The forecasted income from investments is £214,000 below the £303,000 annual budget. This is due to very low interest rates being offered by counterparties and our cash balances being lower than in previous years.
- 8 Council Tax - collection levels are expected to be below budgeted levels due to the impacts of COVID-19. Due to the way in which the Collection Fund is accounted for, this will not impact the Council until 2021/22.
- 9 Retained Business Rates - Income expectation of £2.139m forms part of the 2020/21 budget; any receipts over and above this amount, including those that result from being a beneficiary of the Kent Business Rates Pool, will be transferred to the Budget Stabilisation Reserve. Regular monitoring takes place, with any amendments feeding into the outturn forecasts. The current projection is that £454,000 of additional receipts will be received.

### **Year End Forecast**

- 10 The year-end forecast position is an unfavourable variance of £22,000 (after the inclusion of the Covid-19 Sales, Fees and Charges Compensation Scheme forecasted total claim).
- 11 In paragraphs 12 to 22 there are details of the larger variances, both favourable and unfavourable.

### **Net Service Expenditure - Favourable Variances**

- 12 Within Miscellaneous Finance the forecasted favourable variance £3.4m which is made up of the receipt of a number of grants, including the Covid-19 Sales, Fees and Charges Compensation Scheme and the balance of the £1.2m Government COVID-19 grant which are offsetting additional costs or losses in come incurred in other areas.
- 13 Parking Enforcement -is forecasting a favourable variance of £40,000 due to a new contract with Tandridge.

### **Net Service Expenditure - Unfavourable Variances**

- 14 Homelessness prevention is forecasting an adverse variance of £129,000 which is the additional cost being incurred relating to an increased number of people being put in temporary accommodation This reduced from £240,000 following receipt of an additional Homelessness grant. The homelessness funding is currently being reviewed in order to fund the programme in future years.
- 15 Land charges fees were revised for 2019/20 but the number of searches has remained down compared to previous years. Due to COVID-19 the level of searches has dropped even lower leading to a £70,000 unfavourable forecast.
- 16 Local Tax is forecasting an unfavourable variance of £339,000 due to COVID-19 of which £279,000 is loss of court cost recovery. This is forecast at 100% for the first 6 months of the year as Government had advised that debts should not be chased during this period, and at 50% for the remainder of the year. There is also underachievement of enforcement income estimated to be £90,000.
- 17 Car parking fees were suspended on the 23 March due to COVID-19 but were reintroduced in June, with some free parking. This coupled with the significant drop in carpark usage has led to a significant loss of income with Car Parks forecasting an adverse variance of £1.732m income. Similarly, with On-Street Car Parking which is also forecasting an unfavourable variance of £574,000. The loss of Car Parking income is the largest amount included in the COVID-19 Sales, Fees and Charges Compensation claim.
- 18 Direct Services are forecasting an unfavourable variance of £145,000 due to loss of income in areas such as bulky waste, MOT's and pest control and increased costs due to COVID-19.

## Agenda Item 9

- 19 Due to COVID-19 the Print Shop was unable to conduct business as normal for both internal and external customers. An unfavourable variance of £64,000 is forecast.
- 20 Within Development & Conservation there are a large number of adverse variances which are losses of income due to COVID-19 with the overall variance being £153,000. Within the services there are some savings due to staff vacancies but these will be utilised to offset other staff budget overspends including career training.

### Other Variances

- 21 Interest Receipts - current levels of investment returns and expected rates going forward, along with reduced cash levels due to ongoing loss of income, have resulted in an unfavourable variance of £214,000 being forecast.
- 22 Investment Property Income - forecasting a unfavourable variance of £136,000. The majority of properties held within the Property Investment Strategy continue to achieve the income levels predicted. Due to a tenant going into administration as a result of COVID-19 a single property has not produced income in line with budget and this loss of income is reflected in the unfavourable variance of £96,000 which has been addressed by 21/22 SCIA 13 . In addition Business Rates have been charged in relation to the Burlington Mews show home.

### Future Issues and Risk Areas

- 23 Chief Officers have considered the future issues and risk areas for their services and the impacts these may have on the Council's finances as follows:
  - COVID-19 continues to effect the entire authority and is being closely monitored. As part of the 10-year budget process the expected financial cost have been projected and solutions presented and approved
  - Ongoing impact of COVID-19 on the leisure industry and Council owned leisure facilities.
  - Ongoing Temporary Accommodation costs within the district, excluding COVID-19 related cost.
  - Covid-19 related risks are currently the greatest concern. Also, additional staffing costs for Direct Services are possible if a number of staff self-isolate as the intention is to continue at normal service levels wherever possible.
  - Car parking customer numbers were increasing up to November but it is uncertain what the impact will be for the rest of the year especially with subsequent local Tier restriction and further national lockdowns.
  - The likely effect of the Government's Income Compensation scheme is included elsewhere in this report.

- Potential unknown liabilities associated with Business Rates relating to distressed leases. A systemic risk associated with the pandemic may result in further loss of income.
- Feasibility costs for property investments and development of council owned assets.
- There remains the risk that planning decisions and enforcement action will be challenged, either at appeal or through the Courts.
- The Local Plan legal challenge is ongoing
- The financial impact of proposed changes to the Planning System will need to be carefully considered.

24 The potential impact of Brexit is being monitored and addressed as part of the Council's risk management process.

### **Key Implications**

#### Financial

The financial implications are set out elsewhere in this report.

#### Legal Implications and Risk Assessment Statement

Under Section 151 of the Local Government Act 1972, the Section 151 officer has statutory duties in relation to the financial administration and stewardship of the authority.

Detailed budget monitoring is completed on a monthly basis where all variances are explained. Future risk items are also identified.

#### Equality Assessment

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

## Agenda Item 9

### **Appendices**

Appendix A - November 2020 Budget Monitoring Commentary

Appendix B - November 2020 Financial Information

### **Background Papers**

None

**Adrian Rowbotham**

**Deputy Chief Executive and Chief Officer - Finance & Trading**



	Budget to Date £'000	Actual to P8 £'000	Variance to date £'000	Annual Forecast Variance due to COVID-19	Annual Forecast Variance due to other factors	Total Annual Forecast Variance	Explanation for year end variances greater than £10k ( <i>starred items</i> )
<b>People and Places</b>							
Compliance & Enforcement	0	-48	-48			0	* External funding received from Government for recruiting Town Centre Ambassadors.
Community Safety	139	138	-1	-22		-22	Invoicing raised in duplicate for Kent Police and Police and Crime Commissioner - being reviewed. Any underspend over what is forecast will contribute towards project support for communities based projects.
Leisure Contract	55	72	17			0	* Sencio annual Management Fee paid upfront for full year (approved by Cabinet), rather than the quarterly payments, to enable business resilience during leisure centre closures.
Tourism	22	-28	-51			0	* Income received from partners ahead of spend.
Community Sports Activation Fund	13	26	13			0	* Salary costs for Communities Officer which will be drawn down from Reserves to cover.
West Kent Enterprise Advisor Network	24	54	29			0	* West Kent Partnership expenditure to be offset by funding received in advance.
Youth	34	21	-13	-9		-9	* Youth delivery is being reviewed due to COVID restrictions on hosting external events. Any savings could contribute towards wider overspends in the department (e.g. homelessness).

	Budget to Date £'000	Actual to P8 £'000	Variance to date £'000	Annual Forecast Variance due to COVID-19	Annual Forecast Variance due to other factors	Total Annual Forecast Variance	Explanation for year end variances greater than £10k (starred items)
<b>Housing and Health</b>							
Housing Register	45	59	14			0	* Due to additional costs required on the Housing Register to address the inherited application backlog, temporary staffing resource was put in place to address. This additional resource will be offset by existing reserves in the department.
Next Steps Accommodation Programme	-138	-134	4	16		16	External funding received from MHCLG Next Steps Accommodation Fund for COVID rough sleepers.
Housing Pathway Co-ordinator	0	-23	-23			0	* External funding received from MHCLG towards Rough Sleeper Initiative
Homelessness Prevention	0	127	127	129		129	* Government's Everyone In initiative has created unplanned expenditure, which is estimated at £240k net (minus HB) for the year which has now been split across MHCLG's Next Steps Accommodation Programme and part of this cost will be funded from the funding . This is being reviewed on an ongoing basis however it is difficult to accurately predict final spend. This overspend will need to be offset and funded from either Govt's COVID grant or central reserves.
One You - Your Home Project	0	-30	-30			0	* External funding received in advance from Age UK towards project costs. End of year will be as per budget.
PCT Health Checks	-1	-25	-24			0	* External funding received in advance from Kent Public Health.
Homelessness Funding	74	62	-12			0	* External funding (FHSG - staff related spend).
PCT Initiatives	17	-25	-41			0	* External funding received in advance towards various One You Projects (e.g. West Kent One Systems for Health). End of year will be as per budget.

**Future Issues/Risk Areas**

	Budget to Date £'000	Forecast difference at year end	Forecast Outturn £'000	Actual to P8 £'000	Variance to date £'000	Annual Forecast Variance due to COVID-19	Annual Forecast Variance due to other factors	Total Annual Forecast Variance	Explanation for year end variances greater than £10k (starred items)
<b>Finance and Investments</b>									
Asset Maintenance Argyle Road	51	0	51	76	24			0	* Car park resurfacing work undertaken.
Asset Maintenance CCTV	12	0	12	1	-11			0	* Behind profile due to COVID-19 restrictions but expected to catch up during the year.
Asset Maintenance Direct Services	27	0	27	12	-15			0	* Depot improvement works have been delayed, however the outstanding amount will be spent by the end of the calendar year.
Asset Maintenance Leisure	124	0	124	74	-50			0	* Leisure centres have experienced closures due to COVID-19 which has delayed spend. However proactive maintenance is planned and expected to bring this area back on budget.
Asset Maintenance Support & Salaries	126	0	126	28	-99			0	* Behind profile due to COVID-19 and restrictions on contractors being onsite. Some external works carried out and likely to catch up during the year.
Benefits Admin	312	-33	279	280	-33		-33	-33	* Grant received is higher than budgeted.
Dartford Rev&Ben Partnership Hub (SDC costs)	1,240	0	1,240	1,192	-48			0	* Grants to be carried forward to support reducing grants in future years.
Dartford Audit Partnership Hub (SDC Costs)	148	0	148	113	-34			0	* Underspend due to the vacant Lead Auditor Post now filled.
Estates Management - Buildings	19	50	69	82	63		50	50	* Swanley Meeting Point rates bill not budgeted as commencement of development of the site has taken longer than anticipated. Development of the site will start shortly.
Local Tax	-117	339	222	129	246	336	3	339	* Due to COVID £326,000 loss of court costs recovery at 100% for the first 9 months, and at 50% for the last 3 months; total loss of income on Enforcement is estimated to be £90,000, which is £10,000 higher than last year due to COVID. - This is expected to be offset by money recouped from Government support.
Misc Finance	914	-2,261	-1,347	-169	-1,083	-2,261		-2,261	* COVID-19 Grant offset by additional COVID-19 related expenditure. The remainder will offset forecast loss of income due to COVID-19 on other lines. The forecast has been adjusted to account for Tranche 4 of the COVID-19 Grant and the first payment of the income compensation scheme.
Support - Audit Function	124	-8	116	131	7		-8	-8	Underspend due to the vacant Lead Auditor Post now filled.
Support - Legal Function	170	-23	147	142	-28		-23	-23	* Staff turnover and underspend on specialist advice.

**Future Issues/Risk Areas**

	Budget to Date £'000	Actual to P8 £'000	Variance to date £'000	Annual Forecast Variance due to COVID-19	Annual Forecast Variance due to other factors	Total Annual Forecast Variance	Explanation for year end variances greater than £10k ( <i>starred items</i> )
<b>Cleaner and Greener</b>							
Car Parks	-1,233	-70	1,163	1,672	60	1,732	* Suspension of parking charges due to COVID-19 has had a significant impact on income during the first quarter of the year. Although charges have been reintroduced usage is lower than usual due to COVID-19 and is only projected to reach 70% capacity by March. Forecasts have been adjusted to take account of receipts to the end of October and a reduced level of usage in November due to national COVID-19 restrictions. This has resulted in a net worsening of the forecast of £12,000. In addition the reduction in parking charges for December as agreed by members is expected to result in a further loss of income of £60,000.
CCTV	195	211	17			0	* Annual payments, partially relating to 21/22 are causing an adverse variance. Will be corrected at year end.
Civil Protection	47	32	-14			0	* Spend behind profile. Expected to be on profile at year end.
Dartford Environmental Hub (SDC Costs)	469	438	-30			0	* Staff budget savings will be utilised to offset the DBC support charge.
Car Parking - On Street	-354	115	469	574		574	* Suspension of parking charges and reduced income on PCN's due to COVID-19. Forecasts have been adjusted to take account of receipts to the end of November, including the period relating to national COVID-19 restrictions.
EH Commercial	188	192	5	3	24	27	Loss of income due to COVID.
EH Animal Control	-1	9	10	4	10	14	* Loss of income due to COVID and historically low collection of kennel fees.
EH Environmental Protection	248	208	-40	4	19	23	* Loss of income due to COVID; Agency staff costs partially offset by salaries budget in EH Commercial team.
Parking Enforcement - Tandridge DC	-15	-101	-87		-40	-40	* Additional income relating to the new contract with Tandridge District Council forecast, partially offset by the additional cost of transferred staff and running the service.
Kent Resource Partnership	-111	-156	-45			0	* Funding received ahead of expenditure.
Licensing Partnership Hub (Trading)	18	42	23			0	* Overspend is due to 2 temporary staff, it will be funded by the HUB surpluses from previous years.
Licensing Regime	-33	-15	18	29	-7	22	* Loss of income due to COVID; spare hours staff budgets savings.
Markets	-93	-121	-28			0	* Income currently showing ahead of budget. However loss of income due to COVID-19 closures is still a risk therefore no variance is forecast.
Parks - Greensand Commons Project	0	37	37			0	* Claim made but not yet paid for costs from Heritage Lottery Fund (HLF).
Parks - Rural	107	127	20			0	* Maintenance works required at Mill Pond are expected to result in an overspend of £6,000 at year end. Other expenditure on this code will be offset by sales of wood from coppicing which has been delayed by the weather.
Refuse Collection	1,884	1,863	-21	25		25	* Recycling: Glass income is lower than budget due to both volume and price, and is not expected to fully recover during the year.
Administrative Expenses - Health	6	1	-5		-9	-9	Admin budget saving due to costs being charged to the EH Partnership.
Administrative Expenses - Licensing	5	0	-5		-7	-7	Admin budget saving due to costs being charged to the LIC Partnership.
Support - Central Offices	411	388	-23			0	* Behind profile due to COVID-19 and restrictions on contractors being onsite.
Support - General Admin (Post/Scanning)	126	104	-22	-10	-5	-15	* Reduced postage costs including summons and reminders not being sent out.

