



AGENDA

SCRUTINY COMMITTEE MEETING

Date: Thursday, 25 January 2018

Time: 7.00 pm

Venue: Council Chamber, Swale House, East Street, Sittingbourne, Kent, ME10 3HT

Membership:

Councillors Andy Booth (Chairman), Lloyd Bowen (Vice-Chairman), Derek Conway, Mike Dendor, Mick Galvin, June Garrad, Mike Henderson, Lesley Ingham, Ken Ingleton, Nigel Kay, Samuel Koffie-Williams, Ben Stokes and Roger Truelove.

Quorum = 4

Pages

1. Fire Evacuation Procedure

The Chairman will advise the meeting of the evacuation procedures to follow in the event of an emergency. This is particularly important for visitors and members of the public who will be unfamiliar with the building and procedures.

The Chairman will inform the meeting whether there is a planned evacuation drill due to take place, what the alarm sounds like (i.e. ringing bells), where the closest emergency exit route is, and where the second closest emergency exit route is, in the event that the closest exit or route is blocked.

The Chairman will inform the meeting that:

(a) in the event of the alarm sounding, everybody must leave the building via the nearest safe available exit and gather at the Assembly points at the far side of the Car Park; and

(b) the lifts must not be used in the event of an evacuation.

Any officers present at the meeting will aid with the evacuation.

It is important that the Chairman is informed of any person attending who is disabled or unable to use the stairs, so that suitable arrangements may be made in the event of an emergency.

2. Apologies for Absence and Confirmation of Substitutes

3. Minutes

To approve the Minutes of the Meeting held on 11 January 2017 (Minute Nos. TBC) as a correct record.

4. Declarations of Interest

Councillors should not act or take decisions in order to gain financial or other material benefits for themselves or their spouse, civil partner or person with whom they are living with as a spouse or civil partner. They must declare and resolve any interests and relationships.

The Chairman will ask Members if they have any interests to declare in respect of items on this agenda, under the following headings:

(a) Disclosable Pecuniary Interests (DPI) under the Localism Act 2011. The nature as well as the existence of any such interest must be declared. After declaring a DPI, the Member must leave the meeting and not take part in the discussion or vote. This applies even if there is provision for public speaking.

(b) Disclosable Non Pecuniary (DNPI) under the Code of Conduct adopted by the Council in May 2012. The nature as well as the existence of any such interest must be declared. After declaring a DNPI interest, the Member may stay, speak and vote on the matter.

(c) Where it is possible that a fair-minded and informed observer, having considered the facts would conclude that there was a real possibility that the Member might be predetermined or biased the Member should declare their predetermination or bias and then leave the room while that item is considered.

Advice to Members: If any Councillor has any doubt about the existence or nature of any DPI or DNPI which he/she may have in any item on this agenda, he/she should seek advice from the Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.

Part One - Substantive Items

5. Financial Management Report April - September 2017 1 - 20

The Committee is asked to consider the Financial Management Report (April to September 2017).

The Deputy Cabinet Member for Finance and Performance and the Chief Financial Officer will be attending the meeting.

6. Medium Term Financial Plan and Draft Budget 2018/19 21 - 48

To review the draft Medium Term Financial Plan and Draft Budget 2018/19 and make the necessary recommendations to the Cabinet on 7 February 2018.

Cabinet Members, Strategic Management Team and Heads of Service have been invited to attend, as have all Members. The Business Rate Pilot Proposal, Medium Term Financial Plan and Budget Variations have been attached as appendices to the report.

Issued on Monday, 15 January 2018

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**Chief Executive, Swale Borough Council,
Swale House, East Street, Sittingbourne, Kent, ME10 3HT**

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Scrutiny		Agenda Item:
Meeting Date	25 January 2018	
Report Title	Financial Management Report – April – September 2017	
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance & Performance	
SMT Lead	Nick Vickers, Chief Financial Officer	
Head of Service	Nick Vickers, Chief Financial Officer	
Lead Officer	Phil Wilson, Financial Services Manager	
Key Decision	Yes	
Classification	Open	
Forward Plan	Reference number:	
Recommendations	<ol style="list-style-type: none"> 1. To note the projected revenue underspend on services of £465,000 (including £848,000 additional income (Table 1 refers)). 2. To note the capital expenditure of £4,039,760 to end of September 2017 (Paragraph 3.15 and Appendix II refers). 	

1. Purpose of Report and Executive Summary

1.1 This report invites Scrutiny to consider the revenue and capital projected outturn activity for 2017/18 as at the end of September 2017. The report is based on service activity up to the end of September 2017 and is collated from monitoring returns from budget managers.

1.2 The headline figures are:

- Total forecast revenue underspend of £465,000;
- Capital expenditure of £4,039,760.

2. Background

2.1 The Council operates a monthly budget monitoring process at Head of Service level, which reports each month to the Strategic Management Team.

2.2 Financial monitoring reports are presented to Cabinet on a quarterly basis, as well as to Scrutiny Committee.

3. Proposals

Revenue Outturn

- 3.1 As at the end of September the total forecast revenue underspend is £465,000.
- 3.2 Table 1 details the significant service movements by type of variance.
- 3.3 Table 2 shows the outturn position by service.
- 3.4 Table 3 details the outturn position by directorate.
- 3.5 Table 4 details the line-by-line service variations.
- 3.6 The figures in the following tables are as follows - a minus figure “(x)” represents additional income or reduced expenditure and a positive figure “x” represents reduced income or additional expenditure.

Table 1: Service Movements

Service/Contract	Reason for Variance	Working Budget	Projected Variance (period 3)	Projected Variance (period 6)
		£'000	£'000	£'000
Additional Income				
Parking Management	Additional income from pay & display fees	(1,715)	(200)	(253)
	Additional income from parking permits – on street parking	(107)	(20)	(40)
	Additional income from season ticket income	(59)	(4)	(15)
Beach Huts	Additional income	(8)	-	(14)
Recycling & Waste Minimisation	Additional income from garden waste collections (brown bins)	(385)	(59)	(71)
	Bulky waste collections	(77)	-	(12)
Planning	Fees – additional planning income (See note * below)	(729)	(254)	(223)
Environmental Initiatives	Fixed penalty notices	(6)	-	(46)
Housing – Stay Put Scheme	Disabled facilities grant fees	(61)	(60)	(50)
Property Management	Rental income	(321)	(60)	(60)
Refuse & Street Cleansing	Special collections & refuse sales	(46)	-	(16)
Community Safety	Community budgets – complex needs	-	-	(15)

Service/Contract	Reason for Variance	Working Budget	Projected Variance (period 3)	Projected Variance (period 6)
		£'000	£'000	£'000
Leisure, Sports, Open Spaces, Parks, Countryside and Allotments	Central House utility costs recharge	-	(11)	(11)
Democratic Services	Additional grant	-	-	(10)
Loss of Income:				
Land Charges	Loss of income	(220)	43	36
Other:				
Net Income	Net additional income	-	(47)	(48)
Total Net Income		-	(672)	(848)
Procurement/Shared Service Savings/Costs:				
Public Convenience	Public conveniences cleaning contract	259	(47)	(45)
Grounds Maintenance	Contract savings	1,275	(53)	(50)
Sheerness Gateway	Contract savings	54	-	(30)
Leisure Services	Swale Community/SERCO Leisure	687	-	(30)
Planning	Additional costs shared service	192	-	18
Audit Shared Service	Additional costs shared service	157	-	12
Land Charges	Additional costs shared service	44	-	7
Planning	Building Control	78	-	(6)
IT Shared Service	Additional costs shared service	406	-	3
Env. Health Shared Service	Additional costs shared service	416	-	5
HR Shared Service	Savings on shared service with Maidstone – refund from 16/17	254	(30)	(30)
Total Procurement/Shared Service Savings/Costs		-	(130)	(146)
Additional Costs:				
Homelessness	Net Bed and Breakfast	263	157	161
Legal	External Legal costs on planning appeals	35	-	85
Refuse Collection	Purchase of wheeled bins	62	70	70
Environmental Initiatives	FPN – Additional costs (see offsetting income above)	-	-	46
Property	Swale House – Rates	5	16	15
Corporate	Supply of insurance	357	-	26
Parking	Car Parks – Rates/water rates	206	17	19
	Cash security & licences	-	-	23
	Park & Ride	-	27	34

Service/Contract	Reason for Variance	Working Budget	Projected Variance (period 3)	Projected Variance (period 6)
		£'000	£'000	£'000
Planning	Additional legal and planning specialists for planning appeals	-	100	100
	Planning Enforcement Team restructure – additional staffing costs (*)	115	4	4
	Planning Enforcement Team – additional agency costs (*)	-	14	14
	Planning Development Management – additional staffing costs (*)	696	101	101
	Planning Development Management – additional agency costs (*)	41	76	76
	(*) All offset by additional planning income shown above in 'Other Income'			
Total Additional Costs		-	582	774
Underspends:				
Salaries	Net Employee Costs (incl. agency) (excluding (*) shown above in planning)	12,546	(123)	(176)
Community Halls and Centres	Alexander Centre grant	49	(49)	(49)
HR	Corporate Training	101	-	(20)
Markets	Savings on rates	25	-	(18)
Corporate Items	Savings on Finance lease	69	(21)	(13)
Chief Executive	Savings on corporate projects		-	(12)
Democratic Services	Members Allowances	415	-	(17)
Total Underspends		-	(193)	(305)
Total Variance		-	(413)	(525)
Other Net Overspends		-	26	60
Total Variance		-	(387)	(465)

