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HAMBLETON DISTRICT COUNCIL

AGENDA

Committee Administrator: Democratic Services Officer (01609 767015)

Monday, 3 February 2020

Dear Councillor

NOTICE OF MEETING

Meeting	**CABINET**
Date	**Tuesday, 11 February 2020**
Time	**9.30 am**
Venue	**Council Chamber, Civic Centre, Stone Cross, Rotary Way, Northallerton, DL6 2UU**

Yours sincerely

J. Ives.

Dr Justin Ives
Chief Executive

To:

Councillors
M S Robson (Chairman)
P R Wilkinson (Vice-Chairman)
Mrs B S Fortune

Councillors
Mrs I Sanderson
S Watson
D A Webster

Other Members of the Council for information

AGENDA

Page No

1. MINUTES

To confirm the decisions of the meeting held on 14 January 2019 (CA.39 - CA.43), previously circulated.

2. APOLOGIES FOR ABSENCE

Overview and Scrutiny

3. POLICY REVIEW - RECYCLING 1 - 4

This report presents the findings and recommendations from the Scrutiny Committee on the Policy Review on Recycling.

Relevant Ward(s): All Wards

Resources Management

4. FINANCIAL STRATEGY 2020/21 TO 2029/30 5 - 22

This report seeks consideration of the Financial Strategy 2020/21 to 2029/30.

In accepting the recommendations, Cabinet will approve and recommend to Council the Financial Strategy 2020/21 to 2029/30 at Annex 'A' and 'A'(1) of the report.

Relevant Ward(s): All Wards

5. 2019/20 Q3 CAPITAL MONITORING AND TREASURY MANAGEMENT REPORT 23 - 48

This report provides the Quarter 3 update at 31 December 2019 on the progress of the capital programme 2019/20 and the treasury management position. A full schedule of the capital programme 2019/20 is attached at Annex A, together with the relevant update on progress of each scheme.

In accepting the recommendations, Cabinet will approve and recommend to Council that the net decrease of £6,124,630 in the capital programme to £21,834,415 and all expenditure movements as detailed in Annex B and also in the capital programme attached at Annex A of the report; the increase of capital expenditure of £767,515 is funded as follows: £114,015 is funded from capital receipts, £330,500 from borrowing, and £323,000 is from external grants/contributions; the funding allocation to the capital programme as detailed in paragraph 3.1 and 3.2 of the report; the treasury management and prudential indicators at Annex E of the report; and to note the position of the Council's third party companies at Annex F of the report.

Relevant Ward(s): All Wards

6. 2019/20 Q3 REVENUE MONITORING REPORT 49 - 56

This report provides an update on the revenue budget position of the Council and the reserve funds at the end of December 2019.

In accepting the recommendations, Cabinet will approve and recommend to Council that the budget remains at £9,085,870 as detailed in paragraph 3.2 of the report; the transfer of funds detailed in paragraph 7.5 of the report from the Council Tax Payers' Reserve of £150,000 to the One Off Fund in paragraph 7.6 of the report; the total movement of the Economic Development Fund of £193,404 at paragraph 7.3 of the report to be returned and to note that the Economic Development Fund remaining balance to be allocated at paragraph 7.4 of the report is £654,033; the allocation from the One Off Fund at paragraph 7.6 of the report of £321,924 and to approve the waiver as detailed in paragraph 8.2 of the report.

Relevant Ward(s): All Wards

7. 2020/21 CAPITAL PROGRAMME BUDGET, TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS — 57 - 112

This report seeks consideration of the 10 year Capital Programme covering the financial years 2020/21 to 2029/30, the 2020/21 Capital Programme and the Treasury Management Strategy Statement; including the Minimum Revenue Provision policy statement and Annual Investment Strategy.

In accepting the recommendations, Cabinet will approve and recommend to Council that the 10 Year Capital Programme 2020/21 to 2029/30 at £48,608,180 be approved, as detailed in paragraph 2.2 and attached at Annex A of the report; the Capital Programme 2020/21 at £36,321,583 detailed in Annex B of the report be approved for implementation; the Treasury Management Strategy attached at Annex C of the report be approved; the Minimum Revenue Provision Policy Statement attached in the body of the Treasury Management Strategy Statement Annex C of the report be approved; the Prudential and Treasury Indicators attached at Annex C of the report in the body of the Treasury Management Strategy Statement be approved; the Treasury Management Scheme of Delegation at Annex D of the reprt be approved; and the Treasury Management role of the S151 Officer attached at Annex E of the report be approved.

Relevant Ward(s): All Wards

8. CAPITAL STRATEGY 2020/21 — 113 - 146

This report presents the Capital Strategy which gives a clear and concise view of how a local authority determines its priorities for capital investment, sets its risk appetite and decides how much it can afford to borrow.

In accepting the recommendation, Cabinet will approve and recommend to Council the Capital Strategy 2020/21 attached at Annex A of the report.

Relevant Ward(s): All Wards

9. REVENUE BUDGET 2020/21 — 147 - 160

This report presents at a strategic level the revenue budget proposals for the next financial year 2020/21.

In accepting the recommendations, Cabinet will approve and recommend to Council the revenue budget for 2020/21 at £9,269,670.

