

TONBRIDGE & MALLING BOROUGH COUNCIL



EXECUTIVE SERVICES

Chief Executive

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NB - This agenda contains proposals, recommendations and options. These do not represent Council policy or decisions until they have received proper consideration through the full decision making process.

Contact: Committee Services
committee.services@tmbc.gov.uk

28 May 2019

To: MEMBERS OF THE CABINET
(Copies to all Members of the Council)

Dear Sir/Madam

Your attendance is requested at a meeting of the Cabinet to be held in the Civic Suite, Gibson Building, Kings Hill, West Malling on Wednesday, 5th June, 2019 commencing at 8.00 pm or on the rising of the meeting of the Finance, Innovation and Property Advisory Board, whichever is the later.

Yours faithfully

JULIE BEILBY

Chief Executive

A G E N D A

PART 1 - PUBLIC

- | | | |
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| 1. | Apologies for absence | 5 - 6 |
| 2. | Declarations of interest | 7 - 8 |

3. Minutes 9 - 12

To confirm as a correct record the Minutes of the meeting of the Cabinet held on 19 March 2019

4. Matters Referred from Advisory Boards 13 - 16

The notes of meetings of Advisory Boards are attached, any recommendations identified by an arrow being for determination by the Cabinet. Notices relating to any decisions already taken by Cabinet Members under the arrangements for delegated decision making have previously been circulated.

Matters for Recommendation to the Council

5. Larkfield Leisure Centre Capital Schemes 2019/20 - 17 - 30
Mechanical, Electrical and Roofing Work

Item referred from Finance, Innovation and Property Advisory Board meeting held earlier in the evening. Copy of reports attached.

Executive Non-Key Decisions

6. Revenue and Capital Outturn 2018/19 31 - 52

In accordance with the Council's Financial Procedure Rules the report and accompanying information details actual Revenue and Capital Outturn for the year ended 31 March 2019 and subsequent adjustments made in the light of the Outturn position.

7. Leybourne Open Space - Traveller Incursions 53 - 54

Item referred from Communities and Housing Advisory Board minutes of 28 May 2019 – to follow

8. Urgent Items 55 - 56

Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

Matters for consideration in Private

9. Exclusion of Press and Public 57 - 58

The Chairman to move that the press and public be excluded from the remainder of the meeting during consideration of any items the publication of which would disclose exempt information.

PART 2 - PRIVATE

10. Urgent Items

59 - 60

Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

MEMBERSHIP

Councillor N J Heslop, (Leader) and (Economic Regeneration)
Councillor R P Betts, (Street Scene and Environment Services)
Councillor M A Coffin, (Finance, Innovation and Property)
Councillor D Lettington, (Strategic Planning and Infrastructure)
Councillor P J Montague, (Housing)
Councillor M R Rhodes, (Community Services)

Members of the Council who are not members of the executive may attend meetings of the Cabinet. With the agreement of the Leader, any such Member may address the Cabinet on any item on the agenda but may not vote.

Apologies for absence

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Declarations of interest

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TONBRIDGE AND MALLING BOROUGH COUNCIL

CABINET

Tuesday, 19th March, 2019

Present: Cllr N J Heslop (Chairman), Cllr M A Coffin, Cllr Mrs M F Heslop, Cllr D Lettington, Cllr P J Montague and Cllr H S Rogers

Councillors O C Baldock, M C Base, D J Cure, Mrs A S Oakley and A K Sullivan were also present pursuant to Access to Information Rule No 23.

PART 1 - PUBLIC

CB 19/28 DECLARATIONS OF INTEREST

There were no declarations of interest made in accordance with the Code of Conduct.

CB 19/29 MINUTES

RESOLVED: That the Minutes of the meeting of the Cabinet held on 14 February 2019 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE COUNCIL

CB 19/30 UPDATE ON THE KENT DOWNS AREA OF OUTSTANDING NATURAL BEAUTY MANAGEMENT PLAN AND THE ADOPTION OF THE HIGH WEALD MANAGEMENT PLAN

Item PE 19/3 referred from Planning and Transportation Advisory Board minutes of 5 March 2019

The Cabinet received the recommendations of the Planning and Transportation Advisory Board at its meeting of 5 March 2019 regarding reviews of the Kent Downs Area of Outstanding Natural Beauty (AONB) and High Weald AONB Management Plans.

RECOMMENDED: That

- (1) the adoption of the High Weald AONB Management Plan 2019 – 2024 as a material planning consideration by 31 March 2019 be confirmed by the Council; and
- (2) the Kent Downs AONB Management Plan 2014 – 2019 be retained as a material consideration in its current form unless and

until a revised and amended Plan has been agreed and adopted by all Local Authorities.

***Referred to Council**

DECISIONS TAKEN IN ACCORDANCE WITH PART 3 OF THE CONSTITUTION (RESPONSIBILITY FOR EXECUTIVE FUNCTIONS)

CB 19/31 INNOVATION PARK MEDWAY - MASTERPLAN

Decision Notice D190032CAB

MATTERS SUBMITTED FOR INFORMATION

CB 19/32 MATTERS REFERRED FROM ADVISORY BOARDS

The notes of the meetings of the following Advisory Boards were received, any recommendations contained therein being incorporated within the decisions of the Cabinet reproduced at the annex to these Minutes.

Economic Regeneration Advisory Board of 20 February 2019
Communities and Housing Advisory Board of 26 February 2019
Planning and Transportation Advisory Board of 5 March 2019

RESOLVED: That the report be received and noted.

CB 19/33 MATTERS REFERRED FROM ADVISORY PANELS AND OTHER GROUPS

The Minutes of the meetings of the following Advisory Panels and other Groups were received, any recommendations contained therein being incorporated within the decisions of the Cabinet reproduced at the annex to these Minutes.

Parish Partnership Panel of 7 February 2019
Tonbridge Forum of 25 February 2019
Joint Transportation Board of 11 March 2019

RESOLVED: That the report be received and noted.

CB 19/34 STRATEGIC RISK REGISTER

The report of the Management Team provided an update on the current strategic risks and how they were being managed. The latest iteration of the Strategic Risk Register was annexed to the report and reflected preparations for any impacts of Brexit on the local community, the implementation of the new waste contract and cyber security. It was noted that a separate risk register for cyber security was being prepared as recommended following the Local Government Association's cyber security stocktake.

RESOLVED: That the report be received and noted.

CB 19/35 FAIR FUNDING REVIEW

The report of the Director of Finance and Transformation advised that alongside the 2019/20 provisional local government finance settlement, the Ministry of Housing, Communities and Local Government (MHCLG) had confirmed its intention to implement the Fair Funding Review in April 2020 and had published a further consultation paper. The report provided an overview of the paper, "Review of local authorities' relative needs and resources", together with the response agreed in liaison with the Cabinet Member for Finance, Innovation and Property for submission by the 21 February 2019 deadline.

RESOLVED: That the report be received and noted.

CB 19/36 BUSINESS RATES RETENTION REFORM

The report of the Director of Finance and Transformation advised that alongside the 2019/20 provisional local government finance settlement, the MHCLG had confirmed the aim of introducing 75% Business Rates Retention for all in 2020/21. The report provided an overview of the consultation paper on possible changes to the system entitled "Business Rates Retention Reform", together with the response agreed with the Cabinet Member for Finance, Innovation and Property for submission by the 21 February 2019 deadline.

RESOLVED: That the report be received and noted.

CB 19/37 EXCLUSION OF PRESS AND PUBLIC

The Chairman moved, it was seconded and

RESOLVED: That as public discussion would disclose exempt information, the following matters be considered in private.

DECISIONS TAKEN IN ACCORDANCE WITH PART 3 OF THE CONSTITUTION (RESPONSIBILITY FOR EXECUTIVE FUNCTIONS)

CB 19/38 DEBTS FOR WRITE OFF

(LGA 1972 Sch 12A Paragraph 2 – Information likely to reveal information about an individual)

Decision Notice D190033CAB

The meeting ended at 7.51 pm

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Agenda Item 4

The notes of meetings of Advisory Boards are attached, any recommendations identified by an arrow being for determination by the Cabinet. Notices relating to any decisions already taken by Cabinet Members under the arrangements for delegated decision making have previously been circulated.