	Budget to Date	Actual to P8	Variance to date	Annual Forecast Variance due to COVID-19	Annual Forecast Variance due to other factors	Total Annual Forecast Variance	Explanation for year end variances greater than £10k <i>(starred items)</i>
Direct Services Trading account	-157	-47	110	117	28	145 *	<p>Bulky waste - collections were suspended for a period due to Covid. Despite this Income this year to date exceeds the same period last year to date £58,000 against £53,000 last year. As from the 28 September 2020 the number of days available for collections has increased. We are now finding that not all collection days are full so we may consider reducing the number of collection days available each week therefore lowering the cost of agency labour and transport. We are still not providing any Saturday bulky collections for parishes or larger bulky waste quotes.</p> <p>Trade Waste - income this year to date is £208,000 and last year to date was £297,000. A few customers have ceased trading, a number are closed, and some have re-opened are on reduced frequency. This lost income will not be recovered this year. The large difference against budget is because this was increased on the assumption that we would actively seek more trade customers this year (extra £102,000 income target).</p> <p>Street Cleaning Other - reduction to cleaning services for Bligh's at client's request however this has now been fully reinstated. Private street cleaning work has started to pick up.</p> <p>Green Waste - There have been an additional 1,408 customers since April 2020 however income levels are about on target as the budget was increased this year.</p> <p>MOT Tests - loss of around £5,000 as the service was suspended. Now fully operational but the loss will not be recovered this year.</p> <p>Taxi Tests loss of around £10,000 Income as service was suspended. Now fully operational but the loss will not be recovered this year.</p> <p>Pest Control - the loss of income continues due in part to suspension of service April - July. The service is still not operating fully as operatives are not entering customer</p>
Taxis	14	20	7	37	-37	0	Loss of income due to COVID; spare hours, staff budgets savings and savings on running costs.

Future Issues/Risk Areas

	Budget to Date £'000	Actual to P8 £'000	Variance to date £'000	Annual Forecast Variance due to COVID-19	Annual Forecast Variance due to other factors	Total Annual Forecast Variance	Explanation for year end variances greater than £10k <i>(starred items)</i>
<b>Improvement and Innovation</b>							
Asset Maintenance IT	193	101	-92			0	* Spend as per 10-year asset maintenance plan - Any surplus to IT Asset Maintenance reserve at year end agreed.
Corporate Management	672	596	-75		-55	-55	* It is currently forecast that there will be an underspend within the Corporate Management budgets for this year, which includes less expenditure on bought-in external services and some minor proportions on salaries which are attributed the corporate management of the organisation.
Corporate - Other	-49	0	49		53	53	* The savings made on vacant posts are currently lower than the budget profiled for the year to date. Under the current circumstances it is anticipated that staff turnover will reduce this year and that the vacant posts savings will not be achieved.
Economic Development Property	305	368	63			0	* High Street Swanley costs to be moved to Capital. Future cost reduction relating to 27-37 High Street following handover of site.
Elections	68	94	25		1	1	* Recharges to other Local Authorities raised as part of elections in 2019, to be offset by reversal of relevant expenditure accruals. Any remaining underspend will be transferred to the reserve for the District Council election costs.
External Communications	150	118	-32	-11	-9	-20	* The current variance relates to the costs of production of the Council's In Shape magazine. Late invoicing and planned charges for the production of the December issue of In Shape will reduce the current underspend.
Land Charges	-70	-32	39	50	20	70	* COVID-19 impacts in first half of the year, some recovery evident at present - to be monitored as year progresses.
Members	308	281	-27	-20	-10	-30	* Underspend projected due to reduced member travel claims and training. Members allowances lower than budgeted levels.
Register of Electors	173	146	-27		-27	-27	* EOY Forecast underspend due to vacant post and maternity leave.
Administrative Expenses - Corporate Services	14	2	-11	-15		-15	* Underspend on training budget due to current environment.
Administrative Expenses - Legal and Democratic	57	37	-20	-10		-10	* EOY forecast underspend due to reduction in internal printing which will be offset by reduction in income for the Print Studio. Current underspend position also includes invoices awaited.
Support - Contact Centre	448	432	-16		-10	-10	* Underspend due to staff turnover, end of year position being monitored.
Support - General Admin (Print Shop)	-1	36	37	73	-9	64	* Current print income is on target against the profiled budget. However the impact of Covid-19 has reduced income on internal Print Charges over the year to date. Some of the loss will be offset by savings on internal printing budgets within the service areas and a reduction in the costs of consumables.
Support - Human Resources	266	303	37		21	21	* Forecast overspend due to recruitment costs, and currently looking at adjustment for Salary Sacrifice schemes

**Future Issues/Risk Areas**

	Budget to Date £'000	Actual to P8 £'000	Variance to date £'000	Annual Forecast Variance due to COVID-19	Annual Forecast Variance due to other factors	Total Annual Forecast Variance	Explanation for year end variances greater than £10k <i>(starred items)</i>
<b>Development and Conservation</b>							
Building Control	-85	-114	-29			0	* Loss of income due to COVID is not expected; any income above the budget is planned to be carry forward for reinvesting into the service
Conservation	79	90	11		17	17	* Increase in staff costs due to an increase in hours; the variance is offset by staff budget savings in other areas.
Planning Policy	293	267	-26		-64	-64	* Staff budget savings utilised to cover staff budget overspends in other areas and career training.
LDF Expenditure	0	77	77			0	* Legal Fees re Local Plan challenge, will be funded rom the Local Plan reserve.
Planning - Appeals	126	123	-2		9	9	Staff costs over budget due to planned restructure, offset by staff savings in other areas.
Planning - CIL Administration	-28	-16	12	20	4	24	* Loss of income due to COVID.
Planning - Counter	-4	0	4	4		4	Loss of income due to COVID.
Planning - Development Management	73	100	27	53	16	69	* Loss of income due to COVID, however a favourable revision by 44k due to income collection being slightly better than expected last month, and major applications received.
Planning - Enforcement	196	226	30		73	73	* Staff costs over budget due to additional resource invested.
Planning Performance Agreement	0	32	32			0	* Urban Designer post costs, which will be offset by drawdown from allocated reserves (PPAs fees).
Administrative Expenses - Building Control	8	1	-7		-10	-10	Admin budget saving due to costs being charged to the BC Partnership.
Administrative Expenses - Planning Services	19	35	16	5	27	32	* COVID related - tablets for the team; non-COVID related - career training, offset by staff budget savings.
<b>Future Issues/Risk Areas</b>							

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Appendix B : 2\_Summary

	Y-T-D Actual £'000	Annual Budget £'000	ACTUAL Variance £'000	Annual Forecast (including Accruals) £'000	Annual Variance £'000	Annual Variance %
<b>Position as at the end of November 2020</b>						
People and Places	467	671	(204)	635	(36)	(5.4)
Housing and Health	597	829	(232)	954	125	15.1
Finance and Investments	2,925	2,851	74	(296)	(3,148)	(110.4)
Cleaner and Greener	5,057	4,753	304	7,292	2,539	53.4
Improvement and Innovation	3,621	5,582	(1,960)	5,621	39	0.7
Development and Conservation	1,086	1,128	(42)	1,281	153	13.6
<b>Services Total</b>	<b>13,754</b>	<b>15,816</b>	<b>(2,061)</b>	<b>15,487</b>	<b>(328)</b>	<b>(2.1)</b>
Adjustments to Reconcile to amount to be met from reserves: Capital Charges outside the General Fund	(40)	(60)	20	(60)	0	0.0
Adjustments to Reconcile to amount to be met from reserves: Support Services outside the General Fund	(115)	(172)	57	(172)	0	0.0
<b>NET SERVICE EXPENDITURE</b>	<b>13,600</b>	<b>15,583</b>	<b>(1,984)</b>	<b>15,255</b>	<b>(328)</b>	<b>(2.1)</b>
New Homes Bonus	(833)	(1,249)	416	(1,249)	0	0.0
Retained Business Rates	(1,426)	(2,139)	713	(2,593)	(454)	(21.2)
Council Tax	(7,509)	(11,264)	3,755	(11,264)	0	(0.0)
Summary excluding Investment Income	<b>3,832</b>	<b>931</b>	<b>2,484</b>	<b>150</b>	<b>(782)</b>	<b>(84.0)</b>
Investment Property Income	(890)	(1,428)	538	(1,292)	136	0.0
Interest Receipts	(65)	(303)	0	(89)	214	0.0
<b>OVERALL TOTAL</b>	<b>2,877</b>	<b>(799)</b>	<b>3,022</b>	<b>(1,231)</b>	<b>(432)</b>	<b>54.0</b>
Planned Appropriation to/(from) Reserves	(299)	(449)	150	(449)	0	
Other Reserve Movements	0	1,249	(1,249)	1,703	454	
Supplementary Estimates	0	0	0	0	0	
<b>(Surplus)/Deficit</b>	<b>2,578</b>	<b>(0)</b>	<b>1,923</b>	<b>22</b>	<b>22</b>	



**Appendix B : 2\_Summary by Service**

<b>Position as at the end of November 2020</b>	<b>Y-T-D Actual £'000</b>	<b>Y-T-D Budget £'000</b>	<b>Y-T-D Variance as at y t-d £'000</b>	<b>Annual Budget £'000</b>	<b>Annual For Var £'000</b>	<b>Annual Forecast (including Accruals) £'000</b>	<b>Forecast Annual Variance £'000</b>
<b>People &amp; Places Externally Funded</b>							
Business Area Improvement Fund	1	-	1	-	-	-	-
Compliance & Enforcement	(48)	-	(48)	-	-	-	-
Community Sports Activation Fund	26	13	13	-	-	-	-
Dunton Green Projects - S106	(1)	-	(1)	-	-	-	-
Partnership - Home Office	(5)	(11)	6	-	-	-	-
Sport Satellite Clubs	(1)	-	(1)	-	-	-	-
Sportivate Inclusive Archery Project	(0)	-	(0)	-	-	-	-
Troubled Families Project	(2)	-	(2)	-	-	-	-
West Kent Enterprise Advisor Network	54	24	29	-	-	-	-
West Kent Kick Start	(8)	-	(8)	-	-	-	-
West Kent Business Rates Retention	7	-	7	-	-	-	-
West Kent Partnership Business Support	(5)	-	(5)	-	-	-	-
<b>Total People &amp; Places (Ext Funded)</b>	<b>18</b>	<b>26</b>	<b>(8)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total People &amp; Places</b>	<b>467</b>	<b>499</b>	<b>(38)</b>	<b>671</b>	<b>(36)</b>	<b>635</b>	<b>(36)</b>

Appendix B : 2\_Summary by Service

Position as at the end of November 2020	Y-T-D Actual £'000	Y-T-D Budget £'000	Y-T-D Variance as at y-t-d £'000	Annual Budget £'000	Annual For Var £'000	Annual Forecast (including Accruals) £'000	Forecast Annual Variance £'000
<b>Housing and Health</b>							
Administrative Expenses - Housing	3	-	3	-	-	-	-
Health Improvements	29	35	(5)	52	(5)	47	(5)
Housing Initiatives	28	33	(5)	49	-	49	-
Homeless	144	144	0	233	9	242	9
Homelessness Funding	62	74	(12)	-	-	-	-
Housing	119	115	5	153	-	153	-
Housing Register	59	45	14	51	-	51	-
Homelessness Prevention	127	-	127	-	129	129	129
Housing Energy Retraining Options (HERO)	73	81	(7)	48	-	48	-
Housing Pathway Co-ordinator	(23)	-	(23)	-	-	-	-
Gypsy Sites	1	(1)	2	(1)	1	0	1
Disabled Facilities Grant Administration	0	8	(8)	(50)	-	(50)	-
Private Sector Housing	189	196	(7)	294	(9)	285	(9)
Sevenoaks Switch and Save	4	-	4	-	-	-	-
<b>Total Housing &amp; Health (SDC Funded)</b>	<b>816</b>	<b>729</b>	<b>87</b>	<b>829</b>	<b>125</b>	<b>954</b>	<b>125</b>

Agenda Item 9

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Appendix B : 2\_Summary by Service

Position as at the end of November 2020	Y-T-D Actual £'000	Y-T-D Budget £'000	Y-T-D Variance as at y t-d £'000	Annual Budget £'000	Annual For Var £'000	Annual Forecast (including Accruals) £'000	Forecast Annual Variance £'000
<b>Housing &amp; Health Externally Funded</b>							
Next Steps Accommodation Programme	(134)	(138)	4	-	16	16	16
Choosing Health WK PCT	(3)	(10)	7	-	-	-	-
Dementia Area Project - Run Walk Push	(0)	-	(0)	-	-	-	-
One You - Your Home Project	(30)	-	(30)	-	-	-	-
PCT Health Checks	(25)	(1)	(24)	-	-	-	-
PCT Initiatives	(25)	17	(41)	-	-	-	-
<b>Total Housing &amp; Health (Ext Funded)</b>	<b>(218)</b>	<b>5</b>	<b>(89)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Housing &amp; Health</b>	<b>597</b>	<b>734</b>	<b>(2)</b>	<b>829</b>	<b>125</b>	<b>954</b>	<b>125</b>

## Appendix B : 2\_Summary by Service

Position as at the end of November 2020	Y-T-D Actual £'000	Y-T-D Budget £'000	Y-T-D Variance as at y t-d £'000	Annual Budget £'000	Annual For Var £'000	Annual Forecast (including Accruals) £'000	Forecast Annual Variance £'000
<b>Finance &amp; Investments</b>							
Asset Maintenance Public Toilets	-	5	(5)	7	-	7	-
Asset Maintenance Direct Services	12	27	(15)	41	-	41	-
Asset Maintenance Playgrounds	11	6	5	8	-	8	-
Asset Maintenance CCTV	1	12	(11)	18	-	18	-
Asset Maintenance Countryside	8	6	2	9	-	9	-
Dartford Audit Partnership Hub (SDC Costs)	113	148	(34)	-	-	-	-
Dartford Rev&Ben Partnership Hub (SDC costs)	1,192	1,240	(48)	-	-	-	-
Misc. Finance	(169)	914	(1,083)	1,487	(2,261)	(1,935)	(3,422)
Benefits Grants	481	483	(2)	(25)	-	(25)	-
Local Tax	129	(117)	246	(90)	339	249	339
Housing Advances	-	1		1	-	1	-
Treasury Management	94	84		128	-	128	-
Benefits Admin	280	312		52	(33)	19	(33)
Support - Legal Function	142	170	(28)	255	(23)	232	(23)
Support - Property Function	40	35	5	53	-	53	-
Support - Finance Function	145	154	(9)	235	-	235	-
Support - Exchequer and Procurement	109	105	3	154	-	154	-
Support - Counter Fraud	38	38	-	56	-	56	-
Support - Rev & Ben Control	145	145	(0)	217	-	217	-
Support - Audit Function	131	124	7	189	(8)	181	(8)
Support - Procurement	2	4	(3)	6	-	6	-
Administrative Expenses - Chief Executive	4	11	(7)	22	-	22	-
Administrative Expenses - Finance	22	18		26	-	26	-
Administrative Expenses - Revenues and Benefits	0	-	0	-	-	-	-
<b>Total Finance &amp; Investments</b>	<b>2,925</b>	<b>3,924</b>	<b>(979)</b>	<b>2,851</b>	<b>(1,986)</b>	<b>(296)</b>	<b>(3,148)</b>