Relevant Ward(s): All Wards

10. COUNCIL TAX 2020/21 161 - 188

This report seeks consideration of the level of Council Tax for 2020/21 and the policy on reserves. It also provides details of the Council's other sources of funding - grant received from Government in the Local Government finance settlement, business rates and the requirement for the Council to generate income from a variety of projects. For 2020/21, there are no new business rates pilots and therefore the North and West Yorkshire 75% pilot pool which was for one year in 2019/20 will finish 31 March 2020. As a result, the Government regulations governing business rates retention will revert back to the 50% business rates pool scheme where the application submitted by North and West Yorkshire Pool on 25 October 2019 was successful. The business rates model to be adopted ensures that authorities are no worse off in this North and West Yorkshire Pool, than they would be in a pre-2019/20 pilot pool.

In accepting the recommendations, Cabinet will approve and recommend to Council various decisions regarding the setting of the level of Council Tax.

Relevant Ward(s): All Wards

Policy Implementation

11. AMENDMENT TO HAMBLETON OFF STREET PARKING ORDER 189 - 192

Cabinet recommended for approval at its meeting on 3 July 2018 and Council approved at its meeting 17 July 2018 a capital allocation of £550,000 to implement the Car Park Improvement Scheme. This report seeks approval to a Parking Amendment Order.

In accepting the recommendations, Cabinet will approve and recommend to Council that the making of a Parking Amendment Order is authorised to proceed subject to consultation and includes various changes as set out in the report and any issues arising from the consultation process are delegated to the Director of Leisure and Communities to deal with.

Relevant Ward(s): All Wards

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2020

From: Scrutiny Committee

Subject: **POLICY REVIEW – RECYCLING**

All Wards

1.0 SUMMARY:

1.1 Between July 2019 and January 2020 the Committee undertook a review of the Council's Policy on Recycling. This report sets out the Committee's findings, conclusions and recommendations.

2.0 INTRODUCTION:

2.1 Recycling was considered an appropriate topic for review because this was a matter of both local concern and national concern improving recycling remains a priority for local authorities.

2.2 The Committee undertook the review in accordance with the following terms of reference:

- to review the existing policies regarding household recycling;
- investigate how recyclables are currently being collected and processed; and
- to explore whether more can be done to improve recycling rates across the District.

2.3 In order to determine whether the District Council's plans, policies and practices were effective, the Committee decided to:-

- review existing recycling policies;
- assess current recycling arrangements and gain an understanding of how household recycling services are delivered;
- evaluate the Council's current performance;
- review how the Council publicises its recycling service and whether improvements could be made to improve awareness amongst residents;
- consider best practice in other Local Authorities; and
- consider the potential impact of the DEFRA Waste and Resources Strategy.

3.0 EVIDENCE

3.1 The following witnesses attended meetings of the Committee to give evidence, namely:

- Paul Staines, Director for Environment, Hambleton District Council (HDC);
- Gary Brown, Waste and Street Scene Manager (HDC);
- Tracey Flint, Recyling Officer (HDC); and
- Geoff Green, UPM.

3.2 The Committee also reviewed the following documents in detail:

- Waste Management Strategy 2016-25;
- Waste and Recycling Collection Policy April 2016 – revised June 2018; and
- statistics on materials collected and recycled, along with destinations of recyclate during the period April to June 2019.

4.0 FINDINGS

4.1 Based on the written and oral evidence presented, the Committee's findings were as follows:

4.1.1 The Committee acknowledged that the Waste Management Strategy 2016-25 covers every facet of municipal waste management and is designed to optimise environmental performance and deliver value for money services for Hambleton residents. The strategy sets out policies, aims, high level objectives and targets for the District and concentrates on areas the Council and its residents can influence. It identifies what waste services will look like over the coming years and how and when the Council will achieve its aims.

4.1.2 The Policy's prime purpose is to increase the amount recycled at the kerbside of glass, paper, card, cans and plastics. Under the scheme plastic pots, tubs and trays, cartons and all types of cardboard had been added to the list of recyclables collected.

4.1.3 The Committee also recognised that the Waste and Recycling Collection Policy April 2016 (revised 2018) aimed to ensure that waste and recycling services operate effectively and efficiently in order to maximise recycling and reduce the amount of waste going to landfill.

4.1.4 It was noted that the District Council's recycling rate was 48.4% in 2018/19 and placed 96th out of 345 local authorities in 2017/18. The Committee recognised that this was an excellent result, noting as it did that most authorities who placed higher did so primarily because they collected food waste, which due to cost, the Council did not undertake. The current target within the Council Plan was to maintain a recycling rate of 47%. The current recycling figure for the year to date (as at November 2019) was 54.39%. This illustrated that the Council was not only maintaining the target but continually exceeding the target.

4.1.5 The Committee accepted that there were issues regarding contaminants in the recycling and that the Council has processes in place to address this. The Council operates a 'three strikes' policy whereby if the crew notice contamination in the bin or box, the recycling will not be collected and a tag will be left on the bin explaining why. In the event of a fourth contamination, the bin or box will not be emptied and a letter issued informing the resident that the service is being removed as a result of the repeated contamination. If after three months the resident wishes to resume the recycling service, the Council may provide clear sacks for a three month period in order to monitor the contents. If, after that time contamination continues, the service will be withdrawn completely.

4.1.6 The necessity for the Council to have processes in place to help reduce the amount of contamination was acknowledged but the Committee did suggest that there was potentially a lack of understanding by residents on what could or could not be placed in the recycling bin or box.