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Communities and Housing Advisory Board of 28 May 2018 – minutes to follow

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TONBRIDGE & MALLING BOROUGH COUNCIL

FINANCE, INNOVATION and PROPERTY ADVISORY BOARD

05 June 2019

Report of the Management Team

Part 1- Public

Matters for Recommendation to Cabinet - Council Decision

1 LARKFIELD LEISURE CENTRE CAPITAL SCHEMES 2019/20 – MECHANICAL, ELECTRICAL AND ROOFING WORK

Summary

This report updates Members on planned Capital works to Larkfield Leisure Centre, identifies the benefits of incorporating the replacement of the Leisure Pool Hall roof into the scheme, and identifies the cost implications of such an approach. The report makes recommendations to Council to enable the project to commence later this year, in partnership with a selected contractor.

1.1 Introduction

1.1.1 The Council's main leisure facilities are managed on this Council's behalf by the Tonbridge & Malling Leisure Trust (Trust). This arrangement has been in place since 2013 and has contributed significantly to the Council's Savings and Transformation Strategy. The buildings, including Larkfield Leisure Centre, remain in the ownership of the Council and are managed through a formal Management Agreement and a 20 year lease.

1.1.2 Within the Agreement the repair and maintenance of the facilities is shared between the parties, with each party's repair and maintenance obligations set out in a Repair and Maintenance Matrix. In general, larger scale maintenance obligations sit with the Council and with regards to Larkfield Leisure Centre this includes the boilers, ventilation system and leisure pool hall roof/spaceframe, all covered by this report.

1.1.3 The Agreement also allows for the Trust to claim for a loss of income during works, with the exception of up to seven days over the Christmas period and any closure of less than 24 hours. Close liaison is undertaken with the Trust to minimise the loss of income claim and any disruption to customers of the facility.

1.1.4 Larkfield Leisure Centre is an extremely popular facility attracting iro. 665,000 users per annum and generating annual income of approximately £3.6m. The

Centre is rated as Outstanding under the industry quality accreditation scheme (Quest), ranking it within the top ten of leisure centres nationally.

1.2 Background

- 1.2.1 The original parts of Larkfield Leisure Centre are now nearly 40 years old. Over that time a number of major building service items have been replaced or refurbished, and the Centre has seen a number of significant changes in order to meet market demand and changing needs. The two gas fired boilers located in the original plant room are, however, the same original boilers installed in the early 1980s. The main ventilation system serving the leisure pool was replaced in the early 1990s (nearly 30 years ago), whilst the associated ductwork is original.
- 1.2.2 The framework of the existing transparent barrel vault roof in the leisure pool hall is also original, although the polycarbonate panels were replaced in the early 1990s. At this time solar film was applied to some of the panels, with more film added to the remaining panels in 2005 to reduce solar gain within the pool hall.
- 1.2.3 As part of the Council's forward looking maintenance programme, an initial scoping report was commissioned in the summer of 2016 which looked at the leisure pool hall and café ventilation systems and original gas fired boilers. The report undertaken by specialist consultants, recommended that the items had reached the end of their useful lives and recommended their replacement.
- 1.2.4 In 2017 a more detailed survey and report was produced by the specialist consultants to enable the Council to allocate capital funds for the work required.
- 1.2.5 This resulted in a Capital Plan scheme to refurbish the air handling unit and replace the gas fire boilers, with the work originally scheduled to take place in 2018/19. The budget for this item currently stands at £950,000.
- 1.2.6 During the design phase of the scheme it became evident that further detailed, technical evaluation was required, so the scheme was deferred until 2019/20.
- 1.2.7 Although it had been hoped to carry out the replacement of the Leisure Pool barrel vault roof at a later date in the future, with the ventilation and boiler scheme being deferred it was proposed that the roof scheme be brought forward so as to reduce the impact on the centre's operations. The revised approach of incorporating both projects would avoid having two lengthy closures in the space of a few years, and thus reduce the overall impact of a loss of income claim from the Leisure Trust.
- 1.2.8 A Capital Plan Scheme was therefore added in 2019/20 to replace the existing barrel vault roof in the leisure pool hall with a budget of £450,000.
- 1.2.9 As part of the Council's building maintenance programme the internal roof structure at Larkfield Leisure Centre is inspected every 4 years in order to assess its condition. The most recent inspection took place in April 2018 and highlighted that the existing coating to the space frame (the metal frame supporting the roof)

was starting to deteriorate resulting in areas of corrosion. The report recommended that the space frame be re-painted within the next 2 years.

- 1.2.10 Being that the re-painting of the space frame alone would require a closure of the leisure pool hall and scaffold access provided, it was agreed that in order to minimise disruption and cost, the work would be incorporated into the boiler, ventilation and roof work. A sum of £250,000 was added to the Council's Building Repairs Revenue Expenditure Plan in 2019/20 for this purpose.
- 1.2.11 Some enabling works were undertaken in December 2018, over the usual Christmas close-down period, which totalled £120,000. This currently leaves a total budget for all works (ventilation, boilers, roof and space frame) of £1.53m.
- 1.2.12 In addition to the Capital Plan provision, a revenue budget was established to meet the anticipated loss of income claim which would be made by the Leisure Trust. £1m was set aside based on a closure of the leisure pool hall of 23 weeks.
- 1.2.13 An Officer Project Group reporting to the Council's Management Team, was established to deliver the scheme and has met several times to oversee the project. Representatives from the Leisure Trust and specialist advisors also attend meetings of the Group.
- 1.2.14 The Chief Executive of the Leisure Trust has commented on the operational issues linked to the proposals as follows:-

"Larkfield Leisure Centre continues to build a loyal customer base that depends on a quality of facility and service that is excellent and delivered consistently. Members will be aware that the Trust invested considerable financial resources last year to help improve and sustain the business whilst bringing great health and wellbeing benefits to local residents and visitors to the Borough. Retention of customers is vital in an increasingly competitive market place.

The Trust understands that major maintenance issues have to be addressed periodically but is keen to work with the Council to minimise the impact on customers and the business. I believe it is vital that these works are undertaken in a single phase of work to ensure the impact is reduced as far as possible. Any lost business will take time and cost to rebuild and the potential of lengthy closures in 2019/20 and again in the foreseeable future will be far more damaging to the business and our customers than one extended closure.

At present the Council's own financial analysis suggests undertaking the work in two phases will cost an additional £900,000 and I would suggest the loss of income could increase by a similar amount should this approach be adopted".

1.3 Procurement/Cost Estimates

- 1.3.1 The Project is being procured via the Scape Minor Works Framework. Scape is a public sector partnership that provides a number of single contractor frameworks that public sector organisations can use to procure a range of services.
- 1.3.2 Scape's Minor Works Framework can be used for projects up to £4m and Kier is the framework contractor. Kier, which has local offices in Aylesford, act as a management contractor and use its established supply chain to deliver all design and construction elements of the project. As part of the framework agreement, Kier has to meet targets to demonstrate value for money is being obtained and that the majority of its spend is local to the project.
- 1.3.3 Other advantages of using a Scape framework is the speed in which the contractor can be engaged, working with a known contractor, and savings associated with not having to undertake a long and complex procurement exercise.
- 1.3.4 The Council engaged Kier in October 2018 to start the initial feasibility stages, at no cost to the Council.
- 1.3.5 A cost estimate for the scheme was received in early March 2019 which totalled £2.45m and the indicative programme showed a leisure pool hall closure of around 38 weeks.
- 1.3.6 Due to both the increased capital cost of the work and the increased cost of the loss of income claim which would result from the extended programme, the Project Group discussed possible ways forward. Based on these discussions Kier were asked to provide the following:
- A condition survey of the existing barrel vault roof to ascertain whether the replacement of the roof could be deferred by 4 or 5 years; and
 - Revised cost estimates so that the Council could determine whether it was more cost effective to carry out all of the work at once, or defer the roof replacement (subject to the outcome of the condition survey). This included Kier going back to its supply chain to obtain revised pricing for the roof replacement element, which initially seemed very high.
- 1.3.7 Kier provided the requested information last month. The roof condition survey concludes that the current structure is well past its safe lifespan and recommends that replacement should not be delayed any further after considering the potential risks.
- 1.3.8 Following further engagement with its supply chain a lower cost estimate for the roof was received from Kier, meaning the cost estimate for the combined works (ventilation, boilers, roof and space frame) is £2.029m (including a project contingency of 5%), with an estimated 36 week closure of the leisure pool hall.