Appendix B : 2\_Summary by Service

Position as at the end of November 2020	Y-T-D Actual £'000	Y-T-D Budget £'000	Y-T-D Variance as at y-t-d £'000	Annual Budget £'000	Annual For Var £'000	Annual Forecast (including Accruals) £'000	Forecast Annual Variance £'000
<b>Cleaner &amp; Greener</b>							
Car Parks	(70)	(1,233)	1,163	(1,985)	1,732	(253)	1,732
Asset Maintenance Argyle Road	76	51	24	77	-	77	-
Asset Maintenance Other Corporate Properties	22	23	(0)	34	-	34	-
Asset Maintenance Hever Road	31	26	5	39	-	39	-
Asset Maintenance Leisure	74	124	(50)	186	-	186	-
Asset Maintenance Support & Salaries	28	126	(99)	236	-	236	-
Asset Maintenance Sewage Treatment Plants	-	6	(6)	9	-	9	-
Refuse Collection	1,863	1,884		2,826	25	2,851	25
Bus Station	15	9	7	7	-	7	-
Car Parking - On Street	115	(354)	469	(480)	574	95	574
CCTV	211	195	17	277	-	277	-
Civil Protection	32	47	(14)	69	-	69	-
Dartford Environmental Hub (SDC Costs)	438	469	(30)	-	-	-	-
EH Commercial	192	188	5	281	27	308	27
EH Animal Control	9	(1)	10	4	14	18	14
EH Environmental Protection	208	248	(40)	387	23	410	23
Emergency	46	46	(0)	69	-	69	-
Parking Enforcement - Tandridge DC	(101)	(15)	(87)	(29)	(40)	(69)	(40)
Estates Management - Buildings	82	19	63	(2)	50	48	50
Estates Management - Grounds	89	84	6	125	-	125	-
Housing Premises	(4)	4	(8)	16	-	16	-
Kent Resource Partnership	(156)	(111)	(45)	-	-	-	-
Licensing Partnership Hub (Trading)	42	18	22	-	-	-	-
Licensing Partnership Members	-	-	-	-	-	-	-
Licensing Regime	(15)	(33)	18	(7)	22	15	22

Appendix B : 2\_Summary by Service

Markets	(121)	(93)	(28)	(192)	-	(192)	-
	Y-T-D Actual £'000	Y-T-D Budget £'000	Y-T-D Variance as at y t-d £'000	Annual Budget £'000	Annual For Var £'000	Annual Forecast (including Accruals) £'000	Forecast Annual Variance £'000
<b>Position as at the end of November 2020</b>							
Parks and Recreation Grounds	84	87	(4)	132	-	132	-
Parks - Greensand Commons Project	37	-	37	-	-	-	-
Parks - Rural	127	107	20	163	-	163	-
Asset Maintenance Operatives	3	3	(0)	4	-	4	-
Public Transport Support	-	0	(0)	0	-	0	-
Administrative Expenses - Direct Services	0	-	0	-	-	-	-
Administrative Expenses - Health	1	6	(5)	9	(9)	0	(9)
Administrative Expenses - Transport	2	4	(1)	7	-	7	-
Administrative Expenses - Licensing	0	5	(5)	8	(7)	1	(7)
Administrative Expenses - Property	1	2	(1)	3	-	3	-
Street Cleansing	996	998	(1)	1,495	-	1,495	-
Support - Central Offices	388	411	(23)	488	-	488	-
Support - Central Offices - Facilities	174	176	(2)	275	-	275	-
Support - General Admin (Post/Scanning)	104	126	(22)	189	(15)	174	(15)
Support - General Admin	1	3	(2)	5	-	5	-
Support - Health and Safety	6	13	(6)	19	-	19	-
Support - Direct Services	30	31	(1)	49	-	49	-
Direct Services Trading account	(47)	(157)		(109)	145	36	145
Taxis	20	14	7	35	(2)	33	(2)
Public Conveniences	37	33	4	47	-	47	-
<b>Total Cleaner and Greener</b>	<b>5,071</b>	<b>3,587</b>	<b>1,394</b>	<b>4,767</b>	<b>2,539</b>	<b>7,306</b>	<b>2,539</b>

Appendix 9



Position as at the end of November 2020	Y-T-D Actual £'000	Y-T-D Budget £'000	Y-T-D Variance as at y-t-d £'000	Annual Budget £'000	Annual For Var £'000	Annual Forecast (including Accruals) £'000	Forecast Annual Variance £'000
<b>Improvement &amp; Innovation</b>							
Economic Development	20	27	(7)	37	-	37	-
Economic Development Property	368	305	63	415	-	415	-
Corporate Management	596	672	(75)	1,107	(55)	1,053	(55)
Asset Maintenance IT	101	193	(92)	289	-	289	-
Action and Development	1	5	(4)	8	-	8	-
Corporate Projects	65	68	(3)	102	-	102	-
Consultation and Surveys	-	-	-	4	(4)	(0)	(4)
Democratic Services	108	107	1	161	-	161	-
Land Charges	(32)	(70)	39	(108)	70	(38)	70
Street Naming	(2)	1	(3)	1	-	1	-
Civic Expenses	15	16	(1)	17	-	17	-
Elections	94	68	25	145	1	146	1
Register of Electors	146	173	(27)	237	(27)	210	(27)
Corporate - Other	-	(49)	49	42	53	95	53
Support - IT	905	908	(3)	1,116	-	1,116	-
Support - Human Resources	303	266	37	367	21	388	21
External Communications	118	150	(32)	216	(20)	196	(20)
Members	281	308	(27)	464	(30)	433	(30)
Performance Improvement	7	7	1	(0)	-	(0)	-
Support - Contact Centre	432	448	(16)	715	(10)	705	(10)
Support - General Admin (Print Shop)	36	(1)	37	(34)	64	30	64
Support - General Admin	12	16	(5)	174	-	174	-
Administrative Expenses - Human Resources	6	7	(1)	9	-	9	-
Administrative Expenses - Corporate Services	2	14	(11)	23	(15)	8	(15)
Administrative Expenses - Legal and Democratic	37	57	(20)	70	(10)	60	(10)
Administrative Expenses - Transformation and Strategy	1	3	(3)	5	-	5	-
	<b>3,621</b>	<b>3,699</b>	<b>(77)</b>	<b>5,582</b>	<b>-</b>	<b>5,621</b>	<b>39</b>

Total Improvement & Innovation	3,621	3,699	(77)	5,582	(1,986)	5,621	39
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	Y-T-D Actual £'000	Y-T-D Budget £'000	Y-T-D Variance as at y- t-d £'000	Annual Budget £'000	Annual For Var £'000	Annual Forecast (including Accruals) £'000	Forecast Annual Variance £'000
<b>Position as at the end of November 2020</b>							
<b>Development &amp; Conservation</b>							
Administrative Expenses - Planning Services	35	19	16	48	32	80	32
Conservation	90	79	11	118	17	134	17
Planning Performance Agreement	32	-	32	-	-	-	-
LDF Expenditure	77	-	77	-	-	-	-
Planning - Appeals	123	126	(2)	207	9	216	9
Planning - CIL Administration	(16)	(28)	12	(67)	24	(43)	24
Planning - Counter	-	(4)	4	(6)	4	(2)	4
Planning - Development Management	100	73	27	109	69	178	69
Planning - Enforcement	226	196	30	297	73	369	73
Planning Policy	267	293	(26)	535	(64)	471	(64)
Building Control Partnership Members	-	-	-	-	-	-	-
Building Control Partnership Hub (SDC Costs)	266	265	1	-	-	-	-
Building Control	(114)	(85)	(29)	(127)	-	(127)	-
Dangerous Structures	0	2	(1)	3	-	3	-
Administrative Expenses - Building Control	1	8	(7)	12	(10)	2	(10)
	<b>1,086</b>	<b>942</b>	<b>144</b>	<b>1,128</b>	<b>-</b>	<b>1,281</b>	<b>153</b>

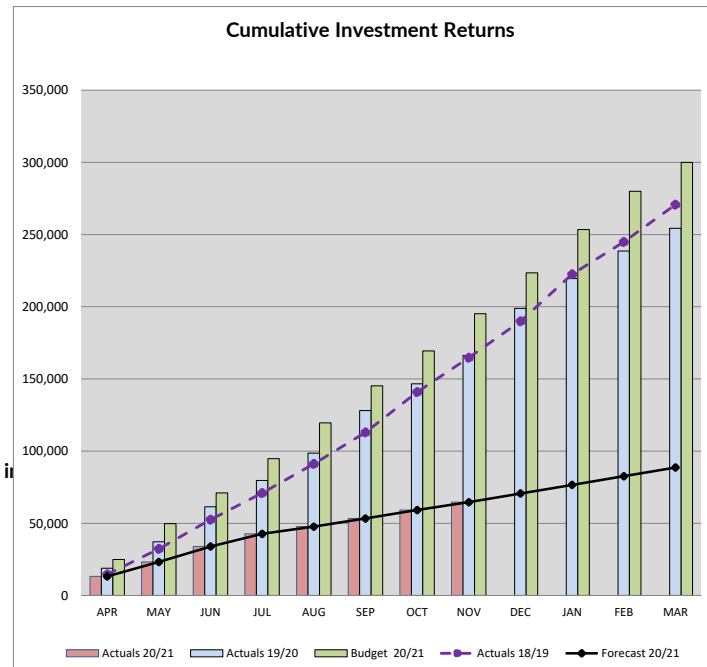
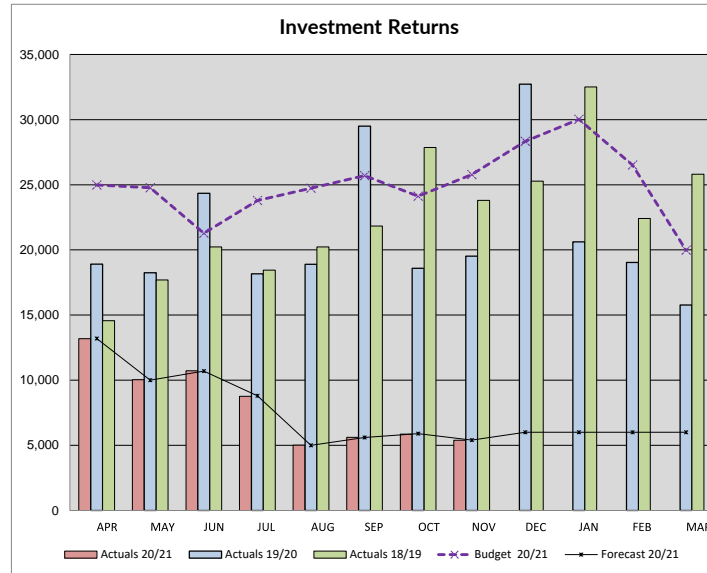
**Appendix B : 4. Cumulative Salary Monitoring Position  
as at the end of November 2020**

	Y-T-D Actual	Annual Budget	Annual Forecast	Annual Variance	Annual Variance %
<b>Development and Conservation</b>					
Administrative Expenses - Building Control	243	373	366	(7)	(2)
Administrative Expenses - Planning Services	1,413	2,071	2,060	(11)	(1)
	1,656	2,444	2,426	(18)	(2)
<b>Finance and Investments</b>					
Economic Development Property	295	447	447	0	-
Administrative Expenses - Chief Executive	141	210	210	0	-
Administrative Expenses - Finance	571	910	910	0	-
Administrative Expenses - Property	403	606	606	0	-
Administrative Expenses - Revenues and Benefits	1,044	1,618	1,618	0	-
	2,455	3,791	3,791	0	0
<b>Cleaner and Greener</b>					
Administrative Expenses - Direct Services	2,634	4,279	4,244	(35)	(1)
Administrative Expenses - Health	436	696	652	(44)	(6)
Administrative Expenses - Licensing	321	463	466	3	1
Administrative Expenses - Transport	391	501	501	0	-
	3,783	5,939	5,863	(76)	(6)
<b>Housing and Health</b>					
Administrative Expenses - Housing	385	576	577	1	0
	385	576	577	1	0
<b>Improvement and Innovation</b>					
Administrative Expenses - Corporate Services	1,132	1,759	1,740	(19)	(1)
Administrative Expenses - Legal and Democratic	388	633	594	(39)	(6)
Administrative Expenses - Transformation and Strategy	403	631	620	(11)	(2)
Administrative Expenses - Human Resources	256	358	365	7	2
	2,180	3,381	3,319	(62)	(7)
<b>People and Places</b>					
Administrative Expenses - Communities & Business	415	532	589	57	11
	415	532	589	57	11
<b>Sub Total</b>	<b>10,874</b>	<b>16,663</b>	<b>16,565</b>	<b>(97)</b>	<b>(5)</b>
Council Wide - Vacant Posts	0	(83)	(10)	73	-
Staff Recruitment and Retention	0	72	72	0	-
<b>TOTAL SDC Funded Salary Costs</b>	<b>10,874</b>	<b>16,652</b>	<b>16,627</b>	<b>(24)</b>	<b>(5)</b>
Externally Funded & Funded from other sources (gross figures). Overspendings here are matched by external funding and represent additional resources secured for the Council since the budget was set.					
People and Places	298	448	431	(17)	-
Housing and Health	153	236	229	(7)	0
Cleaner and Greener	81	123	123	(24)	(24)
<b>Sub Total</b>	<b>532</b>	<b>806</b>	<b>782</b>	<b>(48)</b>	<b>(24)</b>
<b>TOTAL All Salary Costs</b>	<b>11,406</b>	<b>17,458</b>	<b>17,409</b>	<b>(48)</b>	<b>(0)</b>

<b>Appendix B : 5. Staffing Stats - Position as at the end of November 2020</b>	<b>Budget FTE*</b>	<b>Staff FTE</b>	<b>Agency FTE</b>	<b>Casual FTE</b>	<b>Total</b>	<b>October 20 Total</b>
Development and Conservation						
Building Control	8.00	7.00			7.00	7.00
Planning Services	43.47	39.66	3.00		42.66	42.66
Finance and Investments					0.00	0.00
Economic Development Property	7.00	6.35			6.35	6.35
Chief Executive	1.00	1.00			1.00	1.00
Finance	15.00	15.08			15.08	15.08
Property	15.98	15.68			15.68	15.68
Revenues and Benefits	43.14	39.99		0.50	40.49	40.99
Cleaner and Greener					0.00	0.00
Direct Services	127.16	110.59	24.83	0.99	136.41	137.40
Health	12.57	11.24	1.00		12.24	12.24
Licensing	10.59	10.19			10.19	10.19
Transport	13.00	13.97			13.97	13.97
Housing and Health					0.00	0.00
Housing	13.21	14.30			14.30	14.30
Improvement and Innovation					0.00	0.00
Corporate Services	44.66	43.31		0.43	43.74	44.17
Legal and Democratic	7.50	7.00			7.00	7.00
Transformation and Strategy	20.41	17.97			17.97	17.97
Human Resources	7.56	11.00			11.00	11.00
People and Places					0.00	0.00
Communities & Business	8.08	7.08	1.00		8.08	8.08
Sub Total	397.33	371.41	29.83	1.92	403.16	405.08
Externally Funded						
People & Places	12.96	9.00		0.73	9.73	10.46
People & Places - Housing	4.39	5.39			5.39	5.39
KRP	2.00	2.00			2.00	2.00
Sub total	19.35	16.39	0.00	0.73	17.12	17.85
Total	416.68	387.80	29.83	2.65	420.28	422.93
Number of staff paid in November 2020: 423 permanent, 57casuals						
<b>*FTE updated to reflect change in structure</b>						

Appendix B :  
6 Investment Returns

	Actuals 18/19	Actuals 19/20	Actuals 20/21	Budget 20/21	Variance	Forecast 20/21
APR	14,566	18,908	13,190	24,977	-11,787	13,200
MAY	17,690	18,243	10,041	24,770	-14,729	10,000
JUN	20,233	24,341	10,719	21,274	-10,555	10,700
JUL	18,443	18,166	8,761	23,790	-15,029	8,800
AUG	20,224	18,891	5,010	24,730	-19,720	5,000
SEP	21,831	29,495	5,612	25,700	-20,088	5,600
OCT	27,864	18,586	5,867	24,127	-18,260	5,900
NOV	23,808	19,520	5,397	25,789	-20,392	5,400
DEC	25,281	32,723		28,331		6,000
JAN	32,513	20,620		30,020		6,000
FEB	22,411	19,034		26,511		6,000
MAR	25,803	15,768		19,981		6,000
<b>TOTAL</b>	<b>270,667</b>	<b>254,295</b>	<b>64,597</b>	<b>300,000</b>	<b>-130,560</b>	<b>88,600</b>



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INVESTMENT RETURNS (CUMULATIVE)

	Actuals 18/19	Actuals 19/20	Actuals 20/21	Budget 20/21	Variance	Forecast 20/21
APR	14,566	18,908	13,190	24,977	-11,787	13,200
MAY	32,256	37,151	23,231	49,747	-26,516	23,200
JUN	52,489	61,492	33,950	71,021	-37,071	33,900
JUL	70,932	79,658	42,711	94,811	-52,100	42,700
AUG	91,156	98,549	47,721	119,541	-71,820	47,700
SEP	112,987	128,044	53,333	145,241	-91,908	53,300
OCT	140,851	146,630	59,200	169,368	110,168	59,200
NOV	164,659	166,150	64,597	195,157	130,560	64,600
DEC	189,940	198,873		223,488		70,600
JAN	222,453	219,493		253,508		76,600
FEB	244,864	238,527		280,019		82,600
MAR	270,667	254,295		300,000		88,600

BUDGET FOR 2019/20 300,000

FORECAST OUTTURN 88,600

N.B.