4.1.7 With regard to the methods of publicity the Council uses, such as booklets and the website, the Committee suggested that these be reviewed to ascertain whether the content could be improved and made clearer for residents to understand.

4.1.8 The Committee acknowledged that the Recycling Officer does engage with residents and provides talks and seminars to a variety of audiences such as Parish Councils and social groups such as the Women's Institute. Primary schools had been approached to roll-out a programme of education within schools, however the level of response had been minimal.

4.1.9 The Committee accepted that there were certain types of materials which could not currently be collected and recycled such as plastic bags, take-a-way pizza food boxes, black plastics and batteries. However, it was requested that this situation be carefully monitored and reviewed to ensure that the Council's processes are developed in line with any new technology that enables these materials to be collected and recycled.

4.1.10 The Committee acknowledged that the Council works closely with North Yorkshire County Council and UPM regarding what can be recycled and receives regular updates from various sources such as the North Yorkshire Waste Partnership and the Local Authority Recycling Advisory Committee.

4.1.11 The Committee was also informed that, on 18 December 2018, the Department for Environment, Food & Rural Affairs (DEFRA) and the Environment Agency (EA) launched 'Our Waste, Our Resources a Strategy for England', a resources and waste strategy to overhaul England's waste system, putting a legal onus on those responsible for producing waste or items that are harder or more costly to recycle including cars, electrical goods, and batteries.

5.0 CONCLUSIONS:

5.1 The Committee concluded from the evidence that the current policies, namely the Waste Management Strategy 2016-25 and the Waste and Recycling Collection Policy April 2016 – revised June 2018 remained fit for purpose and were achieving their objectives.

5.2 The Committee acknowledged that the Council operates a very successful recycling scheme and has a very effective waste and recycling team who were to be commended for their continued efforts, and that the residents of the District are proactively engaging with the Council's processes.

5.3 The Committee suggested that, should any progress be made on the inclusion of other non-recyclates such as plastic bags, food waste, black plastic trays etc, this be monitored and the Council's processes developed as necessary to take account of these changes.

5.4 The Committee recognised that promotion, publicity and education was an area that warranted continued monitoring and development, where opportunities arose, such as educational visits within schools and the circulation of publicity material within community sectors.

5.5 The Committee suggested that the information contained on the Council's website, associated recycling literature and other media, be reviewed to ascertain whether the information could be simplified to assist residents better understand the recycling scheme.

6.0 RECOMMENDATIONS:

6.1 To recommend to Cabinet that:-

(1) the current policies, namely the Waste Management Strategy 2016-25 and the Waste and Recycling Collection Policy April 2016 (revised in June 2018) remain fit for purpose and are achieving their objectives;

(2) it be noted that the Council operates a very successful recycling scheme and that the residents of the District are proactively engaging with the Council's processes;

(3) should any progress be made on the inclusion of other non-recyclates such as plastic bags, food waste, black plastic trays, etc, this be monitored and the Council's processes developed as necessary to take account of these changes;

(4) promotion, publicity and education is an area that warranted continued monitoring and development where opportunities arose, such as educational visits within schools and the circulation of publicity material within community sectors; and

(5) the information contained on the Council's website, associated recycling literature and other media, be reviewed to ascertain whether the information could be simplified to assist residents to better understand the recycling scheme.

COUNCILLOR D HUGILL
CHAIRMAN

Background Papers: None
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HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2020

Subject: **FINANCIAL STRATEGY 2020/21 TO 2029/30**

All Wards

Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

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1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of this report is to consider and approve the Financial Strategy 2020/21 to 2029/30 as well as the 2020/21 North & West Yorkshire 50% Business Rates Pool.

Financial Strategy 2020/21 to 2029/30

1.2 The Financial Strategy 2020/21 to 2029/30 is set out in Annex A and Annex A(1) and provides an analysis of the estimated financial position and the direction of the Council's financial resilience over the next 10 years. It takes into consideration Government funding, other funding resources, service pressures and priorities and is divided into the following sections:-

- Benefits of and principles underpinning the Financial Strategy for 2020/21 to 2029/30;
- The national economic context;
- Government policy;
- Local Government funding settlement 2020/21;
- New homes bonus;
- Business rates;
- Council tax;
- Income generating revenue streams;
- Local income position;
- Spending pressures;
- Financial risk analysis.

1.3 The key issues for the Financial Strategy are:-

- The implication of the new 75% Business Rates Retention Scheme to be introduced by Government in 2021/22 and how this will operate to potentially compensate for the loss of the Government funding settlement.

- The ongoing uncertainty of the Business Rate Retention Scheme to generate additional funding in relation to the Fair Funding Review which affects how funding is allocated and redistributed between local authorities from 2021 onwards.

- The calculation of the New Homes Bonus grant and the longevity of this scheme.

- Significant income streams to be generated by this Council from the commercial strategy, capital schemes and economic development projects across the council.

- The continued impact of the economic uncertainty on the Bank Base Rate; being low but volatile and the ability of the Council to generate investment income from balances.

- Ongoing spending pressures and the need to realise efficiency savings, whilst continuing to provide a good level of services.

1.4 The Council's financial standing significantly deteriorated as a direct result of the Government four year funding Settlement for 2016/17 to 2019/20 which was extended for a further year in the Settlement for 2020/21 due to the negotiations around BREXIT and the UK entering a period of minority government following the 8 June 2017 election where the Conservative Prime Minister was supported by a cooperation agreement.