Table 2: Projected Variance by Service

		Working Budget £	Projected Outturn £	Projected Variance £
Chief Executive	M. Radford	364,800	368,800	4,000
Policy	D. Clifford	218,310	210,310	(8,000)
Economy & Communities	C. Hudson	2,007,830	1,884,830	(123,000)
Communications	S. Toal	265,350	295,350	30,000
Resident Services	A. Christou	1,161,260	1,308,260	147,000
Planning	J. Freeman	962,190	1,084,190	122,000
Commissioning & Customer Contact	M. Cassell	5,576,800	5,083,800	(493,000)
Director of Corporate Services/ Director of Regeneration/ Emergency Planning	E. Wiggins	418,420	284,420	(134,000)
Information Technology	C. Woodward	1,144,090	1,147,090	3,000
Audit	R. Clarke	156,990	168,990	12,000
Environmental Health	T. Beattie	526,060	531,060	5,000
Finance	N. Vickers	867,830	866,830	(1,000)
Human Resources	D. Smart	316,000	266,000	(50,000)
Legal	P. Narebor	403,390	487,390	84,000
Democratic Services	K. Bescoby	970,260	938,260	(32,000)
Property	A. Adams	585,320	541,320	(44,000)
Contribution from General Fund		(116,000)	(116,000)	0
Corporate Items		2,522,100	2,535,100	13,000
NET REVENUE SERVICE EXPENDITURE		18,351,000	17,886,000	(465,000)
Financed by:				
Revenue Support Grant		(1,238,000)	(1,238,000)	0
Business Rates		(6,506,000)	(6,506,000)	0
New Homes Bonus		(2,743,000)	(2,743,000)	0
Contribution from Business Rates Reserves		(255,000)	(255,000)	0
Collection Fund Surplus		(140,000)	(140,000)	0
Council Tax Requirement		(7,469,000)	(7,469,000)	0
TOTAL FINANCING		(18,351,000)	(18,351,000)	0
NET EXPENDITURE		0	(465,000)	(465,000)

Table 3: Projected Variance by Directorate

		Working Budget £	Projected Outturn £	Projected Variance £
Chief Executive		364,800	368,800	4,000
Mid Kent Services		2,546,530	2,600,530	54,000
Commissioning & Customer Contact		5,576,800	5,083,800	(493,000)
Policy & Performance		218,310	210,310	(8,000)
Corporate Services		5,031,210	4,833,210	(198,000)
Regeneration		4,613,350	4,789,350	176,000
NET REVENUE SERVICE EXPENDITURE		18,351,000	17,886,000	(465,000)

Table 4: Main Variations by Service

Projected Net (Under)/Overspend / Income Shortfall as at end of September 2017		
Service – Cabinet Member (Head of Service)	£'000	Explanation
CHIEF EXECUTIVE – Cllr A. Bowles (Mark Radford)		
Chief Executive & Corporate Costs	(63)	£47k Underspend – net staff costs. £12k Underspend – special project costs. £4k Underspend.
Transformation Project	67	£67k Additional costs – net staff costs due to extension of Project Team.
TOTAL	4	
POLICY – Cllr A. Bowles (David Clifford)		
Policy	(8)	£8k Underspend – net staff costs.
TOTAL	(8)	
ECONOMY AND COMMUNITIES – Cllrs - All (Charlotte Hudson)		
Environmental	-	£46k Additional costs - Environmental Initiatives offset by additional £46k Fixed Penalty Notice fees received.
CCTV	-	£8k Overspend on monitoring service offset by £8k Additional grant/contributions income.
Community Halls and Centres	(46)	£49k Underspend – no grant due to Alexander Centre this year. £3k Additional costs.
Community Safety	(42)	£27k Underspend – net salaries. £15k Additional income - grant from KCC.
Economy & Community Services	(20)	£20k Underspend – net salaries.
LEF (Local Engagement)	-	Nil variance reported.
Youth	-	Nil variance reported.
Economic Development	3	£3k Net agency staff costs overspend.
Learning, Business & Skills	-	Nil variance reported.
Regeneration	-	Nil variance reported.
Arts Events & Activities	-	Nil variance reported.
Markets	(18)	£18k saving re rates. £13k increased income re Sittingbourne and Faversham. £13k reduced income Sheerness.
Sports Development	-	Nil variance reported.
TOTAL	(123)	

Projected Net (Under)/Overspend / Income Shortfall as at end of September 2017		
Service – Cabinet Member (Head of Service)	£'000	Explanation
COMMUNICATIONS, PRINTING, ADVERTISING & PROMOTION – Cllr A. Bowles (Sara Toal)		
Communications	30	£30k Additional costs (net) – vacancy savings are offset by agency costs.
TOTAL	30	
RESIDENT SERVICES – Cllrs K. Pugh and D. Dewar-Whalley (Amber Christou)		
Housing Development and Strategy	(6)	£6k Underspend – net
Private Sector Housing	-	Nil net variances.
Housing Options	196	<p>£161k Additional costs - homelessness / temporary accommodation (TA) (net of grant).</p> <p>Notable increases in costs occurred from the first quarter to the second across all classes of spend – B&B, Nightly Lets and Optivo.</p> <p>Additional costs can also be driven by the need to accommodate non-standard households (e.g. use of the Premier Inn when large or disability adapted properties are not available).</p> <p>Although future Optivo costs may reduce, no allowance has been made as Universal Credit (roll-out start date here 6 December) has been known to affect income – to date this is an unmeasurable factor. Also the full bearing of the benefit cap is yet to be determined.</p> <p>£35k Additional costs – net.</p>
Housing Benefit and Council Tax Collection	-	Nil variance reported.
Council Tax Benefit	-	Nil variance reported.
Stay Put Scheme	(43)	<p>£50k Additional income - Disabled Facility Grant fees.</p> <p>£7k Additional costs – net staff and agency staff.</p>
TOTAL	147	
PLANNING – Cllr G. Lewin (James Freeman)		
Building Control/Dangerous Structures	(5)	<p>£6k Underspend on contract costs.</p> <p>£1k Additional expenditure – dangerous structures.</p>

Projected Net (Under)/Overspend / Income Shortfall as at end of September 2017		
Service – Cabinet Member (Head of Service)	£'000	Explanation
Development Control	67	£223k Additional income – planning fees. £195k Additional costs – staffing and agency (to be met from planning fees). £100k Additional costs - specialists for planning appeals. £5k Saving – planning advertising.
Development Services	-	Nil variance reported.
Local Land Charges	43	£7k Additional costs on shared service. £36k Reduced income – local land charges.
Local Planning & Conservation	(1)	£1k Underspend. N.B. Any underspend on the local plan will be transferred to the ring fenced reserve to be used solely to fund LDF associated work.
Mid Kent Planning Service (MKPS)	18	£55k Additional costs on shared service. £37k Additional income - transfer from reserves – local land charges provision.
TOTAL	122	
COMMISSIONING & CUSTOMER CONTACT – Cllr D. Simmons (Martyn Cassell)		
Commissioning & Customer Contact, Client & Amenity Services, Customer Service Centre and Technical Services	(106)	£62k Underspend - net staff costs savings. £30k Underspend – KCC Gateway contract. £6k Underspend – Sheerness Gateway fees & services costs. £8k Underspend - net.
Cemeteries and Closed Churchyards	1	£6k Additional expenditure – pest control. £5k Additional income – burials.
Parking Management	(227)	£253k Additional income – pay & display fees. £15k Additional income – season tickets. £34k Additional expenditure – planned Christmas park & ride schemes. £19k Additional expenditure – car park rates and water rates. £23k Additional expenditure – cash security and licences. £40k Additional income – on street parking permits and suspended parking bays. £5k Additional expenditure – net. NB. Any surplus re. on street parking will be transferred to the ring fenced on-street parking account under Section 55 of the Road Traffic Act 1984.

Projected Net (Under)/Overspend / Income Shortfall as at end of September 2017		
Service – Cabinet Member (Head of Service)	£'000	Explanation
Seafront and Harbour & Quays	(16)	£14k Additional income – beach hut licences. £2k Underspend - net.
Leisure, Sports, Open Spaces, Parks, Countryside and Allotments	(41)	£11k Additional income - utility costs recharge for Central House. £57k Savings - Leisure centres maintenance contract. £29k Additional expenditure – Leisure centres management contract. £2k Underspend – net.
Recycling & Waste Minimisation	(71)	£71k Additional Income – garden waste bins.
Refuse Collection / Street Cleansing/ Public Conveniences	3	£45k Procurement Savings – cleaning of public conveniences contract. £4k Underspend – rates, public conveniences. £70k Additional expenditure - additional wheeled bins. £10k Additional income – sale wheeled bins. £6k Additional income – special collections. £12k Additional income – bulky waste collections. £10k Additional expenditure - net.
Contracts and Procurement	11	£11k Additional expenditure – net staffing costs.
Highways SBC	3	£4k Saving – footway lighting electricity costs. £6k Additional expenditure – contractor costs General Improvement Areas maintenance. £1k Additional expenditure - net.
Grounds Maintenance	(50)	£50k Procurement savings – grounds maintenance.
TOTAL	(493)	
DIRECTOR OF CORPORATE SERVICES/REGENERATION – Cllrs D. Dewar-Whalley, A. Bowles and M. Cosgrove.		
Director of Corporate Services	(121)	£121k Underspend – Salaries.
Director of Regeneration	(13)	£13k Underspend – Salaries. Consultancy and legal fees costs are anticipated for the Sittingbourne Master Plan, requesting corporate funding as per previous years.