These are the gross interest receipts rather than the interest remaining in

Fund Average	0.4301%
7 Day LIBID	-0.0625%
3 Month LIBID	0.0613%

Appendix B : 8. Capital  
Monitoring Dashboard -  
November 2020

Description Of Scheme	Funding Source	Direcorate	Approved Gross Cost of Scheme £	Total Expenditure from date of adoption to 31 March 2020 £	2020/2021 Budget £	2020/2021 Spend / Income YTD £	2020/2021 Forecast Outturn (net income) / Expenditure £	Forecast Variance 2020/2021 £	2021/2022 Spend Forecast for Later Years £	2022/2023 Spend Forecast for Later Years £	2023/2024 Spend Forecast for Later Years £	Total Project Expenditure £	Total Project Variance £
White Oak Leisure Centre	External Borrowing & Capital Receipts	Communities & Business	20,000,000	719,284	7,244,000	3,641,184	7,987,948	743,948	10,631,000	1,575,000	0	7,244,000	913,232
SDC owned assets - disposal preparation costs	Capital Receipts	Communities & Business	0	291,084	0	0	0	0	0	0	0	291,084	0
<b>Total for Communities &amp; Business</b>			<b>20,000,000</b>	<b>1,010,368</b>	<b>7,244,000</b>	<b>3,641,184</b>	<b>7,987,948</b>	<b>743,948</b>	<b>10,631,000</b>	<b>1,575,000</b>	<b>0</b>	<b>7,535,084</b>	<b>913,232</b>
Buckhurst 2 - Residential	Internal Borrowing	Environmental & Operational Services	6,472,000	5,791,423	680,577	1,099,770	1,020,770	340,193	79,000	8,000	8,000	6,812,193	340,193
<b>Total for Environmental &amp; Operational Services</b>			<b>6,472,000</b>	<b>5,791,423</b>	<b>680,577</b>	<b>1,099,770</b>	<b>1,020,770</b>	<b>340,193</b>	<b>79,000</b>	<b>8,000</b>	<b>8,000</b>	<b>6,812,193</b>	<b>340,193</b>
Acquisition of Swanley WMC	Capital Receipts	Finance - Property Investment Strategy	11,250,000	1,250,000	0	0	0	0	0	0	0	0	0
Swanley WMC & meeting point demolition	Capital Receipts	Finance - Property Investment Strategy		142,000	0	0	0	0	0	0	0	0	0
Suffolk House enhancements	Capital Receipts & Financial Plan Reserve	Finance - Property Investment Strategy		586,778	0	0	0	0	0	0	0	0	0
Quercus 7 start up	Property Investment	Finance - Property Investment Strategy		13,000	0	0	0	0	0	0	0	0	0
26-28 Pembroke Road, Sevenoaks	Reserve Financial Plan	Finance - Property Investment Strategy		4,673,000	0	0	0	0	0	0	0	0	0
76 High Street, Sevenoaks	Reserve & Capital Receipts	Finance - Property Investment Strategy		4,336,000	0	0	0	0	0	0	0	0	0
Croft Road Option	Financial Plan Reserve	Finance - Property Investment Strategy		50,000	0	0	0	0	0	0	0	0	0
Suffolk House enhancements	Capital receipts	Finance - Property Investment Strategy		146,000	0	0	0	0	0	0	0	0	0
Sackville House	Capital receipts	Finance - Property Investment Strategy		217,150	0	0	0	0	0	0	0	0	0
Various projects (not yet committed)		Finance - Property Investment Strategy	23,265,018	0	3,170,018		3,170,018	0	5,000,000	15,095,000	0	23,265,018	0
Commercial vehicle replacements	Vehicle Renewal Res.		2,238,000	0	549,000	554,627	619,000	70,000	493,000	563,000	563,000	2,238,000	0
<b>Total for Finance</b>			<b>36,753,018</b>	<b>11,413,928</b>	<b>3,719,018</b>	<b>554,627</b>	<b>3,789,018</b>	<b>70,000</b>	<b>5,493,000</b>	<b>15,658,000</b>	<b>563,000</b>	<b>25,503,018</b>	<b>0</b>
<b>Grand total</b>			<b>63,225,018</b>	<b>18,215,718</b>	<b>11,643,595</b>	<b>5,295,581</b>	<b>12,797,736</b>	<b>1,154,141</b>	<b>16,203,000</b>	<b>17,241,000</b>	<b>571,000</b>	<b>39,850,294</b>	<b>1,253,425</b>

Memo	SDC Debt (60%) / Equity (40%)												
Quercus 7			4,061,164	1,829,982		1,829,982						5,891,146	0
Croft Road			536,444										
Plot 2 Canterbury Business Park			2,292,120										
10 -14 Gladedale House			1,232,600										
Loampit Vale, Lewisham			1,829,982										

## Appendix B : 9 Income Graphs Summary

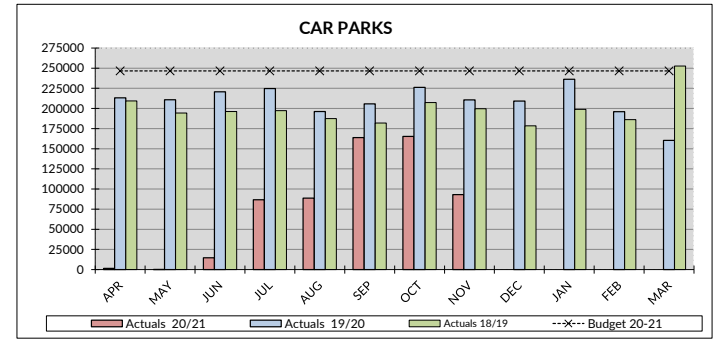
	ACTUAL	Comparison of 18/19 and 19/20, where brackets show increased income	MANAGE R'S PROFILED BUDGET	Variance, where brackets are favourable	ANNUAL BUDGET 2019/20	Annual Forecast
CAR PARKS	613,963	(1,094,046)	1,483,618	869,655	2,959,237	(1,659,956)
ON-STREET PARKING	297,620	(427,281)	731,307	433,687	1,096,960	(577,145)
LICENSING	153,043	(54,525)	199,242	46,199	255,954	(66,000)
LAND CHARGES	109,474	(13,354)	143,592	34,118	215,388	(34,118)
BUILDING CONTROL	356,345	(18,610)	327,264	(29,081)	490,896	(13,000)
DEVELOPMENT MANAGEMENT	638,014	(241,642)	616,291	(21,723)	924,437	(38,000)
	<b>2,168,459</b>	<b>(1,849,458)</b>	<b>3,501,315</b>	<b>1,332,856</b>	<b>5,942,872</b>	<b>(2,388,219)</b>

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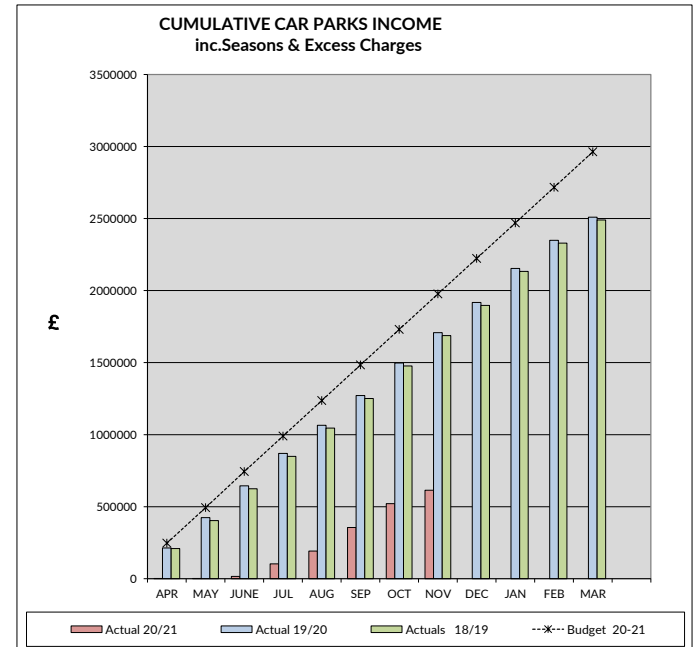
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Appendix B: CAR PARKS (HWCARP)	Actuals		Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget- Actuals)	Manager's Forecast
	Actuals 18/19	Actuals 19/20					
APR	209,387	213,119	1513	(211,606)	246,603	(245,090)	
MAY	194,451	210,813	158	(210,655)	246,603	(246,445)	
JUN	196,119	220,637	14588	(206,049)	246,603	(232,015)	
JUL	197,332	224,678	86759	(137,919)	246,603	(159,844)	
AUG	187,490	196,164	88754	(107,411)	246,603	(157,850)	
SEP	181,917	205,737	163789	(41,948)	246,603	(82,814)	
OCT	207,316	226,210	165320	(60,890)	246,603	(81,283)	
NOV	199,634	210,651	93081	(117,570)	246,603	(153,522)	
DEC	178,551	209,265			246,603		
JAN	198,858	236,228			246,603		
FEB	186,163	195,940			246,603		
MAR	252,653	160,439			246,603	(1,659,956)	
	2,389,870	2,509,881	613,963	(1,094,046)	2,959,237	(1,358,862)	(1,659,956)



CAR PARKS (CUMULATIVE)	Actuals		Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget- Actuals)	Manager's Forecast
	Actuals 18/19	Actuals 19/20					
APR	209,387	213,119	1513	(211,606)	246,603	(245,090)	
MAY	403,838	423,932	1671	(422,261)	493,206	(491,535)	
JUNE	624,475	644,570	16260	(628,310)	743,809	(727,549)	
JUL	849,153	869,247	103018	(766,229)	990,412	(887,394)	
AUG	1,045,317	1,065,411	191772	(873,639)	1,237,015	(1,045,243)	
SEP	1,251,053	1,271,148	355561	(915,587)	1,483,618	(1,128,057)	
OCT	1,477,263	1,497,358	520882	(976,476)	1,730,222	(1,209,340)	
NOV	1,687,914	1,708,009	613963	(1,094,046)	1,976,825	(1,362,862)	
DEC	1,897,180	1,917,274			2,223,428		
JAN	2,133,408	2,153,502			2,470,031		
FEB	2,329,348	2,349,442			2,716,634		
MAR	2,489,787	2,509,881			2,963,237	(1,659,956)	



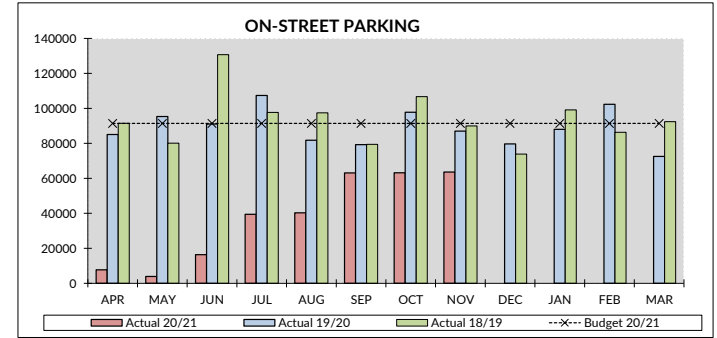
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Nov-20 CUMULATIVE BREAKDOWN - HWCARP				
	Code	Actual (Cumulative)	Budget	(Monthly)
DAY TICKETS	3300	538,024	1,700,561	88,607
EXCESS / PENALTY CHARGES	***1/**3	(21)	-	-
SEASON TICKETS	***2	(3,562)	-	-
SEASON TICKET CAR PARK	3310	62,261	257,737	3,224
OTHER (inc.Res.Pkg)	***9	-	4,527	-
WAIVERS	3404	290	-	-
RENT	94500	17,024	14,000	1,250
Business Permits	3406 /3408	(53)	-	-
		613,963	1,976,825	93,081

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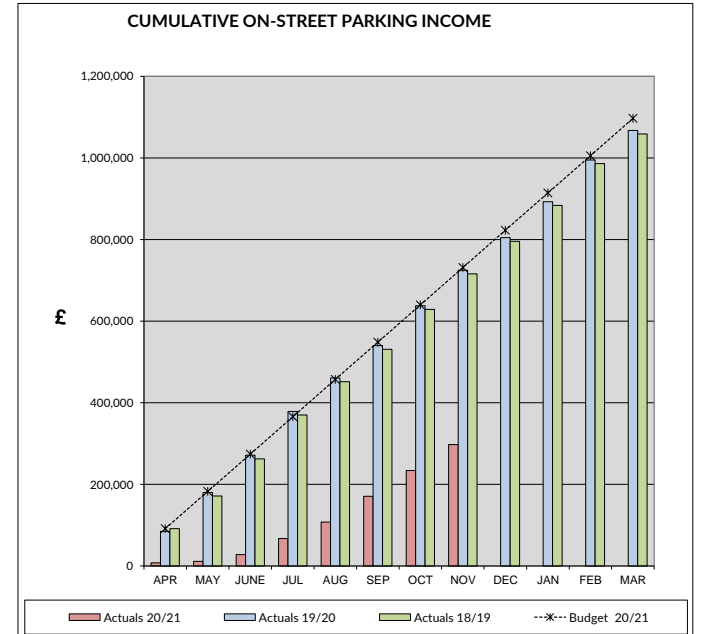
**Appendix B: ON-STREET PARKING (HWDCRIM / HWENFORC)**

	Actuals 18/19	Actuals 19/20	Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget- Actuals)	Manager's Forecast
APR	91,515	85,115	7,676	(77,439)	91,413	(83,737)	
MAY	80,099	95,338	3,884	(91,454)	91,413	(87,529)	
JUN	130,688	91,102	16,355	(74,747)	91,413	(75,058)	
JUL	97,678	107,391	39,461	(67,930)	91,413	(51,952)	
AUG	97,434	81,797	40,276	(41,521)	91,413	(51,137)	
SEP	79,445	79,308	63,135	(16,173)	91,413	(28,279)	
OCT	106,690	97,818	63,193	(34,625)	91,413	(28,220)	
NOV	89,993	87,032	63,639	(23,393)	91,413	(27,774)	
DEC	73,861	79,729			91,413		
JAN	99,112	88,036			91,413		
FEB	86,373	102,372			91,413		
MAR	92,426	72,578			91,413	(577,145)	
<b>TOTAL</b>	<b>1,125,314</b>	<b>1,067,616</b>	<b>297,620</b>	<b>(427,281)</b>	<b>1,096,960</b>	<b>(433,687)</b>	<b>(577,145)</b>