- 1.3.9 An indicative loss of income figure of £1.368m has been applied, which will be subject to confirmation by the Leisure Trust. The Trust are particularly keen to maintain its Swim School programme, and it's looking to relocate lessons from the Learner Pool (located in the Leisure Pool hall) to the Fitness Pool, through the use of submerged flooring. Whilst there will be a capital cost of the flooring, this will be incorporated in the final loss of income figure. This gives a total estimated capital and revenue cost of £3.397m against a budget of £2.53m, resulting in an overall budget shortfall of £867,000.
- 1.3.10 Financial Services has undertaken an analysis of the cost estimates received for the various options and have concluded that if the Council were to undertake the works in two separate phases over a longer time frame, the scheme would cost an additional £880,000 (above the £867,000 shortfall for the combined works). This analysis takes into account duplicated scaffold costs and an additional loss of income claim. A summary of the analysis can be seen at **Annex 1**.
- 1.3.11 One of the advantages of using the Scape Framework is that the cost estimates produced by Kier are as a result of discussions and quotations received from its supply chain, giving "cost comfort". In a more traditional procurement exercise the Council would have to wait for the return of tenders to obtain market pricing details.
- 1.3.12 It is important to note, however, that definitive final pricing "cost certainty" from Kier will not be obtained until nearer the time when the Council will need to commit to the cost of physically delivering the scheme, once the detailed design stages have been completed.

1.4 Roof options

- 1.4.1 As part of the feasibility work undertaken by Kier, it assessed options for the replacement of the roof. Two main areas were highlighted in its assessment. The first was the impact on the existing space frame, which supports the roof. A traditional flat roof construction would involve additional weight being placed upon the space frame. This would most likely involve the need to either strengthen, or replace, the existing space frame.
- 1.4.2 This would incur significant additional costs both in terms of works and the resultant significant extension to the programme and therefore increase in loss of income.
- 1.4.3 The second area highlighted was around loss of natural daylight and its impact on both the aesthetics of the Centre as well as the additional requirement for artificial lighting to be on throughout the day, rather than just in the evenings.
- 1.4.4 For these reasons the Project Group has recommended that a like-for-like barrel vault roof be used.

1.5 Energy Efficiencies

- 1.5.1 All new equipment to be installed as part of the scheme will be much more energy efficient than the existing plant (some of which is almost 40 years old).
- 1.5.2 It has been estimated that the new boilers alone will reduce energy consumption by around 20%, including a 20% reduction in carbon dioxide emissions. The new heating pumps will be inverter driven to ensure optimum performance and the air handling unit will have new, more efficient fans installed.
- 1.5.3 The Building Management System (BMS) will be replaced and extended, which controls various pieces of plant and equipment, enabling further efficiencies to be made.
- 1.5.4 In addition, the Council are looking to replace the existing halogen floodlights in the leisure pool hall with LED fittings. This will not only reduce the energy consumption but will reduce costs associated with having to access the high level fittings to replace bulbs.
- 1.5.5 The polycarbonate panels in the existing barrel vault roof are only single skin. The proposed replacements will be multiwall structured polycarbonate which will deliver improved heat retention in the pool hall.
- 1.5.6 As part of the roof feasibility work, the potential to install photovoltaic (PV) solar panels on the replacement roof was investigated. Due to the need to safely access the solar panels for ongoing maintenance it was noted that should a replacement barrel vault roof be used then it would not be possible to provide safe access. Should the Council wish to investigate the possibility of installing PV panels in the future it is felt the flat felted roof above the existing sports hall would be the more appropriate location to install them.

1.6 Funding

- 1.6.1 It is proposed that around half of the additional cost be met from the better than budgeted outturn position for 2018/19 by transferring this sum to the Leisure Trust reserve for this purpose. The balance will be met in the first instance from the revenue reserve for capital schemes recognising there may also be other funding options identified as the year unfolds.

1.7 Timescale

- 1.7.1 Subject to approval of the proposal outlined in this report by Full Council on 9th July 2019, it is planned that works will commence early October 2019, ending mid-May 2020 (36 week leisure pool hall closure). Works to the café air handling will take place within this period, which will result in the need to close the café for a number of weeks. An initial programme produced by Kier is attached for Members information at **Annex 2**.

- 1.7.2 In order to meet the above timescale, which Members will note avoids the busy school summer holidays, a Project Order has been placed with Kier so that the design and survey work can be progressed. This does not commit the Council to progressing the full scheme.
- 1.7.3 Within the programme the Trust will also take the opportunity to undertake other planned maintenance, including the replacement of the pool features around the Toddler Pool.
- 1.7.4 Customers will be fully advised of the works in advance and throughout the project. The Trust will keep customers informed on site and through its own website.

1.8 Legal Implications

- 1.8.1 As outlined at sub-section 1.1, the Council is under a contractual obligation to maintain the facility so that it can safely operate as a leisure centre. Should the Council not progress this work then the Leisure Trust would be fully entitled to take legal action against the Council for failure to fulfil its contractual obligations.
- 1.8.2 The scheme is being procured via a Scape Framework, which has been subjected to an EU compliant procurement exercise. The Delivery Agreement for the work will be based on the NEC3 Engineering and Construction contract, which is an industry accepted form of contract.

1.9 Financial and Value for Money Considerations

- 1.9.1 Under the Minor Works Scape Framework, Kier will engage with its established supply chain in order to competitively price each discrete works 'package'. Kier will then put forward its recommendation based on the prices received. Kier's overheads and profits rate, along with its staff costs, were subject to competitive pricing as part of Scape's procurement exercise to establish the framework.
- 1.9.2 The proposal to combine a number of projects into one contract has been based on a detailed financial cost benefit analysis which clearly identified that the proposal offers the most cost effective approach.

1.10 Risk Assessment

- 1.10.1 Should the Council not undertake the work required the plant and equipment would either eventually fail completely or would become increasingly difficult and costly to repair, most likely leading to long shut downs in operations whilst parts are sourced or works are undertaken. This would subsequently lead to large loss of income claims from the Leisure Trust.
- 1.10.2 Should the Council not progress the roof replacement the Council would be liable for any failure of the roof and and/or any costs associated with the Leisure Trust not being able to use the leisure pool hall.

1.10.3 The need to progress the work is a contractual requirement, has been based on advice from independent specialist consultants, and will enable customers to continue to enjoy using the facilities for many years to come. The activities at the Centre contribute significantly to a number of the Council's priorities, most notably assisting residents to enjoy a healthy lifestyle.

1.10.4 Liaison has been undertaken with Planning Officers who have advised that the works will fall within permitted development. The Council's Building Control Service will be involved throughout the works.

1.11 Equality Impact Assessment

1.11.1 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.

1.12 Policy Considerations

1.12.1 Asset Management

1.12.2 Health and Safety

1.12.3 Procurement

1.13 Recommendations

1.13.1 It is **RECOMMENDED** to Council that based on independent advice and detailed financial appraisal:-

- i) the proposed scheme outlined in the report to undertake a package of works to the ventilation, boilers, leisure pool hall roof and space frame at Larkfield Leisure Centre be approved;
- ii) the increased cost of £867,000 be met from the Leisure Trust reserve and the Revenue Reserve for Capital Schemes, and the relevant revenue and capital budgets be amended accordingly;
- iii) the works be progressed to commence early October 2019 for a period of 36 weeks; and
- iv) liaison continues with the Tonbridge & Malling Leisure Trust to minimise the impact of the works on customers and the loss of income claim to the Council.