Projected Net (Under)/Overspend / Income Shortfall as at end of September 2017		
Service – Cabinet Member (Head of Service)	£'000	Explanation
Licensing	-	Nil variance reported. N.B. Any surplus on Hackney Carriage Licensing will be transferred to the ring fenced reserve to be used solely to fund Hackney Carriage related work.
Emergency Planning	-	Nil variance reported.
TOTAL	(134)	
IT SERVICES – Cllr D. Dewar-Whalley (Chris Woodward)		
IT MKS	3	£3k Additional costs on shared service. N.B. Any variance at year-end on IT maintenance & software will be transferred to the ring fenced reserve to be used solely to fund IT related expenditure in future years.
TOTAL	3	
ENVIRONMENTAL HEALTH – Cllr. D. Simmons (Tracey Beattie)		
Environmental Health MKS	5	£5k Additional costs on shared service.
TOTAL	5	
INTERNAL AUDIT – Cllr D. Dewar-Whalley (Rich Clarke)		
Audit Services	12	£12k Additional costs on shared service.
TOTAL	12	
FINANCE – Cllr D. Dewar-Whalley (Nick Vickers)		
Financial Services	(1)	£1k Underspend.
TOTAL	(1)	
HUMAN RESOURCES – Cllr D. Dewar-Whalley (Dena Smart)		
Human Resources	(30)	£30k Underspend – refund from 16/17 from MBC re secondment.
Organisational Development	(20)	£20k Underspend – corporate training
TOTAL	(50)	
LEGAL – Cllr D. Dewar-Whalley (Patricia Narebor)		
Legal MKLS	5	£5k Additional costs on shared service.
External Legal Fees	84	£84k Additional expenditure on planning appeals.
S106 Income	(5)	£5k Additional income.
TOTAL	84	

Projected Net (Under)/Overspend / Income Shortfall as at end of September 2017		
Service – Cabinet Member (Head of Service)	£'000	Explanation
DEMOCRATIC SERVICES – Cllr A. Bowles (Katherine Bescoby)		
Democratic Process	(22)	£17k Underspend – members' allowances. £5k Underspend – net.
Elections & Electoral Registration	(10)	£10k Additional grant income.
TOTAL	(32)	
PROPERTY SERVICES – Cllr D. Dewar-Whalley (Anne Adams)		
Property Services	1	£3k Additional costs – electric car. £2k Reduced expenditure – rates.
Administrative Buildings	15	£15k Additional costs – water at Swale House 16/17 and 17/18.
Property Management	(60)	£60k Additional income – rental income and back dated rent.
Health & Safety	-	Nil variance reported.
Building Maintenance	-	Any variance at year-end will be transferred to the Buildings Maintenance Fund for future years.
TOTAL	(44)	
NON-SERVICE BUDGETS		
Contribution from General Fund	-	Nil variance reported.
Corporate Items	13	£13k Underspend - finance lease underspend. £3k Additional Expenditure - net transfer to reserves – decriminalised parking and planning shared service (see notes above). £26k Additional expenditure – insurance premiums. Our public liability premium has increased as a result of changes announced by the Government in February 2017 to the discount rate used by courts to determine future losses in personal injury and fatal accident cases. In addition based on advice from our Insurers our employer and public liability levels have increased. The insurance of property has also increased. £3k Underspend – net.
TOTAL	13	

Projected Net (Under)/Overspend / Income Shortfall as at end of September 2017		
Service – Cabinet Member (Head of Service)	£'000	Explanation
TOTAL NET REVENUE SERVICE EXPENDITURE	(465)	

Business Rates

- 3.7 The 2017/18 business rates are based on a new 2017 Valuation List. The effect was to be neutral at a national level, so as valuations have increased, the multiplier (which is applied to the rateable value to determine the cost of business rates for the year) was reduced. For local authorities the intention is for a neutral effect through an adjustment to the tariff paid to the Government. In the Budget on 8 March, the Chancellor announced that the Government would provide £300m to support those business most affected by the revaluation of business rates, which is due to take effect from April 2017. The Council is currently drawing up its policy of how to distribute its share of this support (£0.592m).
- 3.8 The Council is due to collect £44m of business rates in 2017/18. Council has previously agreed to the establishment of a Business Rates Volatility Reserve, in order to assist the Council in managing the anticipated volatility in business rate income resulting from the introduction of business rate localisation from 2013/14. There are a number of causes of this volatility, such as new businesses opening, existing business growing or closing, rating appeals, and collection rates. The balance on the reserve is currently £1.4m.
- 3.9 The Council has set aside £7.8m for business rate appeals. This indicates how business rate income can vary greatly as a result of a decision made on business rate appeals.
- 3.10 DCLG have confirmed agreement to a business rate pool for 2017/18 consisting of KCC and ten district / borough councils.

Improvement and Regeneration Funds

- 3.11 Table 5 below details the position on a number of reserve funds as at the end of September 2017. Total budget not committed as at end of September 2017 is £777,000.
- 3.12 Appendix 1 details the approvals from the Improvement and Regeneration Funds during 2017/18. These total £128,000.

Table 5: Improvement and Regeneration Funds

Funds	Balance as at 1 April 2017	Budget Committed as at 1 April 2017	Budget Committed April - September 2017 (refer to Appendix I)	Budget Not Committed as at end of September 2017
	£'000	£'000	£'000	£'000
Performance	534	415	116	3
Pension & Redundancy	205	0	0	205
Regeneration	687	392	8	287
Communities	116	30	4	82
Local Loan Fund	200	0	0	200
TOTAL	1,742	837	128	777

Capital Expenditure

- 3.13 This section of the report details actual capital expenditure and highlights any variations between the revised 2017/18 capital budget and the projected outturn.
- 3.14 Actual expenditure to end of September 2017 is £4,039,760 (Table 6 below refers). This represents 37% of the revised budget (refer to Table 6). Further details by Head of Service are set out in Appendix II.
- 3.15 There is a minor overspend at this stage of £5k on a revised budget of £10.8m.

Table 6: Capital Programme Expenditure (refer to Appendix II)

	2017/18 Revised Budget	2017/18 Actual to end of September 2017	2017/18 Projected Full Year Variance
	£'000	£'000	£'000
Economy & Communities	7,718	2,982	0
Commissioning & Customer Contact	691	374	5
Environmental Services MKS	77	6	0
Finance	23	21	0
Resident Services	2,292	657	0
Total Capital Programme	10,801	4,040	5
Total SBC funded	7,596	2,800	5
Total Partnership funded	3,205	1,240	0
Total Capital Programme	10,801	4,040	5
% Spent to date compared to Revised Budget		37 %	

3.16 The 2017/18 capital programme expenditure of £4,039,760 is funded as set out in Table 7 below. Further details are provided in Appendix II.

3.17 Appendix II details the movement from the Original 2017/18 to the Revised 2017/18 Budget.

Table 7: Capital Programme Funding (refer to Appendix II)

Source of funding	2017/18 Revised Budget	2017/18 Actual to end of September 2017	2017/18 Projected Full Year Variance
	£'000	£'000	£'000
Partnership funding (including S106 Grants)	3,202	1,236	0
Earmarked Reserves	7,057	2,736	0
Long Term Debtors / Third Party Loans	22	22	0
Recycled Loans (external)	3	3	0
Capital Receipts	517	43	5
Total Funded	10,801	4,040	5

Payment of Creditors

3.18 The payment of creditors to end of September 2017 is 99% paid in 30 days against the target of 97%.

Debtors

3.19 Tables 8 and 9 below analyse the sundry debt outstanding.

3.20 Of the £469k total due in table 8 below, £95k is due to outstanding property rent. An invoice from KCC of £62k has now been paid.

Table 8: Debt outstanding by due date

	September 2017 (period 6) £'000	June 2017 (Period 3) £'000	September 2016 (Period 6) £'000
Not Due	561	94	141
1 – 2 Months	229	62	69
2 – 6 Months	50	44	51
6 – 12 Months	49	41	22
1 – 2 Years	21	24	39
2 – 3 Years	39	31	27
3 – 4 Years	24	34	23
4 – 5 Years	18	4	12
5 – 6 Years	2	3	30
6 + Years	37	38	84
Total	1,030	375	498
Total Due	469	281	357
% Total Due	46%	75%	72%

Table 9: Debt outstanding by Head of Service

	September 2017 (Period 6) £'000	June 2017 (Period 3) £'000	September 2016 (Period 6) £'000
Commissioning & Customer Contact	45	21	48
Property	174	168	191
Residents Services	189	150	206
Legal MKLS	0	1	1
Economy & Communities	71	11	12
Planning	7	1	14
Communications	0	0	0
Environmental Health	18	1	1
Policy	7	0	11
Finance	0	6	0
Other	519	16	14
Total	1,030	375	498

4. Alternative Options

4.1 None identified – this report is for information.

5. Consultation Undertaken or Proposed

5.1 Heads of Service and Strategic Management Team have been consulted in preparing this report.

6. Implications

Issue	Implications
Corporate Plan	Good financial management is key to achieving our Corporate Plan priority of being “A council to be proud of”.
Financial, Resource and Property	As detailed in the report.
Legal and Statutory	None identified at this stage.
Crime and Disorder	None identified at this stage.
Sustainability	None identified at this stage.
Health & Wellbeing	None identified at this stage.
Risk Management and Health and Safety	None identified at this stage.
Equality and Diversity	None identified at this stage.

7. Appendices

7.1 The following documents are published with this report and form part of the report:

- Appendix I: Improvement & Regeneration Fund allocations as at the end of September 2017;
- Appendix II: Capital Programme – Projected outturn as at the end of September 2017.