**ON-STREET PARKING (CUMULATIVE)**

	Actuals 18/19	Actuals 19/20	Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget- Actuals)	Manager's Forecast
APR	91,515	85,115	7,676	(77,439)	91,413	(83,737)	
MAY	171,613	180,453	11,560	(168,893)	182,827	(171,267)	
JUNE	262,715	271,555	27,915	(243,640)	274,240	(246,325)	
JUL	370,107	378,947	67,377	(311,570)	365,653	(298,276)	
AUG	451,904	460,744	107,653	(353,091)	457,067	(349,414)	
SEP	531,212	540,052	170,788	(369,264)	548,480	(377,692)	
OCT	629,030	637,870	233,981	(403,889)	639,893	(405,912)	
NOV	716,061	724,901	297,620	(427,281)	731,307	(433,687)	
DEC	795,790	804,630			822,720		
JAN	883,826	892,666			914,133		
FEB	986,198	995,038			1,005,547		
MAR	1,058,776	1,067,616			1,096,960	(577,145)	

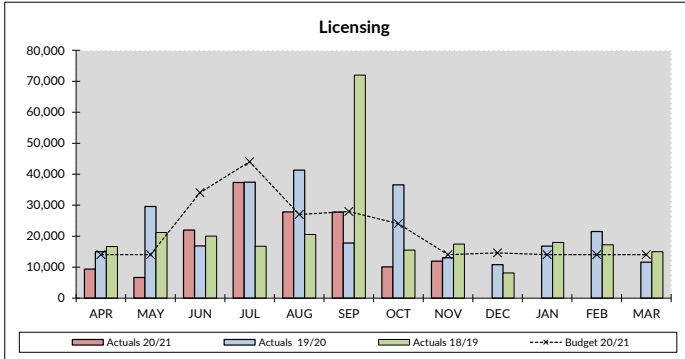


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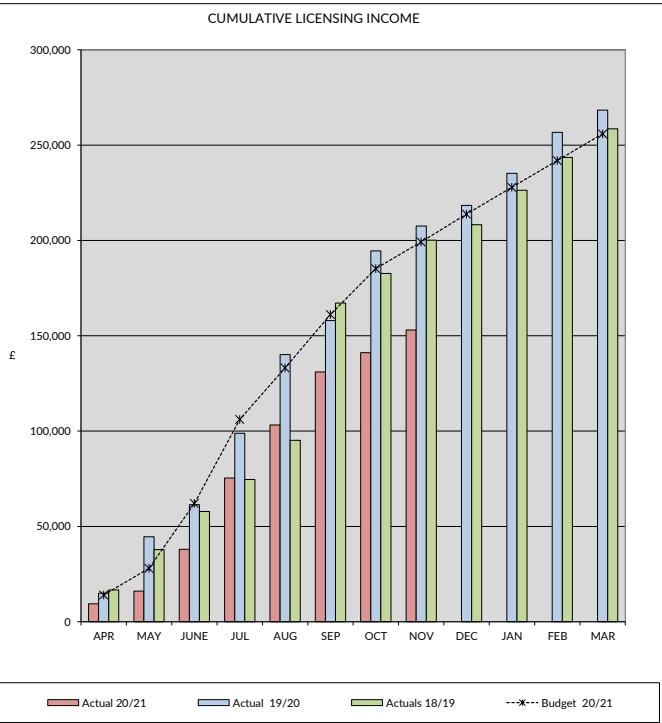
**CUMULATIVE BREAKDOWN - HWDCRIM / HWENFORC**

	Code	Actual (Cumulative)	Budget (Monthly)
PENALTY NOTICES & EXCESS CHARGES	3403/**1	91,830	238,116
WAIVERS	3404	12,727	7,543
RESIDENTS PERMITS	3406	48,702	36,205
ON STREET PARKING	3300	127,711	386,838
BUSINESS PERMITS	3408	2,272	62,605
Driveway Access Protection Lines	3405	488	-
OTHER	9999	13,890	-
<b>TOTAL</b>		<b>297,620</b>	<b>731,307</b>

Appendix B: Licensing (EHLICREG & DSTAXIL)	Actuals 18/19	Actuals 19/20	Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget- Manager's Actuals) Forecast
APR	16,651	14,991	9,404	(5,587)	14,036	(4,633)
MAY	21,188	29,570	6,655	(22,915)	14,036	(7,381)
JUN	20,012	16,865	21,969	5,104	34,036	(12,068)
JUL	16,748	37,419	37,346	(73)	44,036	(6,690)
AUG	20,553	41,305	27,847	(13,458)	27,036	811
SEP	71,993	17,814	27,783	9,970	27,987	(204)
OCT	15,520	36,559	10,099	(26,459)	24,036	(13,937)
NOV	17,485	13,047	11,939	(1,107)	14,036	(2,097)
DEC	8,140	10,833			14,602	
JAN	18,012	16,790			14,036	
FEB	17,224	21,506			14,036	
MAR	15,015	11,638			14,036	(66,000)
	258,539	268,335	153,043	(54,525)	255,954	(66,000)



Licensing (CUMULATIVE)	Actuals 18/19	Actuals 19/20	Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget- Actuals)	Manager's Forecast
APR	16,651	14,991	9,404	(5,587)	14,036	(4,633)	
MAY	37,839	44,561	16,059	(28,502)	28,073	(12,014)	
JUNE	57,851	61,426	38,028	(23,398)	62,109	(24,081)	
JUL	74,598	98,844	75,374	(23,471)	106,146	(30,772)	
AUG	95,151	140,149	103,221	(36,928)	133,182	(29,961)	
SEP	167,144	157,963	131,004	(26,959)	161,169	(30,165)	
OCT	182,664	194,522	141,104	(53,418)	185,206	(44,102)	
NOV	200,148	207,568	153,043	(54,525)	199,242	(46,199)	
DEC	208,288	218,401			213,845		
JAN	226,300	235,190			227,881		
FEB	243,524	256,697			241,918		
MAR	258,539	268,335			255,954	(66,000)	



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CUMULATIVE BREAKDOWN - EHLICREG/DSTAXIL				
	Code	Actual (Cumulative)	Budget	(Monthly)
Pre-application advice	EHLICREG/2189	133		
Personal Licences	EHLICREG/2190	1,320	1,480	243
Premises Licence Annual Fee/Premises New/Premises Variation	EHLICREG/2192/21	76,271	91,053	1,244
Temporary Event Notice	EHLICREG/2193	840	8,807	126
Gambling Act Permits/Lottery	EHLICREG/2196/7/£	4,925	5,901	430
Pavement Licence	EHLICREG/2222	600		
Taxi Licensing	94300/DSTAXIL	68,954	92,001	9,897
		153,043	199,242	11,939

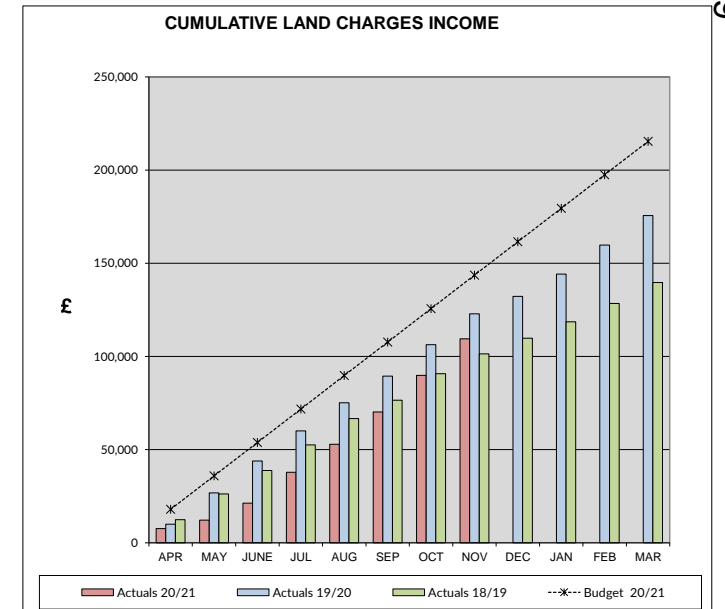
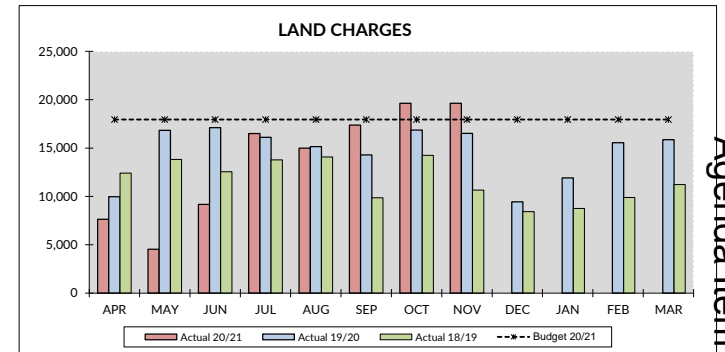
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Appendix B: LAND CHARGES (LPLNDCH)	Actuals 18/19	Actuals 19/20	Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget-Actuals)	Manager's Forecast
APR	12,416	9,967	7,630	(2,337)	17,949	(10,319)	
MAY	13,827	16,828	4,532	(12,296)	17,949	(13,417)	
JUN	12,546	17,112	9,171	(7,941)	17,949	(8,778)	
JUL	13,782	16,113	16,500	387	17,949	(1,449)	
AUG	14,070	15,149	14,999	(150)	17,949	(2,950)	
SEP	9,855	14,286	17,377	3,091	17,949	(572)	
OCT	14,249	16,854	19,628	2,774	17,949	1,679	
NOV	10,650	16,519	19,636	3,118	17,949	1,687	
DEC	8,425	9,444			17,949		
JAN	8,755	11,917			17,949		
FEB	9,882	15,554			17,949		
MAR	11,220	15,857			17,949		(70,000)
<b>TOTAL</b>	<b>139,678</b>	<b>175,599</b>	<b>109,474</b>	<b>(13,354)</b>	<b>215,388</b>	<b>(34,118)</b>	<b>(70,000)</b>

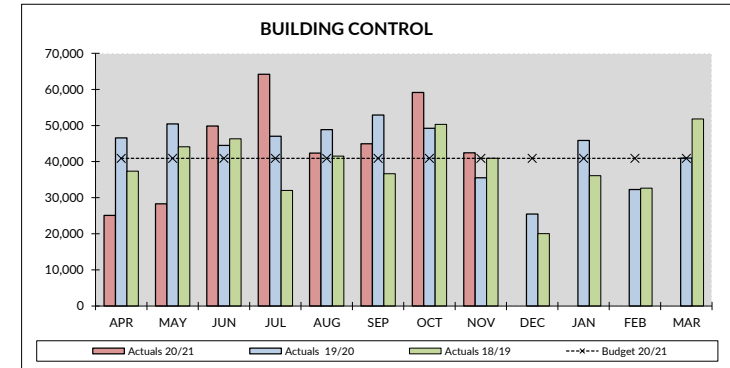
LAND CHARGES (CUMULATIVE)	Actuals 18/19	Actuals 19/20	Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget-Actuals)	Manager's Forecast
APR	12,416	9,967	7,630	(2,337)	17,949	(10,319)	
MAY	26,244	26,795	12,162	(14,633)	35,898	(23,736)	
JUNE	38,789	43,907	21,334	(22,573)	53,847	(32,513)	
JUL	52,572	60,020	37,834	(22,187)	71,796	(33,962)	
AUG	66,641	75,169	52,833	(22,336)	89,745	(36,912)	
SEP	76,497	89,455	70,210	(19,245)	107,694	(37,484)	
OCT	90,746	106,309	89,838	(16,471)	125,643	(35,805)	
NOV	101,396	122,828	109,474	(13,354)	143,592	(34,118)	
DEC	109,821	132,272			161,541		
JAN	118,576	144,188			179,490		
FEB	128,457	159,742			197,439		
MAR	139,678	175,599			215,388		(70,000)

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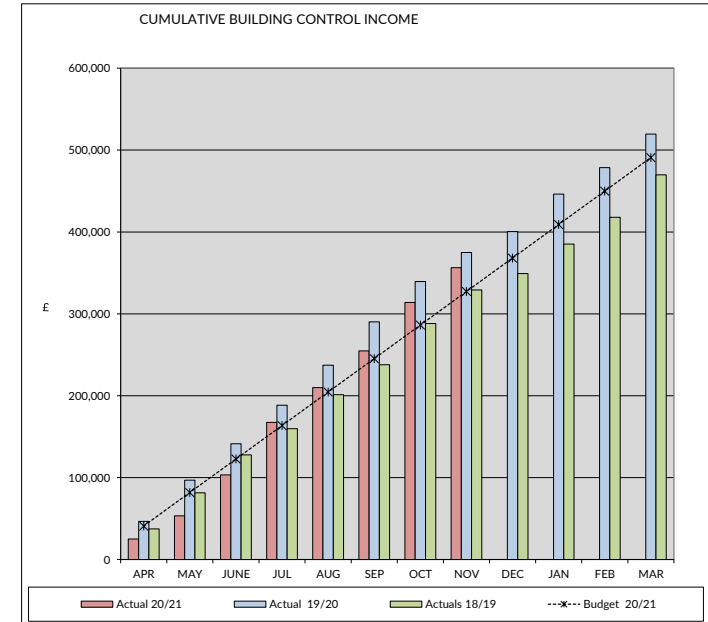
CUMULATIVE BREAKDOWN - LPLNDCH	Received (Month)	Percentage (Month)	Percentage (Month 20/21)	Percentage (Cumulative)
Searches Received - Paper	1	%	1%	16
Searches Received - Electronic	129	39%	37%	726
Searches Received - Personal	203	61%	63%	1,240
<b>TOTAL</b>	<b>333</b>	<b>100%</b>	<b>100%</b>	<b>1,982</b>



Appendix B: BUILDING CONTROL (DVBCFEE)	Actuals 18/19	Actuals 19/20	Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget-Actuals)	Manager's Forecast
APR	37,342	46,552	25,107	(21,445)	40,908	(15,801)	
MAY	44,099	50,427	28,305	(22,121)	40,908	(12,603)	
JUN	46,293	44,461	49,857	5,396	40,908	8,949	
JUL	32,009	47,025	64,205	17,180	40,908	23,297	
AUG	41,516	48,869	42,367	(6,502)	40,908	1,459	
SEP	36,624	52,900	44,930	(7,970)	40,908	4,022	
OCT	50,302	49,220	59,144	9,924	40,908	18,236	
NOV	40,944	35,500	42,429	6,929	40,908	1,521	
DEC	20,059	25,489			40,908		
JAN	36,097	45,849			40,908		
FEB	32,648	32,288			40,908		
MAR	51,799	40,975			40,908		(13,000)
<b>TOTAL</b>	<b>469,732</b>	<b>519,556</b>	<b>356,345</b>	<b>(18,610)</b>	<b>490,896</b>	<b>29,081</b>	<b>(13,000)</b>



BUILDING CONTROL (CUMULATIVE)	Actuals 18/19	Actuals 19/20	Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget-Actuals)	Manager's Forecast
APR	37,342	46,552	25,107	(21,445)	40,908	(15,801)	
MAY	81,441	96,978	53,412	(43,566)	81,816	(28,404)	
JUNE	127,734	141,439	103,269	(38,170)	122,724	(19,455)	
JUL	159,743	188,464	167,474	(20,991)	163,632	3,842	
AUG	201,259	237,334	209,841	(27,493)	204,540	5,301	
SEP	237,883	290,234	254,772	(35,462)	245,448	9,324	
OCT	288,185	339,454	313,916	(25,539)	286,356	27,560	
NOV	329,129	374,954	356,345	(18,610)	327,264	29,081	
DEC	349,188	400,444			368,172		
JAN	385,285	446,292			409,080		
FEB	417,933	478,580			449,988		
MAR	469,732	519,556			490,896		(13,000)