The Management Team confirms that the proposals contained in the recommendation(s), if approved, will fall within the Council's Budget and Policy Framework.

Background papers:

contact: Robert Styles
Stuart Edwards

Nil

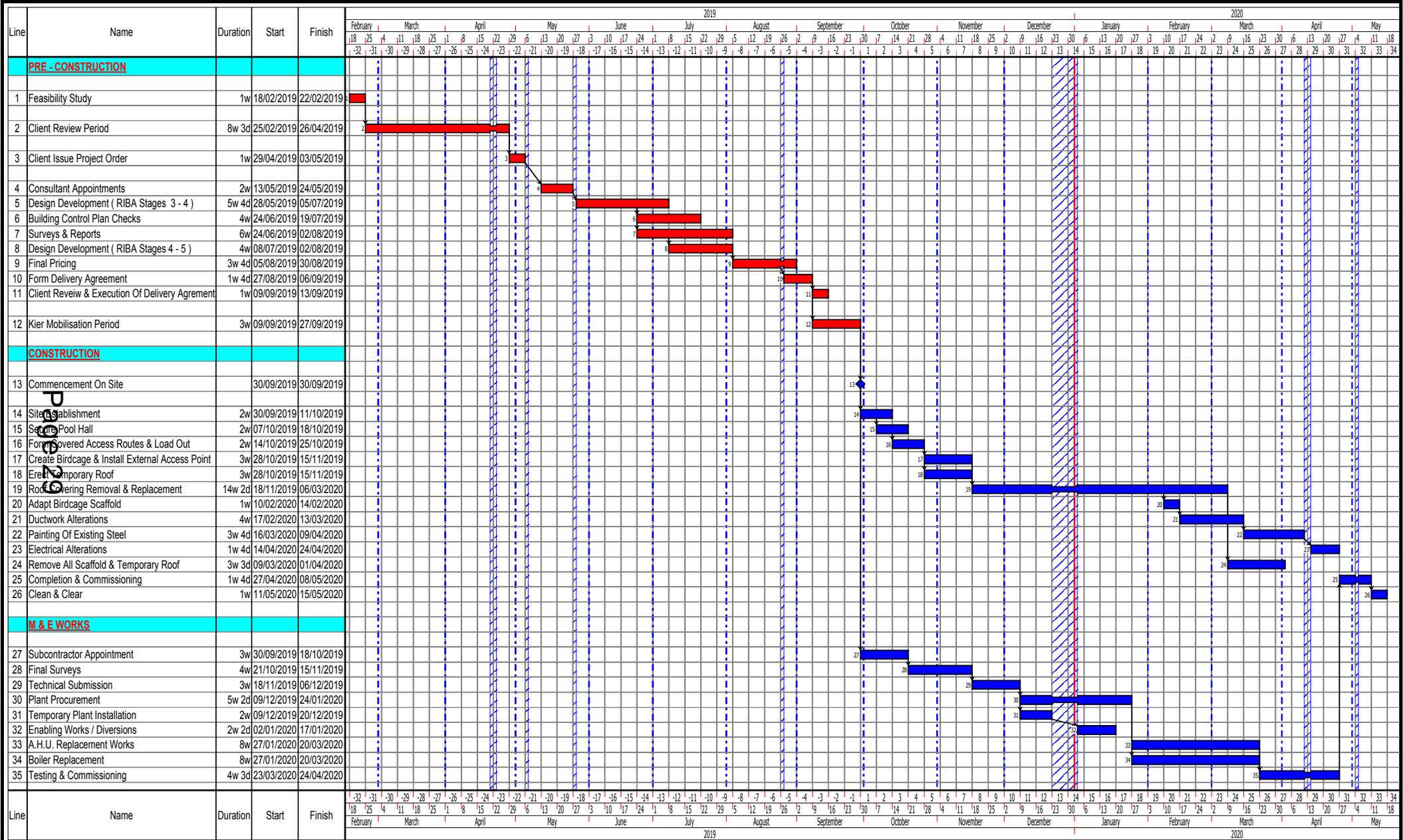
Management Team.

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Larkfield Leisure Centre Ventilation, Boiler and Roof Project

	Combined Roof, Ventilation & Boiler	Roof only	Ventilation & Boiler only
	Rev A £	Option 2A £	Option 1 £
Construction Costs	2,059,188	1,159,288	1,362,103
Less PV Panels	(30,000)		(30,000)
	-----	-----	-----
	2,029,188	1,159,288	1,332,103
Closure	36 weeks	28 Weeks	19 Weeks
Loss of income @ £38,000 per week (MG to confirm)	1,368,000	1,064,000	722,000
	-----	-----	-----
	3,397,188	2,223,288	2,054,103
	£	£	
Budget Provision			
Capital & BREP	1,650,000	2,223,288	Roof only
Loss of income	1,000,000	2,054,103	Ventilation & Boiler only
	-----	-----	
	2,650,000	4,277,391	Total for separate projects
Less enabling works Dec 2018	(120,000)	(3,397,188)	less combined project
	-----	-----	
	2,530,000	880,203	Additional cost for separate projects
Additional funding required over current budget	867,188	1,747,391	

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Preconstruction
█ Preconstruction █ Construction

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TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

05 June 2019

Report of the Chief Executive, Director of Finance and Transformation, Leader of the Council and Cabinet Member for Finance, Innovation and Property

Part 1- Public

Executive Non Key Decisions

1 REVENUE AND CAPITAL OUTTURN 2018/19

In accordance with the Council's Financial Procedure Rules we present a report and accompanying information detailing actual Revenue and Capital Outturn for the year ended 31 March 2019 and subsequent adjustments made in light of the Outturn position.

1.1 Introduction

1.1.1 A detailed statement of the revenue and capital outturn position for the year 2018/19 is provided in the attached booklet which has been compiled in liaison with Chief Officers, including, where appropriate, explanatory notes of variations between revised estimates and outturn. Variations between the original and revised estimates for 2018/19 were highlighted in the notes to the Annual Estimate papers presented to Members during the 2019/20 budget cycle.

1.1.2 In accordance with the Council's Constitution the Statement of Accounts which shows the outturn in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 will be presented to the **Audit Committee** for **approval**. The Director of Finance and Transformation is to present an audited copy of the Statement of Accounts to the Audit Committee on 29 July.

1.2 Overall Revenue Position

1.2.1 Members are to be advised that the contribution to the General Revenue Reserve is £76,406, some £35,144 less than the Revised Estimate figure of £111,550. This after transferring an additional £400,000 to the Tonbridge and Malling Leisure Trust (TMLT) Reserve and £250,000 to the Building Repairs Reserve in recognition of recent and future cost pressures.

1.2.2 The variance of £35,144 can, amongst other things, be attributed to the additional sums transferred to the two earmarked reserves referred to above. This is of course offset by many other things – for example, better than budgeted

performance under the Business Rates Retention Scheme; overall housing benefit payments, recoups and contribution to the bad debt provision lower than budgeted; management savings on the salary bill; and better than budgeted performance in our major operational income streams. See paragraph 1.2.4 for further detail.

1.2.3 We have, as part of the closedown process, undertaken a review of the specific earmarked reserves held by the Council. As a result of this review and in liaison with Management Team, and referred to above, Cabinet is asked to note and endorse:

- The transfer of an additional sum of £400,000 to the TMLT Reserve to part fund the estimated increased costs of the planned major programme of works at Larkfield Leisure Centre.
- The transfer of an additional sum of £250,000 to the Building Repairs Reserve to recognise recent and potential future cost pressures.

1.2.4 As mentioned above, the contribution to the General Revenue Reserve is £76,406, some £35,144 less than the Revised Estimate figure of £111,550. The principal reasons for the variance is given in the table below.