1.5 Revenue support grant and rural services delivery grant are to reduce to zero by the end of 2020/21. New homes bonus grant paid by central government to local councils to reflect and incentivise housing growth in the local area hasn't resulted in the Government seeing the results of as many new homes being built as it would like and therefore 2020/21 is the final full year of New Homes Bonus and the government is clear that it wants to replace New Homes Bonus. The 10 year financial strategy models the assumption that this grant will reduce over the next three years and be zero in 2023/24.

1.6 The funding reflected in the financial strategy that Councils will rely on in future to support the delivery of services is local income generating revenue streams, Council tax, business rates.

1.7 With regards to Business rates, the Government did not provide a progress update within the Settlement on the Fair Funding Review (the Review of Relative Needs and Resources of Councils and the potential change in the way funding is allocated) or further business rates retention. With implementation of the business rates retention reform scheme being scheduled for April 2021, it is crucial for local authority financial planning that the Government provides early exemplifications and consults on proposals for reform and provides certainty to councils as soon as possible, preferably by the time of the final 2020/21 local government finance settlement.

1.8 The Government did announce that there are no new business rates pilots in 2020/21. In 2019/20 this Council had been in the North and West Yorkshire Business Rate 75% pilot due to the advantage of the Council potentially increasing business rates to support the funding position. The North and West Yorkshire 75% pilot pool was for one year only in 2019/20, this has been revoked by the Government and will therefore finish on 31 March 2020. Prior to 2019/20, this Council had been in a 50% business rates retention pool where increased business rates are received but not as great as the 75% pilot pool. As a result of the Government's announcement that the 2019/20 pilots would cease, one option available is to return to the rules governing 50% business rates retention. Previously, this Council has been a member of the North Yorkshire 50% pool from 2013/14 to 2018/19 which included Scarborough, Ryedale, Richmondshire, Craven and North Yorkshire.

1.9 For 2020/21, there is a further one year position where it remains financially beneficial for the Council to continue to be a member of a 50% business rate pool, rather than not. The Government confirmed on 19 December 2019 that the application of the North and West Yorkshire Pool submitted on 25 October 2019 was successful and therefore the Council is included in this pool. This is a hybrid pool model with all the North and West Yorkshire authorities, excluding Selby. Further information regarding the North and West Yorkshire 50% business rates pool is included in Annex A. The North and West Yorkshire 50% Pool will distribute the business rate funding ensuring that no authorities in the pool will receive less income than they would if they were not a member of the Pool.

1.10 Current thinking around business rates indicates that due to the pressure on adult social care and children's services in the local government sector that a potentially lower amount of business rates may be received by District Councils in future with the remaining amount being provided to County Councils. This position is still uncertain and the picture will become clearer during 2020/21.

1.11 Looking further into the future, the Queen's Speech on 19 December 2019 did promise a fundamental review of business rates. It is assumed that future changes will be made to "[protect] your high street and community from excessive tax hikes". This suggests further business rates reliefs/ discounts and may also lead to more fundamental change in the way that businesses are taxed. Further details are awaited.

1.12 To maintain a robust Financial Strategy it is vital that the Council generates income using the commercial strategy, capital schemes and economic development projects across the Council. £9,987,270 is required over 10 years to support the Financial Strategy, starting with £187,270 in 2020/21.

1.13 In achieving these income generating revenue schemes it is anticipated that balances will remain stable throughout the Financial Strategy at between £8,200,441 and £13,512,043 with the 10 year position showing a balance of £10,079,791.

2.0 LINK TO COUNCIL PRIORITIES:

2.1 The Financial strategy supports all the Council's priorities to ensure that all services can be delivered in a way that is affordable and sustainable.

3.0 RISK ASSESSMENT:

3.1 There are no risks associated in approving the recommendation.

4.0 FINANCIAL IMPLICATIONS:

4.1 The financial implications are detailed in the body of the report.

5.0 LEGAL IMPLICATIONS:

5.1 There are no legal implications associated with this report.

6.0 EQUALITY/DIVERSITY ISSUES

6.1 There are no equality and diversity implications associated with this report.

7.0 RECOMMENDATIONS:

7.1 It is recommended that Cabinet approves and recommends to Council

(a) the Financial Strategy 2020/21 to 2029/30 at Annex 'A' and 'A'(1) of the report.

(b) the 2020/21 North & West Yorkshire 50% Business Rates Pool

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE AND COMMERCIAL (S151 OFFICER)

Background papers: None

Author ref: LBW

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ANNEX 'A'

FINANCIAL STRATEGY 2019/20 TO 2028/29

1.0 PURPOSE OF THE FINANCIAL STRATEGY 2020/21 TO 2029/30:

1.1 The Financial Strategy is a key aspect of the Council's Budget Policy Framework. It aims to ensure that resources are aligned to the Council's corporate aims as set out in the Council Plan, as well as delivering customer focused outcomes and continual service delivery improvement. The Financial Strategy sets out the strategic financial position and the financial direction of the Council over the next 10 years taking into consideration the Council's strategic objectives, significant Government grant cuts, other resources and service pressures. The Strategy is regularly monitored and updated to reflect the relentless changes in public sector finance. The key objective of the Financial Strategy is to facilitate the strategic objectives of the Council whilst providing the assurance that the financial standing of the Council over the next 10 years maintains resilience.