8. Background Papers

8.1 The Budget 2017/18 and Medium Term Financial Plan 2017/18 to 2019/20.

**Improvement & Regeneration Fund Allocations 2017/18
As at the end of September 2017**

	Amount £
Performance Fund	
Payment Card Industry Data Security Standard Compliance	80,000
Safeguarding Database Upgrade	14,250
CCTV Consultancy	8,250
Member Briefing on Air Quality	14,000
Total Approved as at September 2017	116,500

	Amount £
Regeneration Fund	
Housing & Infrastructure Fund Submission	8,000
Total Approved as at September 2017	8,000

	Amount £
Communities Fund	
Heritage Training	3,500
Total Approved as at September 2017	3,500

	Amount £
Total Approved as at September 2017	128,000

Capital Programme 2017/18

CAPITAL MONITORING	Funding SBC / P (*see note below)	2017/18 Original Budget £	2017/18 Revised Budget £	2017/18 Actual to September £	2017/18 Projected Full Year Variance £
CCTV - Repairs & Renewals Reserve	SBC	15,000	15,000	0	0
Easthall Farm Community Centre - S106	P	0	507,743	276,268	0
The Mill Project, Sittingbourne Skate Park	SBC	0	200,000	0	0
The Mill Project, Sittingbourne Skate Park	P	0	40,000	11,601	0
Faversham Creek Basin Regeneration Project (swing bridge)	SBC	0	200,000	0	0
STC - Multi Storey Car Park	SBC	0	90,500	0	0
STC – Cinema Complex	SBC	0	0	0	0
STC - Retail Properties	SBC	0	4,807,656	1,221,982	0
STC - Other Assets	SBC	0	1,856,972	1,473,038	0
TOTAL ECONOMY & COMMUNITIES		15,000	7,717,871	2,982,889	0
Cemeteries - Bell Road	SBC	0	41,000	0	0
Thistle Hill Community Woodland - Trim Trail - S106	P	0	35,000	35,012	0
New Play Area - Iwade Schemes - S106	P	0	92,200	76,106	0
Milton Creek Footpath & Viewing platform	SBC	0	17,386	17,351	0
Gunpowder Works Oare Faversham	P	0	9,000	0	0
Faversham Recreation Ground Improvements	P	0	15,795	15,795	0
Newington Car Park Wall	SBC	0	11,260	0	0
Car Park New Ticket Machines & Installation	SBC	0	14,000	0	0
Kemsley Recreation Ground - Sports Improvements	P	0	20,640	1,046	0

Capital Programme 2017/18

CAPITAL MONITORING	Funding SBC / P (*see note below)	2017/18 Original Budget £	2017/18 Revised Budget £	2017/18 Actual to September £	2017/18 Projected Full Year Variance £
Minster Leas Promenade Resurfacing	P	0	104,660	13,063	0
Pay & Display Information Boards	SBC	0	24,360	800	0
Stonebridge Pond Bridge, Faversham	P	0	20,765	0	0
Modular Toilet Kiosks	SBC	0	30,000	0	0
Milton Creek Country Park Access Road	SBC	0	40,000	0	0
Bridge Deck Replacement at Barton's Point Coast Park	SBC	0	14,000	18,860	4,860
New Play Area - Thistle Hill - S106	P	0	180,000	174,800	0
Nursery Close/Q'Boro Lines Bridge Replacement	P	0	1,735	1,735	0
Beach Huts, Leysdown - Capital Receipts	SBC	0	19,259	19,259	0
TOTAL COMMISSIONING & CUSTOMER CONTACT		0	691,060	373,827	4,860
Air Pollution Monitoring Station	SBC	35,000	77,380	5,914	0
TOTAL ENVIRONMENTAL HEALTH		35,000	77,380	5,914	0
DFG Mandatory Grants (CLG)	P	1,664,800	2,174,090	630,686	0
DFG Mandatory Grants (CLG)	SBC	0	92,100	0	0
HRG - Housing Repair Grants Over 60	P	0	3,546	3,546	0
RHB2 - Decent Home Loans Owner Occupier	SBC	0	22,361	22,361	0
TOTAL RESIDENT SERVICES		1,664,800	2,292,097	656,593	0

Capital Programme 2017/18

CAPITAL MONITORING	Funding SBC / P (*see note below)	2017/18 Original Budget £	2017/18 Revised Budget £	2017/18 Actual to September £	2017/18 Projected Full Year Variance £
Adelante Payment Card Software	SBC	0	23,032	20,532	0
TOTAL FINANCE AND PERFORMANCE PORTFOLIO		0	23,032	20,532	0
TOTAL CAPITAL PROGRAMME (SBC Funded)	SBC	50,000	7,596,266	2,800,097	4,860
TOTAL CAPITAL PROGRAMME (Partnership Funded)	P	1,664,800	3,205,174	1,239,658	0
TOTAL CAPITAL PROGRAMME (Gross Total)	SBC & P	1,714,800	10,801,440	4,039,755	4,860

SBC – internal funding from capital receipts and reserves.

* P – S106 contributions and external capital grants.

Reconciliation of Original Budget to Revised Budget :-

	£
Original Budget	1,714,800
2016/17 rollovers	1,875,860
Cabinet Approvals/Authorised Virements	7,210,780
Revised Budget	10,801,440

Scrutiny Meeting	
Meeting Date	25 January 2018
Report Title	Medium Term Financial Plan and 2018/19 Budget
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance & Performance
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Nick Vickers, Chief Financial Officer
Lead Officer	Phil Wilson, Financial Services Manager
Key Decision	Yes
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. To note the Medium Term Financial Plan. 2. To note the draft 2018/19 revenue budget proposals

1. Purpose of Report and Executive Summary

- 1.1 This report invites Scrutiny to consider the proposals for the Council's Medium Term Financial Plan (MTFP) and the draft 2018/19 revenue budget.
- 1.2 The Council has seen a dramatic change over the last eight years in how it is funded. The Revenue Support Grant has reduced by over 90% and will disappear completely in 2020/21, and in its place the Council has become reliant on income sources that are related in full or in some part to issues that it has control of. This sets the pattern for how councils will be funded in the future and this report sets out how the Council will move further down the path of financial self-sufficiency.
- 1.3 In their latest audit findings report Grant Thornton LLP, the Council's external auditors, state in relation to the further reductions in Government funding that "The Council is taking a pro-active approach to address these pressures. It continues to develop alternative income streams". They also said that "We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources."
- 1.4 This report has to be prepared prior to the Chancellor of the Exchequer's 22 November budget and also before the Council receives the 2018/19 Local Government Finance Settlement. It therefore represents an interim step in the development of balanced budget proposals which will be presented to Council on 21 February. The contents of this report will form the basis of the formal examination of the budget proposals by Scrutiny Committee on 25 January and

the Scrutiny Committee will be updated prior to the Committee meeting on the impact of the Budget and the Settlement.

2. Background

Local Government Finance

- 2.1 The Council accepted the Four Year Financial Settlement which covers the period 2016/17 to 2019/20. The funding streams included are Revenue Support Grant, business rate tariff and top up payments, Rural Services Delivery Grant and Transition Grant.
- 2.2 At this stage we are assuming that these elements where they apply to the Council are unchanged from the level previously notified but this has still to be confirmed.
- 2.3 The focus on the 2018/19 and 2019/20 financial years reflects the huge level of uncertainty over the business rates regime applying from April 2020, and how and whether the Government moves from a partial to a full localisation of business rates alongside a full business rates reset of the base position.

Business Rates

- 2.4 From 1 April 2013 business rates were part localised. Whilst the rate in the pound is still set nationally, councils retain 50% of the growth in income over the 2013 baseline. In two tier areas, billing authorities such as this Council, retain 40% of the growth, though there is also a complicated regime of “tariffs” and “levies”.
- 2.5 From the business rates pool that the Council participates in we can see the business rate growth figures for all the Kent Councils, and Swale is seeing by far the highest business rates growth of any of them. Financially this is massively important for the Council. Making reasonable and prudent assumptions based upon known growth for 2018/19 we are projecting a 14% increase in retained business which adds £908,000 of income.
- 2.6 The current level of provision for business rate appeals is £7.7m for all business rates collected by the Council. A new appeals process came into effect from April 2017. The procedure, known as ‘Check, Challenge and Appeal’ intends to reduce the number of appeals by allowing ratepayers to check the rental values on which the calculation of rateable value is based. However, in 2017 there is a new rating list due to the revaluation, and therefore the number of appeals and changes to valuations is likely to increase.

- 2.7 At its meeting on 6 October Cabinet considered a report on a proposal for the Kent Councils to submit a bid to be pilot for the full localisation of business rates in 2018/19. Kent Leaders unanimously agreed a proposal developed by the Kent Finance Officers on 19 October. The draft submission is attached in Appendix I. It is thought that nationally there will be 4-5 pilots and given the additional funding it will generate for councils it is anticipated that there will be a large number of submissions. We do not expect to hear the result until February.
- 2.8 Notwithstanding the business rate pilot submission we are also planning for the continuation of the current business rate pool for a third year in its current form including all district councils, except for Dover and Sevenoaks. Over the three years we estimate that the Council has received an additional £1.5m in business rates which would otherwise have been passed over to the Government (half of this was received direct and half is for projects to be agreed with KCC).
- 2.9 Government had previously been committed to the full localisation of business rates and a full reset of the baseline. It should also be said that the full localisation would have been accompanied by shifting responsibility for additional services to local government. After the June election this was dropped from the Local Government Finance Bill and it is still not clear where Government wish to go on this issue. Work also continues on the Fair Funding Review which looks at a revised needs based approach to funding local authorities. A consultation paper is expected shortly with implementation in 2020/21.

Council Tax

- 2.10 The Council increased Band D Council Tax to £164.88 for 2017/18; this is still the second lowest in the county. The revised approach taken in the 2017/18 Local Government Finance Settlement assumes that councils do increase their level of Council Tax and there will be no more Council Tax freeze grants. Council will determine the level of Council Tax on 21 February.
- 2.11 The Council also continues to see a significant increase in the Council Tax base. For 2017/18 the level was 3% and currently we are forecasting 2.9% for 2018/19.