Description	Revised Estimate 2018/19 £	Provisional Outturn 2018/19 £	Variation £
TMLT Reserve	100,000	500,000	400,000
Building Repairs Reserve	1,000,000	1,250,000	250,000
Legal Expenses	53,250	152,148	98,898
TMLT Loss of Income Claim(s)	2,150	51,373	49,223
Investment Income	(452,000)	(485,787)	(33,787)
IT Supplies & Services	759,550	673,307	(86,243)
Major Income Streams	(5,700,150)	(5,801,382)	(101,232)
Housing Benefits (Net)	115,000	5,691	(109,309)
Salary Monitoring Statement	9,471,050	9,358,028	(113,022)
Business Rates Pilot / Pool / Reserve	(3,171,160)	(3,443,335)	(272,175)
Other Net Changes	7,866,401	7,819,192	(47,209)
Total	10,044,091	10,079,235	35,144

1.2.5 **[Annex 1]** provides details of Service specific issues in respect of the revenue outturn for 2018/19. A more detailed analysis of the outturn position is to be found in the attached Revenue and Capital Outturn Booklet.

1.3 Capital Plan

1.3.1 Members will note a Capital Plan spend net of specific government grants and other contributions of £1,040,000 against a budget provision of £1,507,000. Factors that contributed to the net underspend are given below.

- Capital renewals budgets totalling £801,000 with actual capital renewals expenditure totalling £639,000. Capital renewals provisions reflect predictions as to when assets will need to be replaced. Underspend can largely be attributed to a lower than anticipated spend on capital renewals at our leisure facilities; printing and reprographics equipment; and in respect of information technology.
- The very nature of capital expenditure and funding can see the rescheduling, reprofiling and review of future budget provision. Scheme budget provisions that are to be rescheduled, reprofiled or subject to review include the Ventilation and Boiler Replacement – in year underspend £87,000; Revenues and Benefits IT Digital Solution – in year underspend £60,000; and Conference System – in year underspend £27,000.

1.3.2 **[Annex 2]** provides details of Service specific issues in respect of the capital outturn for 2018/19. A more detailed analysis of the outturn position is to be found in the attached Revenue and Capital Outturn Booklet.

1.4 Treasury Management and Investment Strategy Review

1.4.1 An updated Prudential Code and Treasury Management Code were published by CIPFA in December 2017. The focus of both updates is to ensure the risks associated with investment in 'non-financial assets which are held primarily for financial returns' are properly evaluated, reported, subject to scrutiny and managed over time.

1.4.2 Council adopted the December 2017 edition of the Codes in October 2018. The Treasury Management Code requires an annual review report of the previous year to be presented and endorsed by Members. A copy of the annual review report for the year 2018/19 is attached at **[Annex 3]**.

1.4.3 As this is a **technical document**, if Members have any questions, could we please ask that you contact **Michael Withey on extension 6103** in advance of the meeting.

1.5 Balances and Reserves

1.5.1 **[Annex 4]** Table 1 shows the movement on the Special Projects Reserve.

1.5.2 **[Annex 4]** Table 2 details the movement on Other Earmarked Reserves.

1.5.3 **[Annex 4]** Table 3 gives details of some revenue adjustments agreed by the Director of Finance and Transformation during the closedown process.

1.5.4 The Council is required to have regard to the level of its balances and reserves before making decisions concerning its finances. The Council's General Fund working balance is set at £1,250,000 and this sum is considered appropriate for

an authority of our size and scale. The position in respect of the Council's General Revenue Reserve is given below.

General Revenue Reserve		
	£	£
Balance at 1 April 2018		6,646,693
Contribution to / (from) Reserve		76,406
Balance at 31 March 2019		6,723,099

1.5.5 The Medium Term Financial Strategy anticipated a General Revenue Reserve balance at 31 March 2019 of £6,758,000.

1.6 Audit Committee

1.6.1 As mentioned earlier, an audited copy of the Statement of Accounts for 2018/19 is to be presented to the Audit Committee for approval on 29 July. The Accounts reflect the revenue and capital outturn position as detailed in this report and accompanying information, together with the subsequent adjustments as appropriate.

1.7 Legal Implications

1.7.1 There are a number of legislative requirements to consider as we move through the closedown process, and prepare and publish the Statement of Accounts.

1.8 Financial and Value for Money Considerations

1.8.1 The transfer of an additional sum of £400,000 to the TMLT Reserve to part fund the estimated increased costs of the planned major programme of works at Larkfield Leisure Centre and an additional sum of £250,000 to the Building Repairs Reserve to recognise recent and potential future cost pressures is a welcome outcome of a positive outturn position.

1.8.2 The budget year 2019/20 and review and update of medium term financial planning assumptions informed by the outturn position now the focus of attention. It would be remiss not to remind Members of the latest projected funding gap of £550,000 with a savings and transformation contribution of £100,000 to be achieved this year. Progress on meeting this year's savings and transformation contribution will be reported via the Finance, Innovation and Property Advisory Board.

1.9 Risk Assessment

1.9.1 The compilation and presentation of the revenue and capital outturn forms part of the closedown process, leading to the preparation and publication of the Statement of Accounts which is a statutory document. Failure to prepare and

publish the Accounts within the statutory timescale and in accordance with the Regulations could adversely affect the Council.

1.10 Equality Impact Assessment

1.10.1 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.

1.11 Recommendations

1.11.1 Cabinet is requested to:

- 1) Note and endorse the Revenue and Capital Outturn for the year 2018/19.
- 2) Note and endorse the action taken following a review of specific earmarked reserves set out at paragraph 1.2.3.
- 3) Note and endorse the Treasury Management and Investment Strategy Review 2018/19 **[Annex 3]**.

Background papers:

Nil

contact: Sharon Shelton
Neil Lawley

Julie Beilby
Chief Executive

Sharon Shelton
Director of Finance and Transformation

Nicolas Heslop
Leader of the Council

Martin Coffin
Cabinet Member for Finance, Innovation and Property
and Deputy Executive Leader

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Revenue Outturn 2018/19 - Service Specific Issues

Corporate Services

The Outturn is £55,107 (£3,580,750 - £3,525,643) less than the 2018/19 Revised Estimate. The principal reasons for this are as follows:-

- a) Salaries, Recruitment Costs and Partnership Receipts (CS 2 / CS 7) – Net management savings on the salary bill £113,022.
- b) Council Offices (CS 3) – Energy costs are £25,517 more than estimated following above inflationary price rises in the second half of the year.
- c) Council Offices (CS 3) – Reversal of prior year impairment of £23,667 following revaluation.
- d) Legal Expenses (CS 7) – Legal fees are £98,898 more than estimated primarily due to costs incurred in respect of the Aylesford Quarry planning appeal.
- e) Information Technology Services (CS 9) – Supplies and Services costs are £86,243 less than estimated largely due to lower than anticipated ancillary and computer equipment maintenance costs and a number of software support, hire and maintenance budgets not required in 2018/19.
- f) Depreciation charged to Service Budgets is £33,609 less than estimated largely due to lower than anticipated expenditure on IT infrastructure and renewal of IT equipment.
- g) Recharges to Service Budgets are £168,332 less than estimated.
- h) The balance of £91,313 is spread throughout the remaining Corporate Services budgets.

Chief Executive

The Outturn is £17,265 (£709,350 - £692,085) less than the 2018/19 Revised Estimate. The principal reasons for this are as follows:-

- a) Economic Development & Regeneration (CE 6) – Grant funding required in year to support measures to help boost trade in local retail centres is £14,425 lower than anticipated. Balance of grant funding held in an earmarked reserve.
- b) The balance of £2,840 is spread throughout the remaining Chief Executive budgets.

Director of Central Services

The Outturn is £7,381 (£98,200 - £90,819) less than the 2018/19 Revised Estimate. The principal reasons for this are as follows:-

- a) Land Review (CEN 8) – Further work and associated additional costs of £13,552 in respect of the review and sale of Council owned assets. Costs met from an earmarked reserve.
- b) Licences: Fee Paying (CEN 10) – Income from licence fees is £26,675 more than estimated largely due to an increase in the number of taxi and private hire vehicle licences.
- c) Building repairs expenditure is £14,927 more than estimated largely due to a higher level of response maintenance than budgeted, e.g. blocked drain, fencing and roof repairs.
- d) The balance of £9,185 is spread throughout the remaining Director of Central Services budgets.