2.0 BENEFITS AND PRINCIPLES UNDERPINNING THE FINANCIAL STRATEGY 20209/21 TO 2029/30:

2.1 The benefits of preparing and maintaining the Financial Strategy include that:-

- it provides financial parameters to assist with strategic planning to support the delivery of the Council's strategic objectives;
- it allows the Council to respond to internal and external financial pressures assisting with the development of a sustainable budget over the period of the Financial Strategy;
- it highlights financial risks and mitigating controls promoting the maximisation of resources and the delivery of value for money; and
- it reviews the Council's reserves policy to assist in planning against unforeseen events.

2.2 The principles underlying the Financial Strategy 2020/21 to 2029/30 are set out below:-

- the overall Financial Strategy will ensure the Council's resources are targeted towards meeting its strategic priorities;
- the Council Plan and associated activities will inform a review of the Financial Strategy on an annual basis. The annual review will include an update of the 10 year financial forecast, expected developments within the Council together with the anticipated financial impact of any legislative changes;
- the Council undertakes to maintain its level of expenditure within the boundaries set in the Annual Revenue Budget. If, following monthly budget monitoring, expenditure is expected to exceed original estimates, plans will be prepared detailing the actions required to ensure that spending at the year-end does not exceed the original estimate;
- the Council will maintain its General Reserve at an adequate level to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget without reliance on the use of the General Reserve;
- the Council will maintain earmarked reserves for specific priorities that are consistent with its strategic objectives. The use of these reserves will be consistent with the principles set out in the Financial Strategy and will be reviewed annually;

- the Council will balance the need to increase Council Tax with the delivery of its priorities, taking into account the economic challenges facing its communities;

- opportunities to generate revenue and capital income streams will be sought, along with securing external funding. The implications of the cessation or withdrawal of funding will also be reviewed to ensure that options are considered prior to undertaking income generating and external funding schemes.

3.0 NATIONAL ECONOMIC CONTEXT:

Bank Base Rate and Economic Environment

3.1 The Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% in 2019/20 due to the ongoing uncertainty over Brexit (negotiations with the EU around trade) and the outcome of the general election. In its meeting on 7 November 2019, the Monetary Policy Committee (MPC) became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties became more entrenched, and for weak global economic growth. If those uncertainties were to materialise, then the Monetary Policy Committee (MPC) are likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Until the uncertainty is removed, it is unlikely that the Monetary Policy Committee (MPC) would raise Bank Rate.

3.2 The overall longer run future trend is for gilt yields, and consequently Public Works Loan Board (PWLB) rates, to rise, albeit gently. From time to time, gilt yields, and therefore Public Works Loan Board (PWLB) rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period 2020/21

3.3 The continued historically low interest rates have a significant impact on the Council's ability to generate investment income from surplus funds and will continue to be regularly monitored and revised. With the expectation that rates will remain low this assumption has been included in eth financial strategy where over 10 years investment rates are only expected to rise to 2.25%. For borrowing rates there is volatility in the current market environment however on 9 October 2019, the Public Works Loan Board (PWLB), increased their borrowing rates by 100bps and therefore the borrowing rates range are now expected between 2.4% and 3.5% during 2020/21 depending on the time period. The borrowing rates will be monitored where the volatility can bring opportunities for the Council and alternative borrowing sources will also be investigated. The financial strategy currently includes interest costs in connection with borrowing around 3%.

Brexit

3.4 There are five areas with regards to Brexit that are most important to Local Government – Workforce, Devolution in the UK, EU Funding, The European Investment Bank and Customs and trading Standards – and information will become clearer in due course after the UK has left the European Union on 31 January 2020. The council continues to consider the impact of Brexit on the financial strategy and in line with the announcement from Ministry of Housing, Communities and Local Government in 2019/20 has received £51,000 as part of the share of the £56.5 million made available to Local Authorities to support planning at this time.

4.0 GOVERNMENT POLICY AND IMPACT:

4.1 Government policy for the provision of funding for local authorities has significantly changed since 2010 with the focus being on reduced Government grant funding, the drive for increased efficiencies and the development of alternative funding methods. The paragraphs in this section describe how Government funding for Local authorities has reduced and that the first real increase for 10 years is seen in 2020/21.

Spending Review 2010

4.2 The main emphasis of Spending Review 2010 was to significantly reduce public sector spending to facilitate a reduction in the UK's borrowing deficit. Based upon Spending Review 2010 the Local Government finance settlement for 2011/2012 and 2012/2013 was announced on 11 January 2011. This resulted in a reduced finance settlement for the Council of over £1.6m or 29% across the period.

Spending Round 2013

4.3 Spending Round 2013 was announced in June 2013, this set out in broad terms the funding envelope for Local Government for 2014/15 and 2015/16. It was estimated that the Council would lose an additional 21% of its funding from Central Government over the 2 year period. However, further cuts increased this to almost 25%.

Four Year Settlement March 2016

4.4 The announcement in the December 2015 autumn statement confirmed the Government would provide four year funding settlements for local authorities. This increases the certainty for Council's to plan for the medium term when there is continued deterioration in grant funding. The Financial Strategy estimated that this Council will lose 22.4% of its grant funding from Central Government excluding New Homes Bonus Grant over the 4 year period 2016/17 to 2019/20. In order to sign up for the four year funding settlement an Efficiency Plan had to be published by October 2016, this Council's Efficiency Plan was approved at Council in September 2016.