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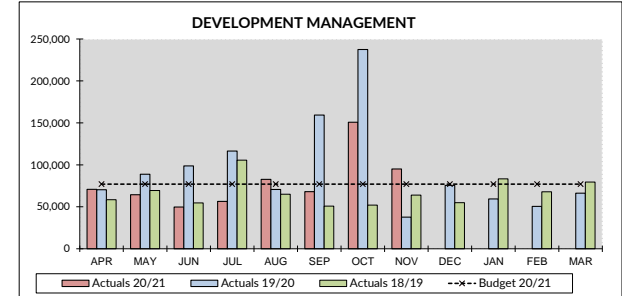
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CUMULATIVE BREAKDOWN: £ Code	Actual (Cumulative)	Budget	(Monthly)	
Plan Fee	3066	244,146	203,153	30,237
Inspection Fee	3067	110,939	124,111	12,192
Other	9999	1,260		
New Burdens Grant	3905			
<b>TOTAL</b>		<b>356,345</b>	<b>327,264</b>	<b>42,429</b>

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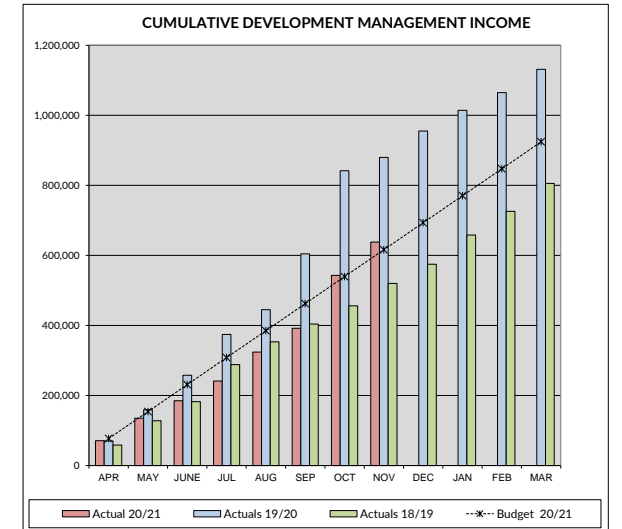
**Appendix B: DEVELOPMENT MANAGEMENT (DVDEVCT/DVDEVRND)**

	Actuals 18/19	Actuals 19/20	Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget- Actuals)	Manager's Forecast
APR	58,404	70,363	70,765	402	77,036	(6,271)	
MAY	69,455	88,827	64,358	(24,469)	77,036	(12,678)	
JUN	54,668	98,710	49,790	(48,920)	77,036	(27,246)	
JUL	105,667	116,501	56,443	(60,058)	77,036	(20,593)	
AUG	64,977	70,614	82,700	12,086	77,036	5,664	
SEP	50,827	159,361	68,065	(91,296)	77,036	(8,971)	
OCT	51,985	237,506	150,748	(86,759)	77,036	73,711	
NOV	63,941	37,774	95,145	57,371	77,036	18,109	
DEC	54,926	75,475			77,036		
JAN	83,258	59,329			77,036		
FEB	67,922	50,534			77,036		
MAR	79,480	66,253			77,036		(38,000)
<b>TOTAL</b>	<b>805,509</b>	<b>1,131,247</b>	<b>638,014</b>	<b>(241,642)</b>	<b>924,437</b>	<b>21,723</b>	<b>(38,000)</b>



**DEVELOPMENT MANAGEMENT (CUMULATIVE)**

	Actuals 18/19	Actuals 19/20	Actuals 20/21	Increase / (decrease) from 19/20 to 20/21	Budget 20-21	Variance (Budget- Actuals)	Manager's Forecast
APR	58,404	70,363	70,765	402	77,036	(6,271)	
MAY	127,859	159,190	135,123	(24,067)	154,073	(18,950)	
JUNE	182,526	257,900	184,913	(72,987)	231,109	(46,196)	
JUL	288,193	374,400	241,356	(133,044)	308,146	(66,790)	
AUG	353,170	445,014	324,056	(120,958)	385,182	(61,126)	
SEP	403,997	604,376	392,121	(212,255)	462,219	(70,097)	
OCT	455,982	841,882	542,869	(299,013)	539,255	3,614	
NOV	519,923	879,656	638,014	(241,642)	616,291	21,723	
DEC	574,849	955,131			693,328		
JAN	658,107	1,014,460			770,364		
FEB	726,029	1,064,994			847,401		
MAR	805,509	1,131,247			924,437		(38,000)



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**CUMULATIVE BREAKDOWN:**

DVDEVCT/DVDEVRND	Code	Actual (Cumulative)	Budget	(Monthly)
Planning Application Fees	94300/3009	537,438	542,086	81,347
Other	94300/9999	613	0	1,810
Planning Performance Agreements	94300/3012	35,000		0
Pre-application Fees	94301	61,963	66,421	11,988
Monitoring Fees	94302	3,000	7,785	
RECH-Other A/C'S	98100			
<b>TOTAL</b>		<b>638,014</b>	<b>616,291</b>	<b>95,145</b>

**PROPERTY INVESTMENT STRATEGY UPDATE REPORT**

**Finance and Investment Advisory Committee - 21 January 2021**

**Report of:** Deputy Chief Executive and Chief Officer - Finance and Trading

**Status:** For Decision

**Also considered by:**

- Cabinet - 11 February 2021
- Council - 23 February 2021

**Key Decision:** No

**Executive Summary:**

This report provides an update on the progress of the Property Investment Strategy to date and looks at the future direction of the strategy.

The Property Investment Strategy was approved by Council on 22 July 2014 to support the aim of the council becoming more financially self-sufficient as Government Support continued to reduce.

The acquisitions to date have helped the council achieve this aim. This report provides an update on those acquisitions.

The Government's Spending Review in November included changes to the Public Works Loan Board (PWLB) lending terms and are intended to stop councils that invest primarily for yield from borrowing from the PWLB. These changes will be monitored and may impact on the Council's future ability to undertake property investments.

In a changing property market, it is important to review the criteria of the strategy on a regular basis.

**Portfolio Holder:** Cllr. Matthew Dickins

**Contact Officers:** Adrian Rowbotham, Ext. 7153

Alan Mitchell, Ext. 7483

Detlev Munster, Ext. 7099

**Recommendation to Finance and Investment Advisory Committee:**

- (a) That the report be noted.
- (b) Forward comments to Cabinet including recommended changes to the Property Investment Strategy criteria.

**Recommendation to Cabinet:**

- (a) Cabinet considers any comments from Finance and Investment Advisory Committee and notes the report.
- (b) Any changes to the Property Investment Strategy criteria be recommended to Council.

**Recommendation to Council:** That Council agrees the Property Investment Strategy criteria recommended by Cabinet.

**Introduction and Background**

- 1 In recent years Sevenoaks District Council has been faced with ongoing reductions in Government Support culminating in it no longer receiving Revenue Support Grant from 2017/18. This has led to a number of decisions that have been taken through the 10-year budget process to try and ensure that the council remains in a financially sustainable position going forwards.
- 2 On 7 November 2013, Cabinet approved the Corporate Plan which set out key focus areas for the organisation including the need to become more financially self-sufficient. The agreed plan articulated an approach of investing in assets that will generate revenue income to allow less reliance on diminishing Government Support. It goes on to state that this could be done either through the review of use of reserves or through borrowing at low interest rates.
- 3 On 22 July 2014, Council agreed the Property Investment Strategy with specific criteria. The criteria were last updated at Council on 25 February 2020 and the current criteria are included at **Appendix A**.

**Funding Agreed to Date**

- 4 A total of £50.3m of funding for the Property Investment Strategy (including the Sennocke Hotel) has been agreed to date as follows:
  - a. £5m Council 22 July 2014
  - b. £3m Council 17 February 2015
  - c. £10m Council 21 July 2015



- d. £7.3m (total spend) Sennocke (Premier Inn) Hotel, Council 3 November 2015
- e. £25m Council 25 April 2017

**Activity to Date**

5 A summary of the expenditure to date is included in the following table:

Date	Activity	Total Cost £000	Annual Income Yield %
<b>Activities achieving the required return</b>			
Apr 2015	Suffolk House, Sevenoaks (including refurb.) (office)	4,892	9.6% (7.1% before refurb.)
May 2015	Swanley Petrol Station and Supermarket	2,566	7.5%
Mar 2017	26-28 Pembroke Road, Sevenoaks (office)	4,673	5.9%
Aug 2018	Premier Inn Hotel, Sevenoaks	7,332	6.3%
<b>Other Activities</b>			
Feb 2015	Swanley Working Men's Club (including demolition)	1,393	-
2016/17	Quercus 7 set up costs	13	-
Feb 2017	96 High Street, Sevenoaks (retail, office) and associated site	4,554	Previously 3.5% Currently 0%
May 2017	Croft Road, Westerham (housing option)	50	
2018/19 onwards	Quercus 7 investments (debt 60%, equity 40%)	5,891	

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	Total	31,364	
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- 6 £18.9m of the £50.3m approved is therefore unspent.
- 7 **Swanley Working Men's Club** (February 2015) - The premises were demolished in July 2016. This site will be redeveloped with a neighbouring District Council car park which is underutilised, as part of a new gateway to Swanley. Work is continuing to establish viable redevelopment options for this site which take into account its location in the Town Centre and requirement to meet the Property Investment Strategy return on investment criteria. This work is linked to the sites at 27-37 High Street and White Oak Leisure Centre in Swanley.
- 8 **Suffolk House, Sevenoaks** (April 2015) - This office building is in a town centre location with diminishing levels of office stock in the area. It consists of a total of 16,699 sq. ft of office space over four floors with 84 parking spaces. It is managed by a property management company with costs recoverable under a service charge. All floors have been refurbished to a high standard and the rent per square foot is now significantly higher than when the building was purchased. All space is currently let and a yield of over 9% is being achieved. External repair and maintenance work, particularly to the roof, brickwork and lead works, has recently been undertaken in accordance with the building's planned maintenance programme.
- 9 **Swanley Petrol Station and Supermarket** (May 2015) - The property comprises a 2,789 sq. ft convenience store building with 15 car parking spaces, 8 multi-fuel pump forecourt with jet wash and car wash on a 0.589 acre site. The property is let on a lease expiring in August 2030.
- 10 **Quercus 7 set up costs** - expenditure was approved by Council on 31 March 2015 to be funded from the Property Investment Strategy Reserve.
- 11 **96 High Street, Sevenoaks (February 2017)** - This premises consists of ground floor retail space, 1<sup>st</sup> and 2<sup>nd</sup> floor office space with residential potential and development opportunity to rear. The most basic option of refurbishing the office space and selling the land to the rear will give a 7% annual return. The land at the rear is next to a council car park which in turn is next to the bus station and therefore has the potential to be a catalyst for wider development. Work on the options for the site are continuing. which take into account its location in the Town Centre and requirement to meet the Investment Strategy return on investment criteria.
- 12 The ground floor retail space has been vacated by M & Co. New tenants are currently being sought. A 'meanwhile use' is in place for the first and second floors which have been let to the Second Floor Studios CIC, which has converted the space into 19 artists' studios and this agreement lasts until 2021.

- 13 **26-28 Pembroke Road, Sevenoaks (March 2017)** - This is a modern freehold office investment in Sevenoaks town centre. The 10,499 sq. ft building over three floors has 56 car parking spaces is currently fully let on a ten-year lease.
- 14 **Croft Road, Westerham** - This land formally in the Council's ownership was sold to a developer to build 18 residential units which are being built in two phases. The council took up an option to acquire two houses at a discount (based on an agreed price formula), one house in each phase. Construction of the first phase was completed and the option to acquire one house was exercised on behalf of Quercus 7, and it has since been let on an Assured Shorthold Tenancy providing regular monthly income. Consideration of exercising the second option will be given once construction is close to completion of the second phase.
- 15 All of the Council's acquisitions have been supported by a thorough business case and approved by the Improvement & Innovation Portfolio Holder in consultation with the Finance & Investment Portfolio Holder as required by Council.
- 16 **Premier Inn Hotel, Sevenoaks (August 2018)** - The 83 bed Premier Inn was completed in July 2018 and opened for trading on 4 August 2018. The hotel scheme and the funding method were separately approved by Council, but it is recognised as a Property Investment Strategy asset with the income being included in the figures below.

#### Property Investment Strategy Income

- 17 The 10-year budget approved by Council on 25 February 2020 included net Property Investment Strategy income of £1.428m in 2020/21 and £1.468m in 2021/22.
- 18 Net income of £1.292m is forecast in 2020/21, therefore £136,000 below the budget. This is due to M & Co surrendering the lease on the retail space at 96 High Street, Sevenoaks in September and non-payment of rent earlier in the year. The council will also become liable for business rates on this space if it remains vacant after three months.
- 19 Included in the 2021/22 budget approved by Council in November was a reduction of the Property Investment Strategy net income budget of £96,000 in 2021/22 only (SCIA13). As there is not currently a new tenant in place, it was prudent to assume that rental income would not be received on this site during 2021/22. Therefore, the Property Investment Strategy net income budget for 2021/22 has reduced to £1.372m. Later years remain unchanged.
- 20 The Property Investment Strategy net income budgets included in the 10-year budget approved by Council in November are included in the table below:

2021/22	£1.372m
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## Agenda Item 10

2022/23	£1.508m
2023/24 - 2025/26	£1.558m
2026/27 - 2028/29	£1.655m
2029/30 - 2030/31	£1.696m

- 21 The budgets will continue to be reviewed.
- 22 All of the net income budgets proposed are after transferring £100,000 per annum into the Property Investment Strategy Maintenance Reserve.

### Funding Sources

- 23 The £31.4m spent to date has been funded by:
- a. Property Reserve and Financial Plan Reserve £11.8m. Funds put aside for the Property Investment Strategy agreed as part of the annual budget setting process including New Homes Bonus.
  - b. Capital receipts £9.4m. Proceeds from the sale of council assets.
  - c. Internal borrowing £4.3m. From council balances. No interest is paid but Minimum Revenue Provision (MRP) is charged. MRP is the minimum amount which must be charged to the revenue account each year and set aside as provision for repaying loans and meeting other credit liabilities. This is a requirement for any form of borrowing so that an amount is set aside to repay the loan. An MRP charge of £150,000 is forecast in 2020/21.
  - d. Internal borrowing £5.9m. From council balances for Quercus 7 investments.
  - e. External borrowing £nil. This funding method would incur interest and MRP costs each year.
- 24 Funding options will be considered on a case by case basis and may be funded by reserves, capital receipts, internal borrowing or external borrowing. Due to current commitments it is likely that a significant proportion will come from external borrowing if allowable. (The PWLB 30-year annuity loan interest rate at 05/01/21 is 1.6%).
- 25 During 2019, a Member Working Group investigated Income Strip Funding as an additional funding source (as requested by Council) and recommended that this should be considered for funding suitable future schemes.
- 26 Each scheme will also be analysed to decide whether it is preferable to proceed as the council or via Quercus 7.