Director of Finance and Transformation

The outturn is £271,055 (£1,438,400 - £1,167,345) less than the 2018/19 Revised Estimate. The principal reasons for this are as follows:-

- a) Housing Benefits (FT 3) – Grants awarded by the DWP to assist with the costs of implementing welfare reform and administration changes are £29,621 more than estimated. Balance transferred to an earmarked reserve to fund transformation initiatives.
- b) Housing Benefits (FT 3) – Reflects actual level of benefit payments, recoupments and contribution to the bad debts provision with an overall decrease of £109,309 when compared with the revised estimate. The decrease in part is due to adjustments on overpayments taking them from attracting 40% to full subsidy.
- c) Treasury Management & Banking Arrangements (FT 6) – Interest on investments and cash flow is £33,787 more than estimated as a result of higher than expected core cash balances and improvement in investment rates following the August 2018 Bank Rate rise.
- d) Management and administration recharges are £108,362 less than estimated in part due to management savings on the salary bill and lower IT costs.
- e) The balance of £10,024 is spread throughout the remaining Director of Finance and Transformation budgets.

Director of Planning, Housing and Environmental Health

The outturn is £137,997 (£3,223,200 - £3,085,203) less than the 2018/19 Revised Estimate. The principal reasons for this are as follows:-

- a) Development Management (PHEH 2) – Application and Appeals costs are £15,540 more than estimated primarily due to costs incurred in respect of the Aylesford Quarry planning appeal.
- b) Development Management (PHEH 2) – Planning application fee income is £50,777 more than estimated reflecting transition to a new Local Plan and volatility of the development environment.
- c) Building Control (PHEH 4) – Building Control Partnership costs are £12,769 more than estimated largely due to the use of agency staff to cover vacancies offset in part by lower staff costs.
- d) Preparation of Local Development Framework (PHEH 5) – Expenditure on LDF is £49,276 more than estimated as work on the new Local Plan is progressed. Costs met from an earmarked reserve.
- e) Housing Strategy (PHEH 7) – Professional fees are £20,943 less than estimated largely due to the Housing Needs Research exercise is to be completed in 2019/20. Costs met from an earmarked reserve.
- f) Homelessness (PHEH 9) – Cost (net) of temporary accommodation is £42,062 less than estimated due to both lower demand and higher rate of recharge than originally envisaged.
- g) Homelessness (PHEH 9) – Bad Debt Provision is £14,887 more than estimated following policy change in respect of levels of rent recharged to clients and increased use of Repossession Prevention Fund.
- h) Homelessness (PHEH 10) – Government Grant received from the Ministry of Housing, Communities and Local Government is £60,481 more than estimated largely due to a Flexible Homelessness Support Grant and Homelessness Prevention Grant ‘top up’ payment. Additional grant award transferred to an earmarked reserve.
- i) Private Sector Housing Renewal (PHEH 13) – Actual spend net of associated government grant in respect of Disabled Facilities and Housing Assistance Grants, together with repayments of grants by householders, is £43,592 lower than anticipated.
- j) Management and administration recharges are £29,929 more than estimated in part due to increased legal expenses.
- k) The balance of £42,543 is spread throughout the remaining Director of Planning, Housing and Environmental Health budgets.

Director of Street Scene, Leisure and Technical Services

The outturn is £29,827 (£8,075,000 - £8,104,827) more than the 2018/19 Revised Estimate. The principal reasons for this are as follows:-

- a) Refuse Collection and Recycling (SSLTS 2 / 3) – Publicity & Promotion costs in respect of the new waste services contract £22,307 less than estimated. Funding held in an earmarked reserve for use in 2019/20.
- b) Recycling (SSLTS 3) – Support for Retender of the new waste services contract is £15,292 lower than assumed.
- c) Recycling (SSLTS 4) – Recycling Income is £41,024 more than estimated due to both increased prices and higher tonnages.
- d) Street Scene (SSLTS 5) – Government Grant received in respect of the High Street Community Clean Up Fund in the sum of £22,594. Transferred to an earmarked reserve for future use.
- e) Larkfield Leisure Centre (SSLTS 9) – Loss of income claims from Tonbridge and Malling Leisure Trust £32,723 more than estimated due to closure of fitness pool and disinfecting/sampling of showers.
- f) Tonbridge Swimming Pool (SSLTS 11) – Loss of income claims from Tonbridge and Malling Leisure Trust £16,500 more than estimated due to closure of various facilities.
- g) Tonbridge Castle Grounds (SSLTS 15) – Government Grant received in respect of the Local Authorities Parks Improvement Fund in the sum of £20,231. Transferred to an earmarked reserve for future use.
- h) Cemetery (SSLTS 27) – Income is £15,775 less than estimated due to lower than anticipated demand for services.
- i) Management and administration recharges are £25,556 less than estimated in part due to management savings on the salary bill and lower IT costs.
- j) Building repairs expenditure is £74,207 more than estimated mainly due to higher than anticipated cost of works to dry changing showers and servicing of pool plant at Larkfield Leisure Centre offset by works at Poulton Wood Golf Centre moving to 2019/20.
- k) Depreciation charged to Service Budgets is £22,174 more than estimated mainly due to replacement of a higher proportion of equipment at Larkfield Leisure Centre than is the norm.
- l) The balance of £15,452 is spread throughout the remaining Director of Street Scene, Leisure and Technical Services budgets.

Capital Outturn 2018/19 - Service Specific Issues

Planning, Housing and Environmental Health Services

- a) Housing Assistance Grants (CP3). Actual spend net of repayments of grants by householders is -£13,000 compared to budget provision of £30,000.
- b) Homeless Accommodation (CP3). Purchase of six flats at 47 High Street, Tonbridge completed at a cost of £1,088,000. Scheme funded in full from developer contributions.

Street Scene, Leisure and Technical Services

- a) Ventilation and Boiler Replacement (CP5). Actual spend £113,000 compared to budget provision of £200,000. Scheme now part of a major programme of works to be progressed in 2019/20.
- b) Tonbridge School Athletics Track (CP5). Scheme funded in full from developer contributions. Majority of works now complete. Community use is secured via agreement with the School.
- c) Capital renewals budgets (CP9) totalling £498,000 with actual capital renewals expenditure totalling £430,000. Underspend can largely be attributed to a lower than anticipated spend on renewal of vehicles, plant and equipment at our leisure facilities.

Corporate Services

- a) Conference System (CP11). No spend compared to budget provision of £27,000. Balance of funding expected to be used for the Council Chamber voting facility and to upgrade meeting room projection equipment.
- b) Revenues and Benefits IT Digital Solution (CP11). Actual spend £5,000 compared to budget provision of £65,000. Project commenced on a phased implementation.
- c) Capital renewals budgets (CP12) totalling £303,000 with actual capital renewals expenditure totalling £209,000. Underspend can largely be attributed to a lower than anticipated spend on renewal of printing and reprographics equipment; and in respect of information technology.

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Tonbridge and Malling Borough Council

Treasury Management Annual Report 2018/19

1.1 Introduction

1.1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activity and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.1.2 During 2018/19 the minimum reporting requirements were that full Council should receive the following treasury reports:

- an annual strategy in advance of the year;
- a mid-year review; and
- an annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, treasury management updates have been presented to each meeting of the Audit Committee throughout the 2018/19 financial year. Treasury performance was also considered at the Finance, Innovation and Property Advisory Board through the regular Financial Planning and Control reports.

1.1.3 Changes in the regulatory environment place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to full Council.

1.2 Economic Background

1.2.1 After weak economic growth in the UK of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing economy in the G7 in quarter 4.