Autumn statement 2018

4.5 The funding settlement for the 2019/20 headlined that the Core Spending Power (government grant, business rates, new homes bonus and council tax) nationally was expected to increase by 2.8%, where the largest driver of this increase was the funding for the new adult social care grants. The Core Spending Power is the overall impact on local authorities of changes in funding including locally-raised council tax. The Core Spending Power for this Council in 2019/20 increased by 1% which is lower than the national average as the council didn't benefit from the adult social care grant. The 1% increase comes from new homes bonus grant, increase in council tax and the increase in the number of properties in the district.

Spending Review 2019

4.6 Financial austerity claimed by the Government to be over in September 2019 in the Chancellors statement has seen the grant funding from the 2020/21 Government's Settlement Funding Assessment to Local Authorities (a combination of the level of revenue support grant and rural service delivery grant received along with the expected business rates to be achieved) increase overall by 1.6%. This is the first increase in the Settlement Funding Assessment in over a decade. Over the last five years however, since the start of the four year funding assessment in 2016/17, the cut in the Settlement Funding Assessment has been 30.1% in cash terms, with the increase in 2020/21 changing the direction of travel but not replacing the massive cuts that have occurred in local government funding. The settlement Funding Assessment for this Council along with new homes bonus grant from Government has decreased by 2.57%.

4.7 The Core Spending Power is the overall impact on local authorities of changes in funding and locally-raised council tax. Overall Core Spending Power nationally is expected to increase by 6.3% in 2020/21, the highest increase in over a decade. The Core Spending Power for this Council in 2020/21 has increased by 0.71% from 2019/20 due to the increase in Council tax and the increase in the number of properties in the district.

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT AND THE IMPACT OF THE NEW BUSINESS RATE RETENTION REFORM SCHEME:

5.1 The Settlement Funding Assessment in December 2019 provided details of the business rate baseline funding allocations for this Council for 2020/21 along with details of revenue support grant, rural services delivery grant, new homes bonus and an estimate of the amount of council tax which are collected locally. The Settlement is for one year only where at the end of 2020/21 revenue support grant and rural services delivery grant will cease, resulting in a further reduction of funding to the council.

5.2 The business rates that are collected locally, which are part of the business rate retention scheme, will become one of the main funding sources that support the Council's net budget in the future along with council tax and income generated locally. The business rate retention scheme was part of the new funding mechanism introduced for Local Government on 1 April 2013 and it enables Councils to keep a proportion of the business rates collected locally, providing an incentive for Councils to grow their local economy.

5.3 The proportion of income retain under the 50% Business Rate Retention Scheme model was in relation to business rates growth above the Government target where 40% was retained by the District Council, 9% by the County Council, 1% by the Fire Authority and 50% was returned to Government.

5.4 The scheme has developed since 2013 with the Government allowing the Council to enter a Business Rate Pool with other local councils in Yorkshire. The effect of a business rates pool is that any business rates collected by pool members above the Government's target are retained by the pool, 50% is not forfeited to Central Government as described in the paragraph above.

5.5 Under the 50% Business Rates Retention Scheme local authorities can come together to form a 50% retention business rates pool and this pool is treated as one entity for the purposes of the scheme. This means that when authorities that are deemed to have more or less business rates income than they need (known as tariff and top up authorities respectively) and they combine, the resulting pool can reduce or eliminate completely the levy payments tariff authorities would otherwise have to pay to the Government.

5.6 Conversely, under 50% retention an individual authority would normally receive a safety net payment from the Government if its business rates income fell below 92.5% of its assessed needs. However, in a pool that safety net payment would be lost with the pool as a whole being expected to fund the losses.

5.7 In 2019/20 a 75% North & West Yorkshire Business Rates Pool existed for one year which includes 8 tariff authorities that could save levy payments under these pooling arrangements and one authority, Selby District Council, that is likely to require a safety net payment. This 75% pool operates in the same way as the 50% scheme described above however due to 75% business rates being retained there is sufficient funding available in the pool to enable Selby District Council to be a member where the 75% pool funds the safety net position for Selby District and still all Councils within the pool benefit from increased business rates and maximise their funding.

5.8 The Government announced in the 2019 Local Government Finance Settlement that there are no new business rates pilots in 2020/21 and therefore the North and West Yorkshire 75% pilot pool which was for one year in 2019/20 will finish 31 March 2020. As a result, these pilot pools return to the rules governing 50% retention.

5.9 In order to maximise resources retained in the region under the 50% pool discussions have taken place between the current pool members. Selby District Council has therefore withdrawn from the pool at the end of 2019/20 and thereby retained its safety net payment from the Government. This is because the 50% pool does not retain sufficient funding under the rules in which it operates to fund the losses associated with the safety net payment required.

5.10 In order for the North and West Yorkshire 50% business rates pool to be formed, Leeds City Council, as lead authority, informed the Secretary of State that the current 75% business rates pilot pool wished to be revoked at the end of 2019/20. The Secretary of State is obliged to revoke the Pool in these circumstances. Alongside this revocation the members of the current North and West Yorkshire business rates pool, excluding Selby District Council, applied for a new 50% pool to be designated with effect from the 1st April 2020. These remaining members will continue as a pool in 2020/21, thereby eliminating the levy payments that would otherwise have to be paid to the Government. It is intended these saved levy payments will benefit the individual members of the pool as well as being used to fund regional projects supporting economic growth and regeneration across the Pool area.