**Public Works Loan Board (PWLB) - Changes to Lending Terms**

- 27 Included within the Government's Spending Review announcements on 25 November 2020 was the HM Treasury document 'Public Works Loan Board: Future Lending Terms'.
- 28 There has been a number of announcements and guidance notes by Government and CIPFA (Chartered Institute of Public Finance and Accountancy) to react to how some councils have borrowed from the PWLB to fund property investments.
- 29 This document includes changes to the PWLB lending terms to stop councils that invest primarily for yield from borrowing from the PWLB. Councils will still be free to borrow for service delivery, housing, regeneration, preventative action and government priorities. The changes came in with immediate effect.
- 30 In summary, the new rules are:
  - a. As a condition of accessing the PWLB, local authorities will be asked to submit a high-level description of their capital spending and financing plans for the following three years.
  - b. Councils intending to invest for yield will not be permitted to access the PWLB.
  - c. When applying for a new loan, the council will be required to confirm that the plans they have submitted remain current and confirm that they do not intend to buy investment assets primarily for yield remains valid.
  - d. The decision over whether a project complies with the terms of the PWLB is for the section 151 officer or equivalent of the council (Chief Officer - Finance and Trading).
- 31 At the same time as introducing these reforms, HM Treasury lowered the PWLB interest rates by 100 basis points (i.e. 1%).
- 32 If a council wants to go ahead with borrowing from another source to fund commercial investments they can but they will be blocked from accessing the PWLB.
- 33 Officers will continue to liaise with the Government and other bodies to ensure that there is a clear understanding of options and implications available for future use of the Property Investment Strategy by both the Council and Quercus 7.

## Agenda Item 10

### Future Opportunities

- 34 Due to the number of developments planned for the next few years it is recommended that the emphasis for any further acquisitions are for sites where no further work is required rather than those with development potential.
- 35 As mentioned above, the PWLB changes may impact the available funding of and ability to make further property investments within the strategy.
- 36 Savills latest update on the UK Commercial Property Market is included in **Appendix C**.

### Risks

- 37 The risks of the Property Investment Strategy are included in **Appendix B**. The risks are reviewed each year and were initially analysed by the Audit Committee on 9 September 2014.
- 38 The Council's Strategic Risk Register was also agreed by the Audit Committee on 17 September 2019 and the relevant category for the Property Investment Strategy is also included in **Appendix B**.
- 39 Property Investment is inherently more risky than leaving reserves in the bank but this has been taken to account when approving the Property Investment Strategy and setting the investment criteria. Treasury investment returns have previously been below inflation levels resulting in the gradual erosion of funds. A separate report on the Treasury Management Strategy 2021/22 is also being presented at this meeting.
- 40 The risks of each potential investment are considered by carrying out due diligence to include the following:
  - a. Valuation.
  - b. Market conditions.
  - c. Covenant strength of tenants.
  - d. Terms of leases.
  - e. Structural surveys.
  - f. Funding options.
  - g. Future costs.
- 41 It should be recognised that there is likely to be a time when there are business reasons to dispose of assets currently owned and invest elsewhere instead.

- 42 The Scrutiny Committee set up a Property Investment Strategy Member Working Group at their meeting on 5 July 2016 and reported their findings at the Scrutiny Committee on 30 March 2017.
- 43 The Member Working Group concluded that the benefits of the Property Investment Strategy do outweigh the risks, provided that the council remains constantly aware of changes in the market and financial risks.
- 44 Internal Audit completed an audit report on the Property Investment Strategy in 2017/18. The audit opinion given in the report was of full assurance.
- 45 The audit report conclusion was as follows: “Audit fieldwork confirmed effective governance and financial arrangements are in place for the delivery of the Property Investment Strategy. The attainment of set objectives is being achieved. Existing arrangements are fit for purpose for the delivery of the Strategy and comply with Council procedures.”
- 46 The assurances required over the Property Investment Strategy are considered each year as part of the risk-based annual audit planning process.
- 47 The changes to the PWLB lending terms also produce additional risks that did not previously exist.

#### **Property Investment Strategy Criteria**

- 48 The annual update report gives Members the opportunity to review the Property Investment Strategy criteria previously agreed. The current criteria are included in **Appendix A**.
- 49 The asset categories currently included in the strategy are industrial, office, retail, trade counter and private residential. Due to the requirement to have a balanced portfolio and recognising the changing market it is asked that Members consider changing it to ‘all categories’ subject to appropriate due diligence and ensuring no asset class exceeds 20% in total value of the approved funding.
- 50 Members have previously had discussions about the location of potential investments. The current criteria restricts this to within a 50-mile radius of the Council’s Argyle Road offices or within Kent and Medway.
- 51 The Property Investment Strategy criteria also applies to Quercus 7.

## Agenda Item 10

### **Key Implications**

#### Financial

As previously stated in this report, the Property Investment Strategy is a major contributor to deliver the aim of the council remaining financially self-sufficient.

It was previously expected that a significant proportion of future Property Investment Strategy funding would be provided by external borrowing, but it should be recognised that this may no longer be possible. Each acquisition will be looked at on a case by case basis to ensure that the most appropriate funding method is used.

#### Legal Implications and Risk Assessment Statement.

Legal resources would be required to undertake legal pre-purchase due diligence for any future acquisitions. This would be undertaken either internally by the Council's Legal Team or externally and a decision would be made on a case by case basis.

A full risk analysis is included at **Appendix B** to this report.

#### Equality Assessment

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

#### Value for Money and Asset Maintenance

Value for money derived from available finances when looked at in conjunction with the Treasury Management Strategy has the ability to be increased via the Property Investment Strategy.

### **Conclusions**

In acknowledgement of the position with Government Support and the continued low returns on investment of reserves, further investment in the Property Investment Strategy, if allowable, will continue to ensure that the Council remains financially self-sufficient.



**Appendices**

Appendix A - Property Investment Strategy

Appendix B - Property Investment Strategy - Risk Analysis

Appendix C - Property Market Update from Savills

**Background Papers**

Report to Council 22 July 2014 - Investment Strategy

Report to Audit Committee 9 September 2014 - Investment Strategy Risk Register

Report to Council 17 February 2015 - Budget and Council Tax Setting 2015/16

Report to Council - 21 July 2015 - Property Investment Strategy

Report to Council - 25 April 2017 - Property Investment Strategy Update

**Adrian Rowbotham**

**Deputy Chief Executive and Chief Officer - Finance & Trading**

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**Property Investment Strategy (agreed by Council 25/02/20)**

1. The strategy will consist of a diversified and balanced portfolio of investment assets with regard to the following considerations.
2. Established property investment practice has evolved based on long standing markets for assets in mainstream sectors such as Offices, Retail, Industrial and Residential. Investing in these traditional asset categories in a balanced fashion, allows for a lower risk investment when compared to emerging markets such as Student Accommodation, Nursing Homes and Medical Centres.
3. When considering the tenure of an asset, freehold would be preferable to leasehold. Freehold provides for greater levels of security against a leasehold asset that would effectively decrease in value over time. However, assets on long leasehold basis may still be suitable for consideration.
4. Whilst properties let to only one tenant may offer an acceptable level of risk, multi-tenanted properties would be favourable as they offer the opportunity to minimise the impact of any one part of the asset being vacant due to tenant default or lease expiry. If assets are occupied by a single tenant, then detailed financial due diligence would be undertaken to ascertain their financial stability.
5. Investment opportunities are restricted to those within a 50-mile radius of the Council's Argyle Road offices or within Kent and Medway, however recognising that this may need to be changed in future if legislation is amended.
6. Based on the above considerations and taking into account local market conditions, a lot size of between £1m and £10m has been set. This is to avoid the lower part of the local market where private high net worth individuals would be seeking to invest and also the high end, where Pension Funds and Life Assurance Funds tend to dominate.
7. Given the likely risk profile of an asset meeting the above considerations, the following has been set. The income yield be 3%+ above the Council's average treasury management return (currently 0.6%) when not borrowing or internally borrowing, and 3%+ above the borrowing rate (currently 1.6% for 30 years) when externally borrowing, based on an average over 10 years. (Flexibility may be applied to those opportunities that show an acceptable social return on investment).
8. A limited number of opportunities that include the potential for development should also be considered. This approach may have the potential to deliver an additional 20-30% return on investment.
9. Where sites that are already in the ownership of the Council could be redeveloped in partnership with neighbouring sites, added value can be

derived from ‘marriage’ of the sites. Consideration should be given to Joint Venture (JV) projects that maximise value, with priority given to those which would result in the delivery of assets meeting the investment criteria.

10. It is expected that external specialist property investment advisors will be retained on each transaction, advising on suitability having undertaken detailed pre purchase due diligence, including valuation, risk analysis and lease / title reviews.
11. Taking all of the above considerations into account, the current criteria are:
  - i. Income yield of 3%+ above the Council’s average treasury management return (currently 0.6%) when not borrowing or internally borrowing, and 3%+ above the borrowing rate (currently 1.6% for 30 years) when externally borrowing, based on an average over 10 years. (Flexibility may be applied to those opportunities that show an acceptable social return on investment
  - ii. Individual Properties or Portfolios
  - iii. Lot size of £1m - £10m subject to multiple tenants for lots over £5m
  - iv. Freehold / Long Leasehold
  - v. Single or Multi Tenanted
  - vi. Asset categories: Industrial, Office, Retail, Trade Counter and Private Residential
  - vii. Investment opportunities be restricted to those within a 50-mile radius of the Council’s Argyle Road offices or within Kent and Medway, however recognising that this may need to be changed in future if legislation is amended.
  - viii. Potential to increase rental income, through pro-active Asset Management
12. The Strategic Asset Management and Operational Property Management of the portfolio be delivered from existing resource within the Council’s Economic Development and Property Team. There will however be times when specialist external advice is needed and this work will be commissioned on an ‘as required’ basis, funded from the income from the assets. This approach is to be reviewed regularly, including ongoing resource requirements, as the portfolio grows.
13. Funding for the acquisition of assets should be reviewed on a case by case basis but could be derived from a number of sources:
  - Receipts from previous property disposals.

- Receipts from proposed land / property disposals in future years.
  - Internal borrowing.
  - Borrowing from the Public Works Loan Board.
  - Borrowing from the Municipal Bonds Agency.
  - Income strip funding.
14. Each scheme will also be analysed to decide whether it is preferable to proceed as the council or via Quercus 7.

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**Property Investment Strategy - Risk Analysis**

The Property Investment Strategy risks are detailed below. The impact and likelihood of each risk are first assessed gross (without existing controls in place) and then re-assessed following the identification of key controls (net). The net ratings are shown in the following table:

Likelihood	Very Likely (5)					
	Likely (4)					6
	Possible (3)			14		
	Unlikely (2)			4,9		1,11
	Very Unlikely (1)		3		2a	2b,5,7,8,10,12,13
		Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Critical (5)
Impact						

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy</b> Lead Officer: Adrian Rowbotham & Detlev Munster								
1) Downturn in property market	<ul style="list-style-type: none"> <li>Poor Return on Investment (ROI) on selling/rental</li> </ul>	3	5	15	<ul style="list-style-type: none"> <li>Contracts to have rent review, break clauses etc.</li> <li>Investments are credit secure and can be retained through any market downturn;</li> <li>No requirement by SDC to liquidate investments in medium term;</li> <li>No requirement from SDC to minimise or contain reported mark to market variability</li> </ul>	2	5	10
2) a. Poor quality construction/management	<ul style="list-style-type: none"> <li>Repairs</li> <li>Defects</li> <li>remedial work,</li> <li>customer dissatisfaction</li> <li>loss of reputation</li> <li>legal action</li> </ul>	3	5	15	<ul style="list-style-type: none"> <li>Robust contracting process.</li> <li>Pre-purchase surveys</li> <li>High quality spec</li> <li>Quality assurance clauses</li> <li>Warranties</li> <li>Procurement processes</li> </ul>	1	4	4



Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy</b> <b>Lead Officer: Adrian Rowbotham &amp; Detlev Munster</b>								
	<ul style="list-style-type: none"> <li>• additional costs not built into financial plan</li> </ul>				<ul style="list-style-type: none"> <li>• Clauses for liquidated damages</li> <li>• Build relationships with contractors - understand their quality ethos</li> <li>• Do not work with contractors who have a record issues or no track record</li> <li>• Ensure contractor has sufficient covenant to stand behind their commitments</li> </ul>			
b. Poor quality construction/management	<ul style="list-style-type: none"> <li>• Risks to personal health and safety - defects, gas, electricity, legionella, etc.</li> </ul>	2	5	10	<ul style="list-style-type: none"> <li>• Surveys; risk assessment techniques; CDM (Construction, Design &amp; Mgt Regs); using registered suppliers and installers</li> </ul>	1	5	5

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy</b> Lead Officer: Adrian Rowbotham & Detlev Munster								
3) Possibility of challenge re: state aid	<ul style="list-style-type: none"> <li>Legal challenge to Quercus 7.</li> </ul>	2	2	4	<ul style="list-style-type: none"> <li>Full cost recovery.</li> <li>Loans obtained at commercial lending rates</li> <li>Charging Directors and others' time to the Company.</li> <li>Legal due diligence pre contractual commitment</li> </ul>	1	2	2
4) Inability to attract and retain suitable purchasers/tenants	<ul style="list-style-type: none"> <li>Poor ROI</li> <li>void periods</li> <li>loss of rental income</li> </ul>	3	4	12	<ul style="list-style-type: none"> <li>Demand for residential property remains high.</li> <li>Taking up references</li> <li>Early engagement with potential buyers/tenants</li> <li>Quality product to attract purchasers/tenants</li> <li>Standby working capital facility to support downturn in market for tenants i.e. finance voids or rent shortfalls</li> </ul>	2	3	6

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy</b> Lead Officer: Adrian Rowbotham & Detlev Munster								
5) Failure to fully assess sites and conditions	<ul style="list-style-type: none"> <li>Defects</li> <li>remedial action</li> <li>costs</li> <li>failure to attract purchasers/tenants</li> <li>void periods</li> <li>poor ROI</li> </ul>	3	5	15	<ul style="list-style-type: none"> <li>Robust appraisals and surveys to be undertaken before progressing.</li> <li>Pre-application planning advice.</li> <li>Knowledge of location/market</li> <li>Extensive due diligence process.</li> </ul>	1	5	5
6) Insufficient financial resources to progress projects	<ul style="list-style-type: none"> <li>Cannot close deals because of inability to achieve purchase price</li> <li>Lack of progress in the market</li> </ul>	4	5	20	<ul style="list-style-type: none"> <li>Borrowing permissions in place (note new PWLB restrictions).</li> <li>Investment strategy in place.</li> <li>Sound business case/plan.</li> <li>Due diligence exercises,</li> <li>Develop alternatives to SDC funding for Quercus 7</li> </ul>	4	5	20

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy</b> Lead Officer: Adrian Rowbotham & Detlev Munster								
7) Insufficient resources, capacity, skills to plan and manage projects	<ul style="list-style-type: none"> <li>Inability to close deals as insufficient due diligence</li> <li>Loss of reputation</li> </ul>	3	5	15	<ul style="list-style-type: none"> <li>Procurement of specialist resources not available in-house.</li> <li>Appointment of staff with adequate skills for purpose.</li> </ul>	1	5	5
8) Inability to secure development opportunities to cover overheads and develop profits	<ul style="list-style-type: none"> <li>Quercus 7 loss making company</li> <li>Business plan not executed</li> <li>Shareholder dissatisfaction</li> <li>Dissolution of company</li> </ul>	2	5	10	<ul style="list-style-type: none"> <li>Continue to develop pipeline of opportunities. Links with agents.</li> <li>Proactive approach to identify opportunities.</li> <li>Procurement of sufficient resources.</li> <li>Divert development resources to management responsibilities during prolonged downturn?</li> </ul>	1	5	5
9) Increase in voids/and void turn-around time/re-let times	<ul style="list-style-type: none"> <li>Income from rent is reduced and cash flow compromised</li> </ul>	3	3	9	<ul style="list-style-type: none"> <li>Employment of experienced agents to manage lettings.</li> </ul>	2	3	6