New Homes Bonus

- 2.12 In December 2016 the Government announced its long awaited changes to the calculation basis of the New Homes Bonus. This had become a very important income stream for the Council but it had been clear that Government would seek to reduce the quantum available and change the basis of allocation. The new allocation basis sees funding allocated for five years rather than six years in 2018/19 and this reduces to four years in 2018/19. The Government also introduced the idea of a deadweight assumption on housing numbers before any growth is taken in to account. The figures included in this report reflect our latest

understanding of how the system will operate and housing numbers locally. However, the Government can easily tinker with the allocation basis to free up money for particular purposes, such as finding additional funding for adult social care as they did last year.

Homelessness

- 2.13 By far and away the largest funding pressure on the Council is the increasing cost of homelessness, and more particularly of bed and breakfast accommodation.
- 2.14 This is a national issue and so there are a limited range of actions which the Council is able to take. The most effective action has been to negotiate with Optivo a higher allocation of houses locally for short-term use at a cost well below those of bed and breakfast provision. The Council has received excellent co-operation from Optivo on this issue. The Housing Team is also looking at investment in prevention addressing root causes of homelessness. Current issues will be exacerbated by the introduction of the Homeless Prevention Act from 1 April 2018 which puts even more onerous and costly responsibilities on councils. In 2018/19 the Council will receive the flexible homelessness support grant of £197,520 and the New Burdens Homelessness grant of £87,490.
- 2.15 The latest in year budget monitoring shows a projected overspend of £161,000. There is no way of clearly establishing the level of demand which we will experience post 1 April 2018 so at this stage an additional £200,000 will be set aside and if this is not sufficient then reserves will be used in 2018/19 to supplement the budget.

Contractual Price Inflation

- 2.16 The Council's major contracts include price inflation (or deflation) provisions.
- 2.17 The main contracts have the following provisions:

Contract	Inflation Provision
Refuse/Street cleaning	Average Weighted Earnings (AWE) 40%, Consumer Price Index (CPI) 40%, and Diesel fuel index 20%;
Grounds maintenance	Retail Price Index excluding mortgage interest payments (RPIX)
Leisure	Retail Price Index
Public Conveniences	RPIX currently; but new contract proposed weighting of AWE 55%, CPI 35%, and Diesel fuel index 10%.

Staff Pay

- 2.18 The staff pay increase, to which members' allowances are linked, is still subject to negotiation. At this point budget provision has been made for a 1.2% increase in the pay bill. The budget will also allow for staff increments where applicable.

Capital Programme

- 2.19 The Council will have a much enlarged capital budget for 2018/19 and beyond due to the Sittingbourne Town Centre (STC) regeneration project. The Council has now signed the Development Agreement and the Funding Agreement for the leisure development following on from the retail agreement signed earlier this year. The development also includes a substantial highways scheme part funded by the Local Enterprise Partnership. The Council will also commence build in the first quarter of 2018 on the Multi Storey Car Park.
- 2.20 The initial STC work will be funded internally, i.e. from using the Council's cash flow. The Council's treasury advisers ArlingClose have been commissioned to advise on the best approach to the total funding package.
- 2.21 The capital programme will be presented to Cabinet and then Council in February.

Balanced Budget Proposals

- 2.22 The approach to balancing the 2018/19 and 2019/20 budget will be based upon:

- (1) Drive income - from Fees and Charges, new sources of income, asset management,
- (2) Deliver regeneration - generating additional Business Rates/New Homes Bonus/Council Tax,
- (3) Contracts – relet of contracts to achieve business outcomes and savings,
- (4) Transformation - the Transformation Team continues to review Council services and seek opportunities to make more use of digital service provision, and
- (5) Efficiency/staff savings- traditional approaches seeking efficiency savings.

3. Proposals

- 3.1 The Medium Term Financial Plan is our forecast of the financial position of the Council over the next three years and the main variables in the plan have been considered in section 2. of this report. The updated Medium Term Financial Plan is shown in Appendix II.
- 3.2 Variations over £5,000 from the 2017/18 revenue budget are set out in Appendix III. These are shown against the following categories:

Heading	Explanation
Growth Items	These are items where the Council has discretion over the spend.
Unavoidable Cost Pressures	These are items where due to legal or contractual requirements there is no choice over incurring the expenditure.
Loss of Income	Loss of income currently in the base budget.
Service savings	Cashable cost savings.
Additional Income	Increases in income over the current base.

- 3.3 In July 2017 Cabinet agreed to set aside £677,000 of the 2016/17 underspend to help smooth the savings target between 2018/19 (where the gap was £1.3m) and 2019/20 (where a further £400,000 gap is forecast).
- 3.4 Appendix II currently shows a gap of £677,000 for 2018/19 and work is ongoing to close this gap and present a balanced budget position to Cabinet and Council in February.

4. Alternative Options

- 4.1 These are Cabinet's budget proposals as at 6 December 2017 and reflect extensive work on options to work towards a balanced budget position for February 2018. They will be subject to review by Scrutiny Committee and will be submitted to Cabinet and Council in February.

5. Consultation Undertaken or Proposed

- 5.1 Formal consultation with the business community will be undertaken following cabinet consideration of this report.

6. Implications

Issue	Implications
Corporate Plan	The budget proposals support the delivery of the Council's corporate objectives.
Financial, Resource and Property	This report sets out the Council's financial resourcing plans.
Legal and Statutory	The Council is required to set a Council tax and a balanced budget.
Crime and Disorder	Any potential impact will be addressed by service managers in their budget proposals.
Environmental Sustainability	Any potential impact will be addressed by service managers in their budget proposals
Health and Wellbeing	Any potential impact will be addressed by service managers in their budget proposals
Risk Management and Health and Safety	Any potential impact will be addressed by service managers in their budget proposals
Equality and Diversity	Any potential impact will be addressed by service managers in their budget proposals
Privacy and Data Protection	Any potential impact will be addressed by service managers in their budget proposals

7. Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Business Rate Pilot Proposal.
- Appendix II; Medium Term Financial Plan.
- Appendix III: Budget Variations

8. Background Papers

8.1 No background papers.

Kent Business Rate Pilot Proposal

Stability, Growth, Collaboration

A proposal to pilot 100% Business Rates Retention in Kent and Medway

October 2017

1. Introduction

- 1.1. Following the Government's *Invitation to Local Authorities*, this proposal sets out a business case for the principal local authorities in Kent and Medway to pilot 100% Business Rates Retention in 2018/19. It aims to increase financial stability, respond to the pressures on local authority services resulting from population and business growth, and drive future housing and commercial growth.
- 1.2. Our proposal is structured in four main sections:
 - First, it sets out the **membership** of the proposed Kent and Medway business rates pilot, explains how the local authorities involved constitute a **functional economic geography** and outlines how Kent and Medway's economic, demographic and spatial profile makes it a suitable pilot area
 - Second, it explains **how the Business Rates Retention Growth pilot will work**, describing the financial model, the proposed split of resources between tiers and our proposed governance and management arrangements
 - Third, it outlines the **benefits that the Business Rates Retention Growth pilot will deliver** in support of financial stability, housing and commercial growth and collaboration, and sets out proposals for **monitoring and evaluation**
 - Finally, it summarises the proposal against the **key criteria** set out by Government in their *Invitation*.
- 1.3. Four appendices accompany this proposal. **Appendix 1** provides further detail on the financial case, including detailed calculations. **Appendix 2** outlines Kent and Medway's functional economic market area and explains the business rates base in this context. **Appendix 3** sets out further detail on the proposed governance and management arrangements. **Appendix 4** provides an assessment of the options that we considered in developing this proposal.

Key principles

- 1.4. In designing our proposals for Business Rates Retention, we have borne in mind the criteria set out in the *Invitation* and a series of principles which form **five 'key tests'** for the Kent and Medway model. Specifically, the Kent and Medway BRR pilot must:

Kent Business Rate Pilot Proposal

- **Increase financial sustainability and stability**, by providing greater certainty to each authority to address the rising spending demands arising from population and business growth. It must mitigate the impact of economic shocks and ensure that within the pilot, there is no loss of existing funding compared with the current arrangements: every authority must derive benefit from the overall business rate growth across the whole functional economic area (which may not necessarily be equivalent to the growth achieved within the individual local authority)
- **Support Kent and Medway's population and housing growth**, by channelling additional resources to those areas with the greatest pressures associated with our growing and ageing population
- **Support trade, investment and more productive employment** by enabling resources to be shared to bring forward and promote locations for commercial growth
- **Incentivise improved collaboration between the authorities across Kent and Medway** by striking a balance between resourcing individual authorities and creating headroom to work together strategically at the most economically efficient spatial scale
- **Be fair, transparent and sustainable in the long term**, using a formula that is as simple and equitable as possible in the light of our other objectives

1.5. These 'five tests' form the basis of the model outlined below.

Building on success

1.6. Our proposals build on an established record of collaboration across Kent and Medway:

- First, **a number of Kent authorities were early adopters of the business rate pool under the current 50% retention.** These authorities quickly recognised the value of a pool in enabling the risks of income turbulence to be managed across a wider area. This bid builds on the principles established in the existing pool. In particular, we wish to:
 - **further pilot the 50/50 split between upper tier and lower tier authorities**, providing a more sustainable basis for local retention better reflecting the responsibilities of the different tiers
 - build on the principle established in the existing pool that **30% of the proceeds should be focused on collaborative working to stimulate future business rate growth**
- Second, **Kent and Medway councils have a strong history of collaborative working.** Recent examples include the arrangements between all districts and the county council in relation to various council tax initiatives including the introduction of local council tax reduction schemes, fraud prevention, and review of discounts and exemptions. The County Council and the Fire and Rescue Authority have used the upper tier proceeds from the existing business rate pool to collaborate on emergency planning provision to contribute to the Kent Resilience Forum.