1.2.2 After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely

that Bank Rate would be cut to support growth. Nevertheless, MPC concerns have been increasing over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, excluding bonuses, in the three months to December before falling only marginally to 3.4% in the three months to January. Employers increased hiring at the fastest pace in more than three years in the three months to January 2019 as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

1.2.3 CPI inflation has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

1.2.4 The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

1.3 Treasury Position at 31 March 2019

1.3.1 At the beginning and the end of 2018/19 the Council's debt and investment position was as follows:

	31 March 2018 £m	Rate / Return %	Average duration Days	31 March 2019 £m	Rate / Return %	Average duration Days
Variable rate debt:						
Overdraft	0.0	-	-	0.0	-	-
Total debt	0.0	-	-	0.0	-	-
Fixed rate investments:						
Cash flow surpluses	-	-	-	-	-	-
Core cash	13.0	0.80	118	16.0	1.06	155
Variable rate investments:						
Cash flow surpluses	6.4	0.47	3	7.4	0.78	1
Core cash	7.0	0.60	50	8.0	1.06	219
Sub-total	26.4	0.67	72	31.4	0.99	134
Long term investments:						
Property Funds	3.0	3.73	-	5.0	3.55	-
Total investments	29.4	1.47	-	36.4	2.04	-

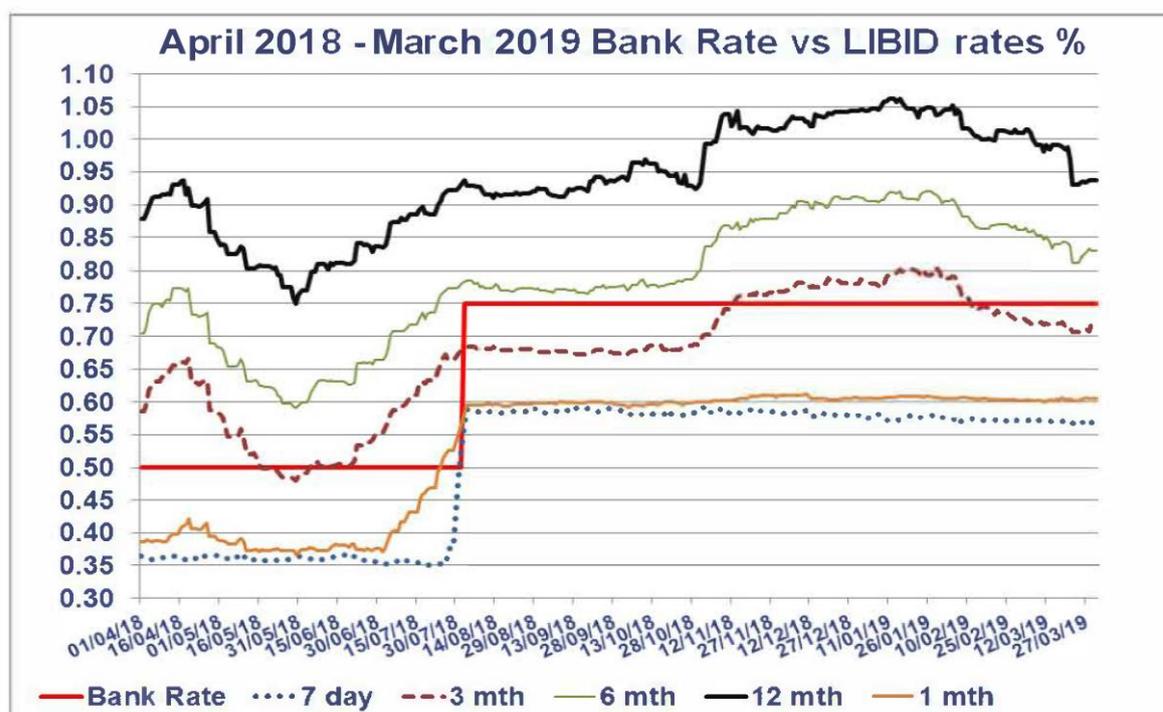
- 1.3.2 The rise in investment balances reflects: surpluses on business rates and council tax collection funds due to be distributed in 2019/20; unspent provisions for business rate appeals which have yet to be determined by the Valuation Office; reprogramming of some planned capital expenditure; lead authority for shared expenditure anticipated in 2019/20 (West Kent Partnership); and ad-hoc disposals used to part fund capital expenditure in 2018/19.

1.4 The Strategy for 2018/19

- 1.4.1 In November 2017, the Bank of England returned the Bank rate to 0.5%. The expectation for interest rates within the treasury management strategy for 2018/19 anticipated the next rise in the Bank Rate in the fourth quarter of 2018. Bank Rate was increased to 0.75% in August 2018. The low interest rate environment and bank regulatory changes in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby term deposits with financial institutions would continue to be dominated by low counterparty risk considerations. Additional property fund investments would be undertaken from 'new money' that became available derived from the sale of existing property assets or other windfalls.

1.5 Investment Rates in 2018/19

- 1.5.1 Rates offered by banks for deposits began to rise from their low point at the end of May 2018 in anticipation of the August Bank Rate rise. Since August, bank offers have continued to drift up wards peaking in January 2019. More recently offers have been declining in response to weaker economic growth in the UK, Brexit driven uncertainty and concerns for the global economy. Current market expectation is bank rate remaining at 0.75% before rising in 2020.



1.6 Investment Outturn for 2018/19

- 1.6.1 The Council's investment policy sets out the approach for choosing investment counter-parties and is based on credit ratings provided by the three main credit rating agencies. This is supplemented by additional market information including credit rating outlooks and credit default swap data (CDS). The 2018/19 Annual Investment Strategy was approved by Council in February 2018 and was subjected to a mid-year review in October 2018. In undertaking the review, no changes were made to the Council's minimum counter-party credit requirement (Fitch A-, F1 unless UK state owned) or counter-party exposure limits (maximum of 20% of funds per financial institution). Subject to a number of constraints, discretion to extend investment duration by up to six months over the Council's external treasury advisor's suggested duration was also retained.
- 1.6.2 **Cash flow investment.** In 2018/19 cash flow surpluses averaged £15.5m and earned an average rate of return of 0.73%. The average 7-day LIBID rate, used to compare performance, was 0.51%. Cash flow surpluses arise from the timing difference between the receipt of monies (from council tax, business rates, grants, etc.) and its subsequent payment (to precepting authorities, housing benefit recipients, suppliers, staff, etc.). Cash flow surpluses are required to meet regular payment obligations and as a consequence are invested in bank deposit accounts and money market funds which allow next day access. The opportunity to invest for longer durations and generate additional yield is taken when cash flow surpluses permit.
- 1.6.3 **Core cash investment.** In 2018/19 core cash averaged £23.0m and earned an average rate of return of 0.91%. The 3-month LIBID rate used as a comparator was 0.68%. Core cash comprises the authority's revenue and capital reserves. Unlike cash flow, core cash is not required to meet regular payment obligations and is available to invest for longer durations including durations exceeding one year. This added flexibility allows core cash to generate a better return relative to cash flow surpluses.
- 1.6.4 **Long term Investment.** The availability of cash balances over the longer term (10 years) and the suitability of different types of long term investment (equities, bonds and commercial property) was explored in the report to Audit Committee, January 2017. Of the alternatives, investment in property funds was considered best suited to meet the Council's more immediate funding need: a sustainable, stable income stream.
- 1.6.5 At the start of the year £3m was invested in property investment funds and a further £2m invested during the year. Investment was spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time. Additional property fund investments are expected in the future as resources become available from asset disposals and other windfalls.
- 1.6.6 In 2018/19 investment in property funds averaged £4.6m and income of £162,908 was received which represents an annualised return of 3.55%.
- 1.6.7 Property funds issue and redeem primary units at a buy and sell price with the difference between the two prices reflecting the costs associated with buying

and selling property (legal and other fees, stamp duty etc.). The price spread varies from fund to fund but is typically in the region of 8% (6% on entry to a fund and 2% on exit). Where units are traded on a secondary market the impact of the spread can be reduced and delays in the purchase or redemption of units avoided. The table below compares the sale value of each investment if sold to the fund manager with the initial purchase price. Economic growth in the UK slowed in 2018/19 as did the rate at which fund sale values appreciated. A fall in sale values was recorded at some month ends especially during the second half of 2018/19. Nevertheless, since inception, the overall progress towards breakeven is still encouraging.