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy</b> <b>Lead Officer: Adrian Rowbotham &amp; Detlev Munster</b>								
					<ul style="list-style-type: none"> <li>• Sale of property an option.</li> <li>• Reconsideration of operating model</li> <li>• Standby working capital facility to support downturn in market for tenants i.e. finance voids or rent shortfalls</li> <li>• Option of selling assets to provide working capital bridge</li> </ul>			
<b>10)</b> Purchase not supported by red book valuation	<ul style="list-style-type: none"> <li>• Unable to secure purchase</li> </ul>	4	5	20	<ul style="list-style-type: none"> <li>• Red book valuation obtained prior to offer.</li> </ul>	1	5	5
<b>11)</b> Financial risks	<ul style="list-style-type: none"> <li>• Rents not achieved</li> <li>• Values reduce</li> <li>• Property market falls</li> <li>• Operational costs higher than budget</li> </ul>	3	5	15	<ul style="list-style-type: none"> <li>• Due Diligence measures</li> <li>• Pre purchase surveys</li> </ul>	2	5	10

Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy</b> Lead Officer: Adrian Rowbotham & Detlev Munster								
	<ul style="list-style-type: none"> <li>Defects arising that affect let ability / income</li> </ul>							
12) Failure to comply with taxation issues, Corporation tax and VAT	<ul style="list-style-type: none"> <li>Legal challenges</li> </ul>	2	5	10	<ul style="list-style-type: none"> <li>Internal and/or external advice sought in relation to taxation to ensure compliance.</li> </ul>	1	5	5
13) Poor management of property	<ul style="list-style-type: none"> <li>Risk to tenants</li> <li>Health and Safety</li> <li>Defects, gas, electricity etc.</li> </ul>	2	5	10	<ul style="list-style-type: none"> <li>Engage experienced and qualified management agents</li> </ul>	1	5	5
14) Impact of COVID-19 - Increase in voids/market changes/bad debts	Income from rent is reduced and cash flow compromised.	4	3	12	<ul style="list-style-type: none"> <li>Employment of experienced agents to manage lettings.</li> <li>Sale of property an option.</li> <li>Reconsideration of operating model</li> </ul>	3	3	9

Strategic Risk Register Item - Agreed by Audit Committee 24 November 2020								
Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<b>SR02: Property Investment Strategy - Failure to identify opportunities to meet the Property Investment Strategy</b>								
<b>Lead Officer: Adrian Rowbotham &amp; Detlev Munster</b>								
<ul style="list-style-type: none"> <li>Ability to seek appropriate investment opportunities</li> <li>Appetite for risk within investment strategy to enable the Council to generate target returns</li> <li>Ability to deliver sufficient funds to maximise the opportunities presented through the Property Investment Strategy</li> <li>Appetite to prudentially borrow over the medium to long term</li> <li>The cost of interest payments</li> <li>Lack of capacity or skilled professionals to advise on investment and borrowing strategies</li> <li>Ineffective governance processes that could result in opportunities being missed or being ineffectively scrutinised</li> <li>Ineffective use of Quercus 7 to support the Council's investment strategy</li> <li>Ability to borrow funds including the effect of government legislation changes</li> </ul>	<ul style="list-style-type: none"> <li>Lack of diversity in investments</li> <li>Cost of interest payments</li> <li>Negative impact on budgets, reserves and the ability to deliver Council projects</li> <li>Poor financial health</li> <li>Unable to maintain low increases in council tax levels</li> <li>Reputational damage</li> <li>Poor outcome for the Audit of Accounts or Value for Money assessment and potential for increased intervention</li> </ul>	4	4	16	<ul style="list-style-type: none"> <li>Council approved Property Investment Strategy, with defined rates of return demonstrating risk appetite</li> <li>Governance arrangements defined with appropriate delegations agreed</li> <li>Qualified and experienced officers in post</li> <li>Professional, external advisers engaged to support the development of strategies and fill skills gaps</li> <li>Effective budget setting and financial monitoring processes embedded</li> <li>Effective financial governance including reports to FIAC, Cabinet, Audit Committee and Scrutiny Committee</li> <li>Regular Quercus 7 Board and Trading Board meetings - including regular review of investment parameters to monitor market fluctuations</li> </ul>	3	3	9

Strategic Risk Register Item - Agreed by Audit Committee 24 November 2020								
Risk Factors	Potential Effect	Gross Likelihood	Gross Impact	Gross Rating	Internal Controls	Net Likelihood	Net Impact	Net Rating
<ul style="list-style-type: none"> <li>Covid-19 / Economic conditions - ability to find or retain tenants, collect lease or rental income, reduction in asset values</li> </ul>								



# Market in Minutes



## Vaccine news offers hope for the UK economy

The average prime yield across all sectors remained broadly stable this month. However, Industrial distribution and Retail Warehousing (restricted) were the sectors of choice in November, with both sectors moving in by 25bps to 3.75% and 6.50% respectively. Although investment volumes were subdued for much of 2020, encouragingly, £10.6bn was invested into UK commercial property in September, October, and November, which was a 69% rise on the preceding three-month period.

The alternatives/mixed sector, principally student accommodation and PRS, has taken the crown for the highest level of deal activity in 2020 with 535 deals, which was followed by the industrial sector where 477 transactions have been recorded. The number of industrial deals recorded from Sept-Nov totalled 160 which was a 37% increase from the three months prior, which was the highest increase in this time period when compared to the other asset classes.

The vaccine news has brought some Christmas cheer, with hope that the news will deliver a quick boost of confidence to the economy. The effective rollout of a Covid-19 vaccine would likely inject £41bn into London's economy and save tens of thousands of jobs. Under a 'best case scenario', a rollout would see office workers return to their desks for four days a week, generating an extra £41bn for the economy, according to a study by Arup.

## Savills prime yields

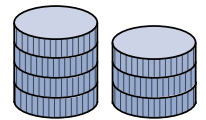
	November 2019	October 2020	November 2020
West End Offices	3.75%↓	3.50%	3.50%
City Offices	4.00%	4.00%	4.00%
Offices M25	5.00%↑	5.50%	5.50%
Provincial Offices	4.75%↑	5.00%	5.00%
High Street Retail	5.25%↑	6.50%	6.50%
Shopping centres	5.75%↑	7.00%	7.00%
Retail Warehouse (open A1)	6.25%	6.50%	6.50%
Retail Warehouse (restricted)	6.50%	6.75%	6.50%
Foodstores (OMR)	4.75%	4.50%	4.50%
Ind/ Distribution (OMR)	4.25%	4.00%↓	3.75%
Industrial Multi-lets	4.00%	3.75%↓	3.75%↓
Leisure Parks	5.75%	7.00%	7.25%
London Leased (core) Hotels	3.75%	4.00%↑	4.00%↑
Regional Pubs (RPI)	4.50%	5.00%	5.00%

Source Savills

## Key stats

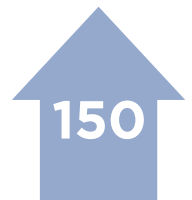


The number of sectors where yields hardened this month



**£10.6bn**

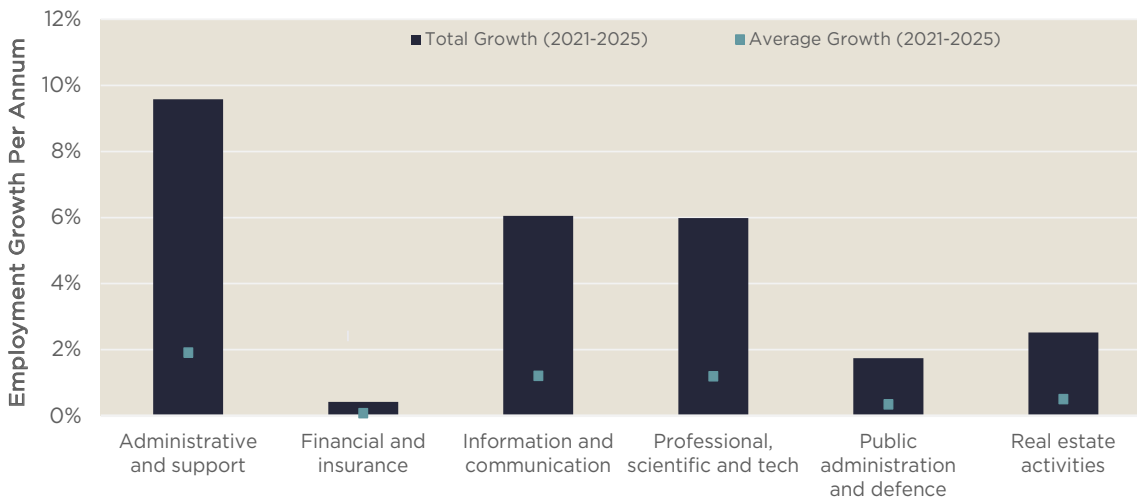
was invested into UK commercial property in September, October, and November, a 69% rise on the preceding three-month period



The number of bps Leisure moved out since the same time last year

## Greater London job growth

The biggest increase will be in admin and support roles over the next five years.



# The link between sustainability and growth

Even before the pandemic struck, sustainability was rising up the agendas of developers. More sustainable buildings often generate lower long-term operational costs, attract higher rents and occupancy rates, and tend to see quicker lease-up times and an increase in capital value.

Occupiers are increasingly demonstrating that they'll only pay premium rents for buildings with notable environmental certifications. Taking Manchester as an example, our research shows that more than 90% of offices with a rent within the top ten for that city achieved a BREEAM rating of at least 'Very Good' or above.

Landmark, a Grade A scheme in Manchester's premier business district, is let at the city's current top rent of £36.50 and boasts a BREEAM rating of 'Excellent' and an EPC rating of A. In addition to this, the building includes many sustainable features such as electric car charging points and solar panels, and was constructed using sustainably sourced timber.

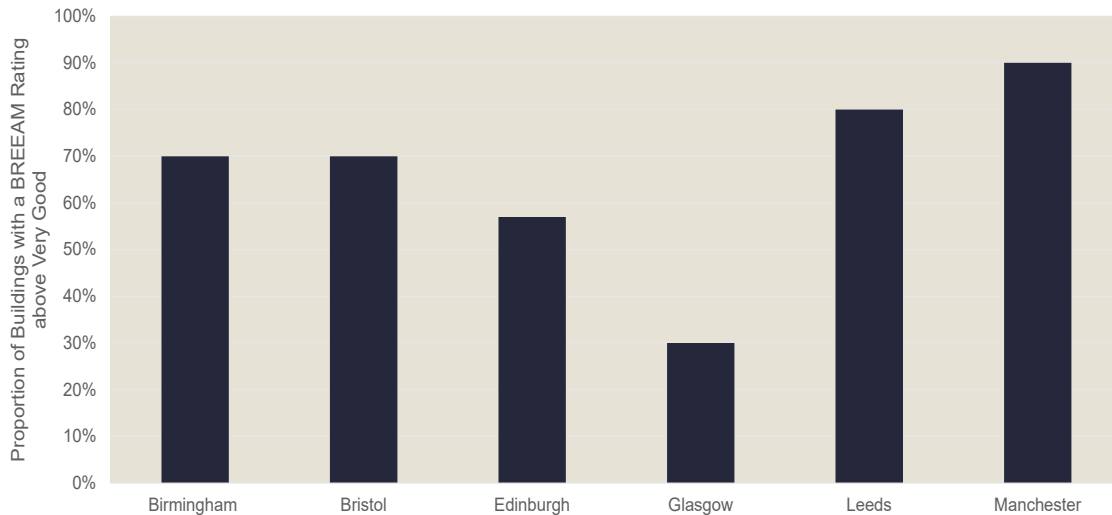
But it's not just in Manchester where we're seeing premium rents being charged for the most sustainable offices – this trend is very much reflected nationwide.

Aurora in Bristol, which quotes the city's top rent of £37.50, has achieved a BREEAM 'Outstanding' certification and its features include the likes of intelligent LED lighting that automatically respond to daylight and the movement of people in the building.

North of the border, 177 Bothwell Street in Glasgow is currently under construction with the façade predominantly being made from recyclable glass and aluminium, boosting thermal and environmental performance and enhancing natural daylight in the office. The quoting rent at the scheme is £32.50, again the top rent for the city.

**Rents have increased** on office buildings with a BREEAM rating

Highest achieved rents (2018-Present)



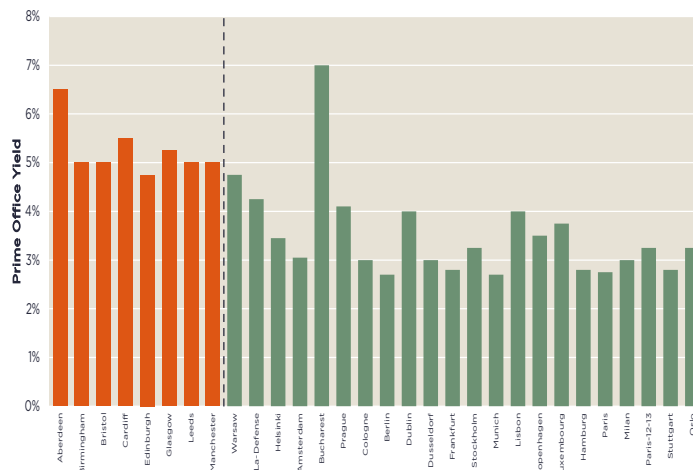
Source Savills

The prime office yields for major European office markets and key UK regional city markets are highlighted in the adjacent chart.

The UK regional city markets are discounted when compared to every other major European market apart from Bucharest. This is the only European market where the prime yield is above 5% whereas in the UK only Edinburgh is below that level. The average prime office yield across the selected European markets is 3.50% which represents a 150 basis point premium when compared to the UK regional office prime office yield. This yield gap has helped attract overseas investors to the regional office market in recent years with the purchaser type accounting for the highest proportion of capital invested into the market in three of the last four years.

## UK regional city and European Prime Office Yield Comparison

The UK regional city prime yields are discounted when compared to other major European office markets



Source Savills

## Savills team

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**Finance & Investment Advisory Committee Work Plan 2020/21 (as at 07.01.21)**

**21 January 2021**

- Discretionary Rate Relief
- Treasury Management Strategy
- Financial Performance Indicators 2020/21 - to the end of November 2020
- Financial Results 2020/21 - to the end of November 2020
- Property Investment Strategy Update

**25 March 2021**

- Financial Performance Indicators 2020/21 - to the end of January 2021
- Financial Results 2020/21 - to the end of January 2021
- Carry Forward Requests 2020/21

**25 May 2021**

- Financial Performance Indicators 2020/21 - to the end of March 2021
- Provisional Outturn 2020/21
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**7 September 2021**

- Treasury Management Annual Report 2020/21
- Financial Performance Indicators 2021/22 - to the end of July 2021
- Financial Results 2021/22 - to the end of July 2021
- Financial Prospects and Budget Strategy 2022/23
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**4 November 2021**

- Budget 2022/23: Review of Service Dashboards and Service Change Impact Assessments (SCIAs)
- Treasury Management Mid-Year Update 2021/22
- Financial Performance Indicators 2021/22 - to the end of September 2021

## Agenda Item 11

- Financial Results 2021/22 - to the end of September 2021
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