Kent Business Rate Pilot Proposal

2. Membership and geography

Membership

- 2.1. **All the principal authorities in Kent and Medway will be members of the Business Rate Retention pilot.** There are 15 principal authorities: 12 Kent District Councils¹, Kent County Council, Medway Council and the Kent Fire and Rescue Service (KFRS). The membership therefore contains a combination of county and district authorities within a two-tier structure and a unitary council.
- 2.2. This proposal has been approved by Kent and Medway Council Leaders² and has been signed off by the Section 151 officers for each authority.

Geography

Kent and Medway and its business rates base

- 2.3. Kent and Medway has a population of around 1.8 million, with approximately 760,000 households, 81,000 businesses³ and 54,500 properties on the non-domestic rates register. While Kent and Medway contains one of the ten largest ratepayers in the country (Eurotunnel), the business base is generally dominated by small and medium enterprises: 85% of businesses employ fewer than ten people and there are few large private sector employers. We believe that the diversity and scale of the business rates base provides the ideal basis for a pilot, as the area is sufficiently large to be confident of managing risks from business rate fluctuations.
- 2.4. The past five years has seen total business rates receipts rise by around £59 million across Kent and Medway, compared with the baseline used for the current 50% retention system. All local authority areas with the exception of Tonbridge and Malling have seen growth over that period (with the diminution in Tonbridge and Malling the result of a single major industrial loss).
- 2.5. The total value of business rates collected in Kent and Medway in 2017/18 is expected to be around £637 million⁴: our projections indicate that 100% retention could result in an additional c.£25 million being retained in Kent and Medway.
- 2.6. In our view, Kent and Medway is an appropriate geography for the BRR pilot, because:
 - **It is an established and coherent functional economic area.** Self-containment in travel-to-work patterns is around 82% (with the main outflow to London). The area encompasses the entirety of the road and rail network to the southeast of London (including most of the High

¹ Ashford Borough Council, Canterbury City Council, Dartford Borough Council, Dover District Council, Gravesham Borough Council, Maidstone Borough Council, Sevenoaks District Council, Shepway District Council, Swale Borough Council, Thanet District Council, Tonbridge and Malling Borough Council, and Tunbridge Wells Borough Council

² Kent and Medway Council Leaders is the unincorporated 'Leaders' Board' for Kent and Medway

³ ONS (2017), UK Business Counts (local units measure)

⁴ DCLG (2017), Provisional National Non-Domestic Rates Return 2017/18

Kent Business Rate Pilot Proposal

Speed One network). Inter-district travel-to-work and travel-to-learn patterns are complex, no single centre dominates in terms of business stock or employment, and the industrial structure is diverse.

- **It is coterminous with a range of public service planning and delivery arrangements.** The Fire and Rescue Service, the Office of the Police and Crime Commissioner and the Sustainability and Transformation Partnership for health and social care integration all operate to the Kent and Medway geography. There is also a history of strategic collaboration at Kent and Medway level in the development of (for example) the *Kent and Medway Housing Strategy* and the joint *Growth and Infrastructure Framework*, and through the operation of the Kent and Medway Economic Partnership, in which all the local authorities are engaged. We also have experience of operating an existing business rates pool across the Kent and Medway geography, with the involvement of 12 of the 15 principal local authorities.
- **It shares common opportunities and challenges, particularly related to population growth.** Between 2011 and 2016, Kent and Medway's population grew by an estimated 89,000 (an increase of 5%, compared with 4% nationally). Between 2016 and 2031, the population is forecast to expand by a further 293,000: a 16% increase, compared with a 10% increase across England as a whole⁵. Population growth is welcome, and reflects the major development opportunities in the Thames Estuary, Ashford and elsewhere. But it does present pressures, and reinforces the need for collaboration to deliver the housing and services that a rising population demands. This includes those services associated with our ageing population, including the rising costs of social care.
- **It offers a balance of spatial and economic characteristics that are relevant to a national pilot.** Overall, Kent and Medway's economic profile resembles that of non-metropolitan England as a whole, more than it does the rest of the South East. Within that context, it includes large urban centres, rural communities and coastal towns, with wide variances in the viability of development, the ability to grow the business rates base and local economic opportunities. Broadly, Kent and Medway contains three distinct economic areas: North Kent (including Medway, Ebbsfleet Garden City and the Thames Estuary); East Kent (including Ashford, Canterbury and the coast); and West Kent. The experience of the pilot in balancing the needs of diverse local economies is therefore likely to yield useful lessons for the rest of the country.

3. The Kent and Medway Business Rates Retention pilot: How it will work

Operating model

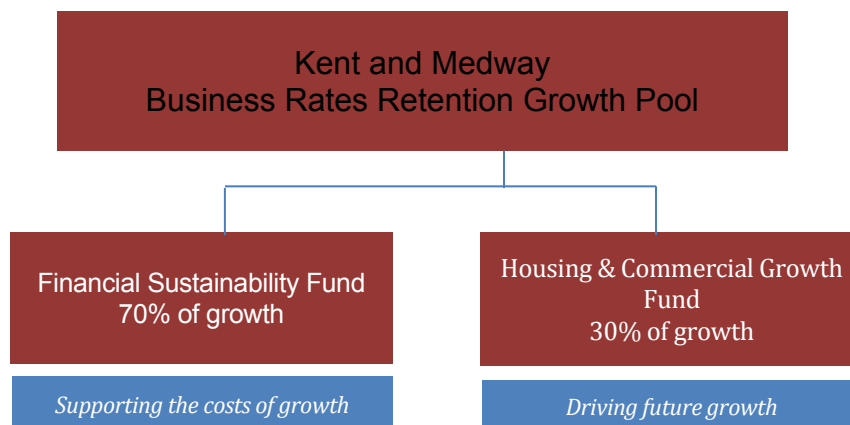
In accordance with the key principles outlined above, our proposed BRR pilot contains two elements: a **Financial Sustainability Fund** and a **Housing and Commercial Growth Fund**. This model is already operating successfully through the current pooling arrangements involving 12 Kent authorities, and is

⁵ Kent County Council housing-led forecast (2016); ONS sub-national population projections (2014 base)

Kent Business Rate Pilot Proposal

summarised below. It should be noted that all figures are based on estimates and are, at this stage, indicative:

Figure 1: The Kent and Medway BRR model



Financial Sustainability Fund

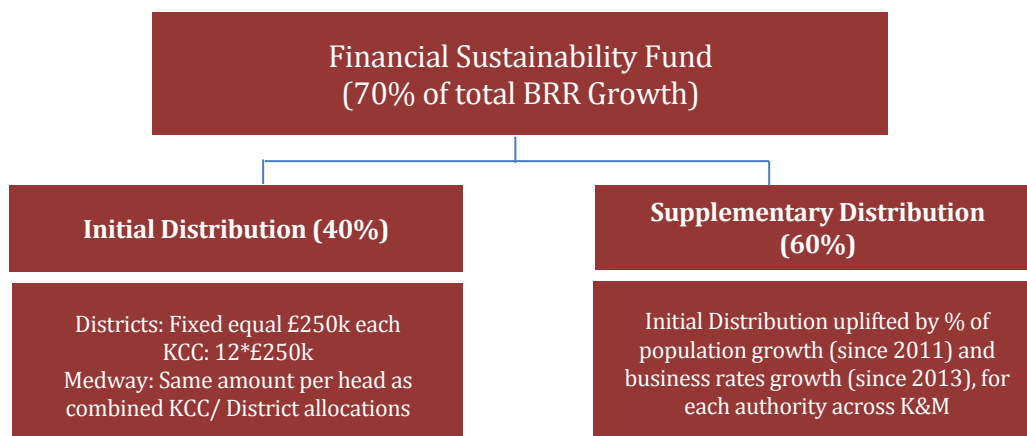
- 3.1. The Financial Sustainability Fund (FSF) is designed to provide greater certainty to all Kent and Medway local authorities and to support them in managing the pressures associated with growth. In 2018/19, it is proposed to account for 70% of the c.£25 million total estimated business rates growth.

The FSF will be distributed according to a formula which:

- provides a **guaranteed revenue baseline** for each authority, provided that there are sufficient proceeds from 100% retention. Should there be insufficient proceeds, the allocation for each authority will be reduced by the same percentage amount
- **links growth in funding with population increase and business rates increase** (as a proxy for commercial growth) over the past five years
- for two-tier authorities (the 12 Kent Districts and Kent County Council), **splits growth 50:50** between the tiers, providing a more transparent distribution than the current 80:20 split and the associated tariffs and top-ups.

Kent Business Rate Pilot Proposal

Figure 2: The Financial Sustainability Fund



Within the FSF model:

- The **initial distribution** provides a population-derived basic allocation for Medway (which accounts for 15% of total population) and Kent (85%). The Kent share of the initial distribution is split 50% between Kent County Council and the combined 12 Districts, with each District receiving an equal amount, ensuring that smaller authorities have some additional resilience.
 - The **supplementary distribution** multiplies the initial distribution by: a) the proportionate increase in population between 2011-16 in each area⁶; and b) the proportionate increase in total business rates receipts since 2013⁷. Where an individual local authority receives a diminution of total rates receipts (which is the case with one authority in the pool), its rates receipts multiplier is set to zero. The amount available for the supplementary distribution will be equivalent to the balance of the overall resources available from 100% business rate growth retention after satisfying the condition that there must be no loss of existing funding, plus the initial distribution and the allocation of 30% of the total to the Housing and Commercial Growth Fund. This is the principal mechanism used to manage the risk of fluctuation in business rate proceeds.
- 3.2. The Financial Sustainability Fund has the effect of ensuring that every authority benefits from the business rates growth across the entire functional economic area, but resources are directed to those areas facing the greatest pressure and demands on local services. It also **smooths out significant differences in outcomes** caused by (for example) major plant closures. Across Kent and Medway, the FSF provides an indicative estimated average of £9.52 per resident, within a relatively narrow range at local authority level.
- 3.3. Funds within the FSF will be used to support costs incurred by local authorities in the exercise of their statutory functions, where these have increased due to growth, for example in relation to additional housing and community services and social care. We anticipate that the FSF will particularly support

⁶ i.e. since the 2011 census

⁷ i.e. since the introduction of 50% rates retention

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local authorities in meeting cost pressures linked with our ageing population, both in social care and in supporting the adaptation of the housing stock to meet changing needs.