5.11 On 19th December 2019 the Secretary of State informed members of the new 2020/21 North & West Yorkshire Business Rates 50% Pool that this application, submitted on 25 October 2019 for designation, had been successful. As a consequence of this successful application the Secretary of State has revoked the designation of the 2019/20 North & West Yorkshire Business Rates Pilot Pool from the 31st March 2020 and the 2019/20 pilot pool will cease to exist. On the 1st April 2020 the new 50% retention pool will come into being for the remaining members of the North & West Yorkshire Business Rates Pool excluding Selby District Council.

5.12 The governance arrangements for 2020/21 North & West Yorkshire Pool are that a single-purpose joint committee will have specific responsibility for leading the new North & West Yorkshire 50% Pool where this will comprising of the Leaders (or their nominees) of the five member Authorities from West Yorkshire and five of the member Authorities from North Yorkshire. Scarborough and Harrogate Borough Councils represent all the other Districts across North Yorkshire, including Hambleton.

5.13 The governance arrangements also set out the Memorandum of Understanding and Terms of Reference which will be formally ratified at the first meeting of the 2020/21 North & West Yorkshire Pool Joint Committee. This Memorandum of Understanding addresses how the Pool proposes to share and use the saved levy payments although it stresses that the principle that 'no member authority will receive less income than they would if they were not a member of the Pool shall be maintained'. Further, it explains how member authorities will work together to manage risk and how any residual benefits or liabilities would be dealt with.

5.14 Once any losses arising from the principle that no member Authority should have less income than they would outside the Pool have been met and the costs of any projects agreed to by the Joint Committee paid, any residual benefits or liabilities arising from the Pool will be shared amongst all members of the Pool in proportion to their share of the income received from the Pool.

5.15 Finally, current thinking around business rates indicates that due to the pressure on adult social care and children's services in the local government sector that a potentially lower amount of business rates may be received by District Councils in future with the remaining amount being provided to County Councils. This position is still uncertain and the picture will become clearer during 2020/21.

5.16 With regards to business rates after 2020/21 the council is increasingly dependent on this funding source but the Government did not provide a progress update within the Settlement on the Fair Funding Review (the Review of Relative Needs and Resources of Councils and the potential change in the way funding is allocated) or further business rates retention. The fair funding review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence. A wide range of options for developing an updated funding formula are being considered by looking again at the factors that drive costs for local authorities and the approaches to measure the relative needs of local authorities. The Council over the last year or so has completed consultations that have been available and emphasised the need for consideration of the weighting towards rurality in the formula funding. This is key if this Council is to maintain its level of resources required through the allocation of business rates in the future.

5.17 With implementation scheduled for April 2021, it is crucial for local authority financial planning that the Government provides early exemplifications and consults on proposals for reform and provides certainty to councils as soon as possible, preferably by the time of the final 2020/21 local government finance settlement. In the development and changes of the business rate retention reform scheme there will always be individual winners and losers.

5.18 The Financial Strategy attached at Annex A1 comprises the information provided by the 2019 Settlement Funding Assessment, the 2020/21 50% business rate pool and also makes prudent assumptions with regards to the Business Rates Retention Reform scheme for 2021/22 and beyond. From 2021/22 it is currently assumed that the Council's position will be fiscal neutral with increased responsibilities and burdens being somewhat matched with business rates retention funding; growth to business rates has been estimated to decrease by 20% in 2020/21 due to the 75% business rate pilot scheme being replaced again by the 50% business rate pool scheme but then increases by 15% in 2021/22 when business rates becomes the main source of funding disbursed by Government after Government Grants cease and an increased proportion of business rates may be distributed to County Councils for adult social care and also children's services. Business rates then increase by around 2% on average each year with a fall in years 4 and 5 due to the potential baseline rest by Government. More will be known about this during the finalisation of the business rate retention reform scheme in 2020/21.

6.0 NEW HOMES BONUS GRANT SCHEME:

6.1 The New Homes Bonus grant scheme was introduced in 2011/12 and designed to create an effective fiscal incentive to encourage Councils to facilitate housing growth. The grant is not a ring-fenced grant and is intended to be part of the Council's core funding, as such the Ministry for Housing, Communities & Local Government intended the New Homes Bonus grant to be a 'permanent feature of the Local Government finance system'.

6.2 The Government then published a consultation paper in December 2015 "New Homes Bonus: Sharpening the Incentive" in order to make changes to the scheme from a system with few controls to one that is cash-limited each year. Key changes introduced from 2017/18 have remained for 2020/21 and are as follows:

- A move to 4-year payments in association with housing growth in 2018/19 for both existing and future new homes bonus allocation which was a reduction from 5 years in 2017/18 and 6 years previously;
- Introduction of a national baseline of 0.4% of housing growth from 2017/18, below which allocations will not be made.
- Government will also retain the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth. No changes were made in 2020/21 and the baseline remains at 0.4%
- Allocations will continue to be un-ringfenced grant

6.3 New Homes Bonus has up to 2019/20 represented an opportunity for Councils to generate significant levels of grant that can assist in dealing with the unprecedented levels of formula grant reductions facing the Council. For 2020/21 no changes were made to the new homes bonus calculation where the Government continued to provide financial grant for those local authorities supporting housing growth, although the Government very clearly intends to phase it out by 2023/24.