Property fund (Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)	Purchase price (a) £	Sale value at date of purchase (b) £	Sale value March 2019 (c) £	March sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	973,300	(26,700)
Lothbury (Primary, July 2017)	1,000,000	927,700	975,900	(24,100)
Hermes (Secondary, Oct 2017)	1,000,000	939,000	1,009,900	9,900
LAPF (Primary, June 2018)	1,000,000	922,200	933,200	(66,800)
Lothbury (Secondary, July 2018)	1,000,000	973,000	957,000	(43,000)
Total	5,000,000	4,684,100	4,849,300	(150,700)

1.6.8 **Summary.** Investment performance for the year 2018/19 is summarised in the table below:

	2018/19 Average balance £m	Return %	2018/19 Interest/ dividends earned £	2018/19 Revised Estimate £	Variance Better (worse) £
Cash flow surpluses	15.5	0.73	112,189	90,000	22,189
Core cash	23.0	0.91	210,690	190,000	20,690
Long term investment	4.6	3.55	162,908	172,000	(9,092)
Total	43.1	1.13	485,787	452,000	33,787

- 1.6.9 The overall performance of the Authority's investments bettered the revised estimates by £33,787 (£108,787 when compared to the 2018/19 original estimates).
- 1.6.10 In finalising the Council's revised estimates the income estimate for cash flow was increased from £58,000 to £90,000; the return from core cash was increased from £124,000 to 190,000; and income from property funds reduced from £195,000 to £172,000.
- 1.6.11 The original estimate assumed Bank Rate would rise December 2018. The increase in income from cash flow surpluses and core cash reflects the impact of an earlier than expected rise in Bank Rate in August 2018 in combination with higher than expected balances due to Valuation Office delays in processing business rate appeals. Higher than expected balances continued to year end. Reduced income from property funds reflects the revised timetable in respect of the sale of the River Walk Offices and a marginally lower return in 2018/19 compared to 2017/18 (3.55% vs 3.73%).

1.7 Compliance with the Annual Investment Strategy

- 1.7.1 The Annual Investment Strategy aims to limit the Council's exposure to investment risks by prescribing: minimum counter-party credit criteria; maximum exposure limits in respect of sovereigns, counter-parties and group of related counter-party; the type of investment instrument that can be used; and investment duration limits. Throughout the period April 2018 to March 2019 the requirements set out in the Annual Investment Strategy for 2018/19, as approved by Council in February 2018, were complied with. No liquidity issues were experienced resulting in nil borrowing throughout 2018/19.

1.8 Treasury and Prudential Codes of Practice

- 1.8.1 Updated Treasury Management and Prudential codes of practice were published by CIPFA on 21 December 2017. Whilst the codes apply to the 2018/19 financial year, given the timing of their release, CIPFA's Treasury and Capital Management Panel recommended the requirements of both Codes be 'implemented as soon as possible' and acknowledged that they may not be 'fully implemented until' the '2019/20 financial year'.
- 1.8.2 The Codes have been updated to address concerns arising from the Localism Act 2011 (commercialism agenda). The focus of both updates is to ensure the risks associated with investment in '**non-financial assets** which are held primarily for financial returns' are properly evaluated, reported, subject to scrutiny and managed over time. Non-financial assets will include the purchase of property to rent, shares and loans in subsidiaries or other outsourcing structures such as IT or building services providers.
- 1.8.3 Council adopted the December 2017 edition of the Codes in October 2018 and the requirements of the Codes have been taken into account and reflected as appropriate in this annual review and 2019/20 update of both the Capital Strategy and the Treasury Management and Annual Investment Strategy.

- 1.8.4 The Council has no material non-financial investments. Property funds, as opposed to directly owned property, are used as part of the Council's treasury management activity.

Financial Services
May 2019

Prudential and Treasury Indicators

1 Prudential Indicators	2017/18 Actual £'000	2018/19 Original £'000	2018/19 Actual £'000
Capital expenditure	1,834	4,336	3,587
Ratio of financing costs to net revenue stream	-2.46%	-2.89%	-3.51%
Net borrowing requirement:			
Brought forward 1 April	nil	nil	nil
Carried forward 31 March	nil	nil	nil
In year borrowing requirement	nil	nil	nil
Capital financing requirement as at 31 March	nil	nil	nil
Annual change in capital financing requirement	nil	nil	nil
Incremental impact of capital investment decisions:			
Increase in Council Tax (Band D) per Annum	£0.48	£0.20	£0.20

2 Treasury Management Indicators	2017/18 Actual £'000	2018/19 Original £'000	2018/19 Actual £'000
Authorised limit for external debt:			
Borrowing	nil	5,000	nil
Other long term liabilities	nil	nil	nil
Total	nil	5,000	nil
Operational boundary for external debt:			
Borrowing	nil	2,000	nil
Other long term liabilities	nil	nil	nil
Total	nil	2,000	nil
Actual external debt	nil	Nil	nil
Upper limit for fixed rate exposure over one year at year end	nil	0 – 60%	nil
Upper limit for variable rate exposure under one year at the year end	13,434 (45.6%)	40 – 100%	15,411 (42.3%)
Upper limit for total principal sums invested for over 365 days	3,000 (10.2%)	60%	5,000 (13.7%)

3 Maturity structure of new fixed rate borrowing during 2018/19	Upper limit %	Lower limit %
Under 12 months	100	nil
Over 12 months	nil	nil

TABLE 1

Special Projects Reserve	Revised £	2018/19 Outturn £	Variance £
Contribution to/(from) in Year			
Waste Services Contract	700,000	700,000	0
Community Housing Fund	(17,700)	(17,718)	(18)
Community Safety Partnership	(16,650)	(16,650)	0
Housing Survey	(26,100)	(10,001)	16,099
Repossessions Prevention Fund	(2,000)	(22,668)	(20,668)
River Wall at Wouldham	(700,000)	(700,000)	0
Social Housing Fraud Initiative	(4,350)	(4,375)	(25)
Waste & Street Scene Initiatives	(10,100)	26,570	36,670
Movement in Year	(76,900)	(44,842)	32,058

TABLE 2

Other Earmarked Reserves	Revised £	2018/19 Outturn £	Variance £
Contribution to/(from) in Year			
Business Rates Retention Scheme	159,650	308,599	148,949
Election Expenses	25,000	25,000	0
Homelessness Reduction	86,050	160,725	74,675
Local Development Framework	200,000	154,411	(45,589)
Parks Improvement Fund	-	20,231	20,231
Tonbridge & Malling Leisure Trust	100,000	500,000	400,000
Asset Review	(16,000)	(29,552)	(13,552)
Economic Development	(28,300)	(13,875)	14,425
Housing Assistance	(10,000)	0	10,000
Invest to Save	(236,000)	(178,379)	57,621
Public Health	(11,600)	(10,015)	1,585
Transformation	(23,250)	46,361	69,611
Movement in Year	245,550	983,506	737,956

TABLE 3

Revenue Adjustments	Revised £	2018/19 Outturn £	Variance £
Expenditure / (Receipts) in Year			
Stock Write-off	-	4,690	4,690
Rechargeable Works Admin.	-	600	600
Miscellaneous Cash	-	(1,056)	(1,056)
Movement in Year	-	4,234	4,234

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Agenda Item 7

Reference from Communities and Housing Advisory Board of 28 May 2018 – to follow

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Agenda Item 8

Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

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Agenda Item 9

The Chairman to move that the press and public be excluded from the remainder of the meeting during consideration of any items the publication of which would disclose exempt information.

**ANY REPORTS APPEARING AFTER THIS PAGE CONTAIN EXEMPT
INFORMATION**

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Agenda Item 10

Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

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