- 3.4. Within the FSF, agreement will be reached regarding the funding of the **Kent Fire and Rescue Service**, via the allocations to Kent County Council and Medway Council.

Housing and Commercial Growth Fund

- 3.5. 30% of retained business rates growth will be invested in the Housing and Commercial Growth Fund (HCGF). The HCGF is designed to pool a sufficiently large level of resources to make a significant difference to support future delivery, where outcomes can be better achieved by local authorities working together across a wider area. This will include (for example) investment in:

- **Measures to unlock housing development** – including investment in the existing stock to help people remain in their own homes for longer and supporting the delivery of a wider range of housing tenures - potentially matching future Growing Places Fund and similar schemes as well as private sector investment
- **Measures to unlock commercial development**, again matching where possible commercial and Government investment
- **Promoting investment and trade**, linked with the UK's international trade priority and driving demand for key employment sites
- **Speeding up the planning process**, by increasing the resources to support growth management across all tiers

- 3.6. It is likely that the mix of funding requirements will vary across Kent and Medway's three economic areas, given their different growth opportunities and viability pressures. In managing the HCGF, we therefore intend to pool funds in three 'clusters', for North Kent, East Kent and West Kent, with the distribution based on each area's share of total business rate receipts. Should our 100% retention pilot proposal be successful, we will publish a prospectus, agreed by Kent and Medway Council Leaders, setting out the parameters for the use of the HCGF.

- 3.7. The partnerships in East, North and West Kent have discussed potential requirements for the use of the HCGF, within the context of the parameters above and the forthcoming prospectus:

Potential priorities for the Housing and Commercial Growth Fund

- There is wide evidence of unmet demand for **quality commercial space**, particularly grow-on space for smaller businesses⁸. Building on Kent and Medway's successful track record in operating loan and equity finance schemes, there is the potential for a recyclable fund to support new investors and

⁸ Locate in Kent; KCC/ Locate in Kent/ Caxtons (2016), *Kent Property Market Review*

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operators, including on public sector land

- Demand is rising for **extra care housing**, and there is a significant need to provide further care leaver accommodation. Additional investment in specialist housing could make a long-term contribution to reducing the care budget, as well as supporting overall housing delivery, and could potentially be matched by the local authorities
- There is evidence of market failure in some of Kent and Medway's **town centres**, as changing patterns of retail demand lead to a need for new investment to bring forward alternative uses and formats. Investment in the re-use and refurbishment of town centre properties (and the wider environment) will help to increase the rates base and support town centre housing delivery
- The HCGF could also support the **delivery of specific sites**, for example through coordinated marketing at 'cluster' level (linked, for example, with the development of the Enterprise Zone in North Kent)

While the HCGF will need to be clearly prioritised, each cluster will focus on relatively modest investments to yield the maximum medium-term rates return and housing delivery, drawing on partners' knowledge of local needs and the local market.

Management and governance

3.8. Governance arrangements are set out in the **Governance Agreement** attached in Appendix 3 and approved by each participating authority. This outlines the financial distribution of income growth as outlined above. In addition:

- **Maidstone Borough Council will be the Lead Authority for the purposes of the pool.** It will receive all payments from (and make any payments to) DCLG and will distribute funds within the pilot on the basis of this proposal. Maidstone Borough Council is currently the Lead Authority for the existing Kent business rates pool.
- **Strategic oversight of the pilot will be maintained by the Kent and Medway Council Leaders (KMCL).** KMCL is an unincorporated partnership including all the elected Leaders of the participating authorities.
- KMCL will be advised by both the **Kent and Medway Chief Finance Officers' Group** (which includes all the local authority Section 151 officers, as well as the chief finance officer of KFRS) and Kent and Medway Chief Executives
- Growth distributed to participating local authorities through the **Financial Sustainability Fund** will be managed by the relevant local authority, in accordance with the Governance Agreement

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- Decisions on the use of the **Housing and Commercial Growth Fund** will be taken by the relevant local authorities within East Kent⁹, North Kent¹⁰ and West Kent¹¹, using the established leaders' board arrangements that exist in each of those areas, in accordance with the Governance Agreement and the proposed HCGF Prospectus.

Residual assets and liabilities

- 3.9. At the end of the pilot, there will be no residual assets or liabilities within the Financial Sustainability Fund, since all funds will have been distributed according to the FSF formula.
- 3.10. Within the Housing and Commercial Growth Fund, it is likely that there will be funds remaining at the end of the pilot. The use of these will be determined by the local authorities in each cluster within the framework that we will set out in the HCGF Prospectus.

Longer term operational arrangements

- 3.11. We anticipate that the Kent and Medway pilot could continue in the longer term with the governance arrangements that we have outlined. However, we will need to keep this under review and learn lessons from the pilot: the pilot itself is not a commitment to the future operating model for 100% retention when it is fully rolled out. Should the pilot continue, we anticipate that the supplementary distribution formula within the Financial Sustainability Fund should be recalculated annually on the basis of the preceding five years to ensure that it adequately reflects the growth borne by each authority.

Managing risk in the event of changes to the 'no detriment' clause

- 3.12. We note that the Government has committed to the continuation of the 'no detriment' provision incorporated within the 2017/18 pilots. This is very welcome. However, **our analysis provides confidence that Kent and Medway has a sufficiently large and diverse business base to limit the risk of significant losses**, and the modelling of our proposed Financial Sustainability Fund demonstrates that local risks can be managed in within the overall Growth Pool.

Alternative arrangements

- 3.13. In the event that our proposal is unsuccessful, **we confirm that we wish to continue the existing Kent and Medway pooling arrangement.**

⁹ Ashford Borough Council, Canterbury City Council, Dover District Council, Kent County Council, Shepway District Council, Thanet District Council

¹⁰ Dartford Borough Council, Gravesham Borough Council, Kent County Council, Maidstone Borough Council, Medway Council, Swale Borough Council

¹¹ Kent County Council, Sevenoaks District Council, Tonbridge and Malling Borough Council, Tunbridge Wells Borough Council

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4. Expected benefits

- 4.1. Taking into account the loss of Revenue Support Grant and Rural Services Grant, 100% retention does not, in aggregate, mean additional funding for local government.
- 4.2. However, we anticipate that our pilot proposal will result in a number of benefits, reflecting the 'key principles' set out in Section 1. While these have not been quantified at this stage, the table below describes them and explains how they may be measured:

Expected benefits

Expected benefit	Why is it anticipated?	How could it be assessed?
Greater financial sustainability	All local authorities secure a fixed initial distribution within the FSF, regardless of local rates growth Total distribution within the FSF smooths extremes across Kent and Medway	Extent to which the model is successful in smoothing extremes and changes the nature of decision planning at local authority level
Housing growth	Increased resources to support delivery, including improving the existing stock to meet changing needs; HCGF focused on measures to support housing growth	Planning delivery measures; use of the HCGF
Commercial growth	Increased resources to support delivery; HCGF focused on measures to support housing growth. Incentive to grow the overall rates base	Planning delivery measures; use of the HCGF
Greater collaboration	Local authorities are incentivised to work together to make strategic decisions in relation to the Housing and Commercial Growth Fund	Review of the decision-making process and actual investment decisions made within each cluster
Greater transparency and accountability	Formula is clear and can be repeated in future years. Scope within governance model for scrutiny and 'ownership' via KMCL	Extent to which formula achieves consensus and can be used in future years Process of scrutiny and oversight by KMCL

- 4.3. Should our proposal be successful, we will work with DCLG to develop a **monitoring and evaluation framework** for the pilot, based (subject to agreement with DCLG) on the analysis of expected benefits set out above.

5. Confirming our proposal against the Government's criteria

- 5.1. Within the *Invitation to Local Authorities*, the Government set out seven criteria that it will use to assess proposals. The table below confirms the compliance of this proposal with each of the criteria:

Meeting the Government's criteria

Proposals should...	Met?	Description
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Kent Business Rate Pilot Proposal

Proposals should...	Met?	Description
Operate across a functional economic area and include all relevant authorities	✓	Covers the whole of Kent and Medway and includes all 15 precepting authorities
Include two-tier areas	✓	Includes two-tier areas (as well as a unitary authority)
Promote financial sustainability	✓	Financial Sustainability Fund formula guarantees a fixed baseline for each authority and smooths out extremes
Provide evidence of how pooled income will be used	✓	Allocation of growth to Financial Sustainability Fund and Housing and Commercial Growth Fund, with scope of each fund set out
Cover a wide spread of geographical areas	✓	There is no pilot currently operational in the South East; within Kent and Medway there is a range of location and economy types
Focus on rural areas	✓	Entirely non-metropolitan, with around 85% of Kent's land area classified as rural
Achieve variation in the type of business ratepayers represented	✓	Largely an SME-dominated ratepayer base, although Kent and Medway includes a national 'top ten' ratepayer, has recent experience of major industrial closures and offers local variety in the scale and nature of the rates base

Medium Term Financial Plan

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Base Budget	18,243	18,243	18,243	18,243
Growth items	0	286	288	289
Unavoidable cost pressures	0	568	677	520
Loss of income	0	12	12	12
Additional income	0	(945)	(976)	(998)
Committed price increases	0	289	304	360
Lower Medway Internal Drainage Board (LMIDB) assuming 3% increase pa	456	476	500	525
<u>Salary Related:</u>				
Pay Award (1.2%)	0	133	266	399
Other Pay Increases	0	78	125	150
Contribution to/(from) reserves	(372)	(11)	(11)	(11)
Revenue Support Grant	(1,238)	(707)	(113)	0
Business Rates	(6,506)	(7,397)	(7,656)	(7,813)
Contribution from Business Rates Reserve	(255)	0	0	0
Council Tax - maximum increase every year	(7,469)	(7,914)	(8,308)	(8,714)
New Homes Bonus	(2,743)	(2,056)	(1,906)	(1,637)
Savings Required	116	1,055	1,445	1,325
Service savings	0	(378)	(338)	(459)
Rental income from Sittingbourne Town Centre Regeneration Scheme	0	0	(112)	(450)
Requirement for balanced position	0	(677)	(995)	(416)
Committed savings	0	(1,055)	(1,445)	(1,325)
Contribution (to) from General Fund	116	0	0	0

Budget Variations

Growth items			
No.	Description	Cabinet Member / Head of Service	2018/19 over 2017/18 £
	Resident Services		
1	Running expenses relating to houses for temporary accommodation.	Cllr D. Dewar-Whalley / A. Christou	7,660
	Economic & Community Services		
2	Fixed Penalty Notices – Additional fees and equipment offset by additional income from Fixed Penalty Notices (see additional income).	Cllr A. Horton / C. Hudson	139,100
	Mid Kent Services (MKS)	Cllr D. Dewar-Whalley / S.McGinnes	
	MKS ICT		
3	Upgrade of the IDOX system.	Cllr D. Dewar-Whalley / C. Woodward	10,000
4	Remote Desktops are running on an unsupported platform and must be upgraded to take full advantage of Skype for Business.	Cllr D. Dewar-Whalley / C. Woodward	7,000
5	General Data Protection Regulation (GDPR) IT impact.	Cllr D. Dewar-Whalley / C. Woodward	10,000
6	SQL Server licence increase.	Cllr D. Dewar-Whalley / C. Woodward	8,330
	Planning		
7	Additional Transport / Infrastructure Planner post - three years fixed term offset by additional planning income (see additional income).	Cllr G. Lewin / J. Freeman	59,000
	Commissioning & Customer Contact		
8	Increased rent car park site.	Cllr A. Horton / M. Cassell	18,000

Budget Variations

Growth items			
No.	Description	Cabinet Member / Head of Service	2018/19 over 2017/18 £
	Finance		
9	In order to comply with PCI DSS industry standards of Data Protection the Council needs to upgrade its systems.	Cllr D. Dewar-Whalley / N. Vickers	9,700
	Others		
10	Items £5,000 or less.		17,700
	Total Growth Items		286,490

Budget Variations

Unavoidable Cost Pressures			
No.	Description	Cabinet Member / Head of Service	2018/19 over 2017/18 £
	Property		
1	Increased water charges at Swale House.	Cllr D. Dewar-Whalley / A. Adams	6,700
	Resident Services		
2	Homelessness temporary accommodation budget increases.	Cllr K. Pugh / A. Christou	200,000
	Planning		
3	Increase in staffing costs for Planning Support Service to maintain performance levels. This will be offset by additional income for Local Land Charges (see additional income).	Cllr G. Lewin / J. Freeman	55,000
	Commissioning & Customer Contact		
4	Waste and recycling bins replacement costs are due to new garden waste bins (some offset by Additional Income for subscriptions). In addition, the ongoing replacement of standard wheeled bins which are coming to the end of useful life and remain the property of the Council not the resident.	Cllr D. Simmons / M. Cassell	75,000
	Finance		
5	This reflects the backfunding element for the cost of pensions from the latest triennial revaluation of the Kent Pension Fund.	Cllr D. Dewar-Whalley / N. Vickers	49,860
6	There has been an increase in the insurance premium on public liability as a result of the Government changes made to how compensation for personal injury and accident claims are calculated. In addition, there is an increase in OGDEN and the revised property valuations.	Cllr D. Dewar-Whalley / N. Vickers	26,000
7	Growth/ savings on principal element of a finance lease for Serco.	Cllr D. Dewar-Whalley / N. Vickers	13,000

Budget Variations

Unavoidable Cost Pressures			
No.	Description	Cabinet Member / Head of Service	2018/19 over 2017/18 £
	Mid Kent Services (MKS)	Cllr D. Dewar-Whalley / S.McGinnes	
8	Increases in MKS shared services for HR, ICT, Parking, Environmental, Fraud, Director and MKS membership.	Cllr D. Dewar-Whalley / N. Vickers	43,070
9	Mid Kent Legal Services - increase in external legal costs due to increased planning activity.	Cllr D. Dewar-Whalley / P. Narebor	80,000
10	Mid Kent Audit - increase in MKS Audit Shared Services budget	Cllr D. Dewar-Whalley / R. Clarke	19,170
	Total Unavoidable Cost Pressures		567,800

Budget Variations

Loss Of Income			
No.	Description	Cabinet Member / Head of Service	2018/19 over 2017/18 £
	Commissioning & Customer Contact		
1	Income for Sport Facilities has not been achieved over period of time.	Cllr D. Simmons / M Cassell	5,630
	Others		
2	Items £5,000 or less.		5,950
	Total Loss Of Income		11,580

Budget Variations

Additional Income			
No.	Description	Cabinet Member / Head of Service	2018/19 over 2017/18 £
	Resident Services		
1	Increased fee income for Staying Put.	Cllr D. Dewar-Whalley / A. Christou	(50,000)
	Property Services		
2	Miscellaneous properties - additional rental income.	Cllr D. Dewar-Whalley / A. Adams	(23,380)
3	Income from Citizens Advice for occupation of Swale House.	Cllr D. Dewar-Whalley / A. Adams	(10,000)
	Economic & Community Services		
4	Increase in income for Fixed Penalty Notices (See growth item).	Cllr A. Horton / C. Hudson	(134,000)
	Commissioning & Customer Contact		
5	Anticipated additional garden waste subscriptions (see unavoidable cost pressures).	Cllr D. Simmons / M. Cassell	(133,000)
6	Additional income resulting from proposed increase in street naming and numbering.	Cllr A. Horton / M. Cassell	(20,500)
7	Business permits to increase by £5 to £45 to bring in line with resident parking permit charges.	Cllr A. Horton / M. Cassell	(11,000)
8	Car Parking - income for Penalty Charge Notices.	Cllr A. Horton / M. Cassell	(30,000)
9	Increase income from bulky waste items.	Cllr D. Simmons / M. Cassell	(20,000)
10	Increase in car parking pay and display income.	Cllr A. Horton / M. Cassell	(125,000)
11	Additional beach hut annual rental income and ground rental income following Leysdown development and future additions at Minster.	Cllr M. Cosgrove / M. Cassell	(14,100)

Budget Variations

Additional Income			
No.	Description	Cabinet Member / Head of Service	2018/19 over 2017/18 £
	Planning		
12	Pre-application/Planning Performance Agreement (PPA) increased fee income.	Cllr G. Lewin / J. Freeman	(30,000)
13	Increased volume of planning application fee income.	Cllr G. Lewin / J. Freeman	(70,000)
14	20% increase in national planning fees.	Cllr G. Lewin / J. Freeman	(162,000)
	Mid Kent Services (MKS)	Cllr D. Dewar-Whalley / S. McGinnes	
15	Mid Kent Planning - Changes to Local Land Charges fees across the three shared service authorities to ensure consistency.	Cllr G. Lewin / J. Freeman	(55,000)
16	Mid Kent Revenue & Benefits - Debt Recovery Service.	Cllr G. Lewin, Cllr D. Dewar-Whalley / S McGinnis	(25,000)
	Others		
17	Items £5,000 or less.		(31,550)
	Total Additional Income		(944,530)

Budget Variations

Service Savings			
No.	Description	Cabinet Member / Head of Service	2018/19 over 2017/18 £
	Resident Services		
1	Savings arising as a result of online form processing and the implementation of Performance Fund Bid.	Cllr K. Pugh/ A. Christou	(10,500)
	Economic & Community Services		
2	Grant to the Alexander Centre no longer required.	Cllr A. Horton / C. Hudson	(49,620)
	Mid Kent Services (MKS)	Cllr D. Dewar-Whalley / S. McGinnes	
3	Mid Kent ICT - saving due to implementation of Skype for Business.	Cllr D. Dewar-Whalley / C. Woodward	(22,670)
	Democratic		
4	There are no Borough and Parish elections scheduled to take place in 2018	Cllr A. Bowles / K. Bescoby	(12,000)
	Commissioning & Customer Contact		
5	Reduction due to new contract award for public conveniences.	Cllr D. Simmons / M. Cassell	(44,000)
6	Saving on refuse and recycling.	Cllr D. Simmons / M. Cassell	(10,000)
	Finance		
7	Reduction on interest element of a finance lease for Serco.	Cllr D. Dewar-Whalley / N. Vickers	(28,020)
8	Forecast of SBC's share of surplus on Council Tax Collection Fund at end of 2017/18.	Cllr D. Dewar-Whalley / N. Vickers	(178,000)
	Others		
9	Items £5,000 or less.		(23,610)
	Total Service Savings		(378,420)

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