6.3 in line with the comments in the Chancellor's Autumn statement in September 2019 that the scheme has not promoted growth in house building as it had hoped, the major change in NHB for 2020/21 is that the new amounts earned in Year 10 will only attract an NHB reward for this one year (2020/21). In the following year 2021/22, rewards will only be paid in respect of years 8 and 9, and in year 2022/23 only for year 9. New Homes Bonus will effectively end by 2023/24

6.5 The government is very clear that it wants to replace New Homes Bonus with something that is more "targeted". Any replacement is unlikely to distribute as much funding as the current Scheme does, or to be distributed in the same way. The Chancellor has indicated at the time of the Local Government Settlement in December 2019 that it is not clear the New Homes Bonus in its current form is focussed on incentivising homes where they are needed most and therefore the government will consult on the future of the housing incentive in the spring. This will include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes needed, and align with other measures around planning performance.

6.6 Allocations regarding New Homes Bonus in the Financial Strategy for 2020/21 is as detailed in the funding settlement at £1,630,901. There after it has been assumed that over the life of the 10 year strategy the new homes bonus grant will finish in 2023/24 and this is reflected in the Financial Strategy at Annex A1.

7.0 INCOME GENERATING REVENUE STREAMS:

7.1 In 2020/21, due to the reduction of Government grants foreseen in future from 2021/22 onwards, the council needs to look for other sources of funding to support the future revenue budget and the ongoing financial sustainability of the 10 year financial strategy. Therefore to continue to support services the financial strategy details from 2020/21 onwards that external income will be generated. It should be noted that plans are in place to ensure the Council's future level of reserves with developments such as Treadmills phase 1, the commercial property portfolio and the crematorium, along with other future ideas being progressed. It is vital that these new income streams are generated as it is this source of income which enables the 10 year financial strategy to be sustainable.

8.0 LOCAL INCOME POSITION:

Council Tax

8.1 The Localism Act 2011 gives a provision for a referendum to veto excessive Council Tax increases. This effectively places a limit on the level of Council Tax set by the Council. If the Council exceeds the Government's prescribed limits the public would be able to vote to agree or veto any considered ‘excessive’ increase.

8.2 The potential additional cost of a referendum and re-billing would be significant and negate the benefit from the Council Tax increase. Therefore increasing Council Tax above the prescribed limits would require careful consideration.

8.3 The Government has currently prescribed, in the Settlement Review in December 2019, an overall limit for the increase in Council Tax Band D at below 2% (i.e. 1.99%); this is lower than the maximum threshold in the two previous years (2.99% in 2018-19 and 2019-20). However, shire district councils, of which this Council is one, will be able to increase Band D by the higher of 1.99% or £5. A £5 increase continues for this Council in 2020/21 which is an increase of 4.6%. The Financial Strategy assumes a prudent increase in Council Tax of £5 on a Band D equivalent property per annum for the duration of the Strategy.

Interest on Balances

8.4 Given the continued low Bank Base Rate, the revenue budget for interest on balances has been set at a prudent level and assumes an average of 0.75% over the year. The Financial Strategy has been prepared on the basis that the Bank Base Rate will rise to 1.00% during 2020/21 with the level of interest rates remaining low but continuing to rise to 2.25% over the 10 year strategy to 2029/30. This is consistent with the latest projections on the Bank Base Rate from the Bank of England, other City Institutions and the Council’s treasury management advisors Link Asset Services.

Fees and Charges

8.5 Fees and charges levied by the Council provide a significant source of income and facilitate reinvestment in Council services. The Financial Strategy assumes all fees and charges together increase by 5.91% in 2020/21 mainly due to increases in green waste and car parking charges and then overall by 2% for the duration of Strategy. In future years the Council will give consideration to the impact on its services, local economic circumstances and the Financial Strategy in applying appropriate fees and charges.

Capital and Prudential Borrowing

8.6 All revenue implications associated with the capital programme are considered when setting the capital programme and revenue budget 2020/21. To control the Councils level of capital expenditure there is a measure in place called the Authorise Limit for external Debt’ at £90m which is approved by Council as the maximum amount to be borrowed in 2020/21 where the associated costs are included in the revenue budget. The Council has taken the decision to fund the Capital Programme through a mix of internal and external borrowing, where internal borrowing is the use of the Council’s reserves and external borrowing is from a variety of loan sources e.g. local authorities, Public Works Loan Board, the market etc. This mix will ensure the maximum interest receipt return to the Council whilst maintaining a robust cash flow.

Reserves and Balances

8.7 The Local Government Finance Act 1992 requires Local Authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. In establishing reserves the Council must comply with the Code of Practice on Local Authority Accounting in the United Kingdom.

8.8 The provision of an appropriate level of reserves and balances is a fundamental aspect of prudent financial management. Their purpose is to provide for unexpected adverse changes in income and expenditure levels and to provide funding for specific initiatives. This is consistent with the Reserves and Balances Policy adopted by the Council in setting the 2020/21 Council Tax in February 2020.

8.9 The detailed Financial Strategy Annex A(1) shows that the financial resilience of the Council is underpinned by a number of factors:-

1) maximising income generating projects to generate significant income streams - the interest receipt from the loan to the local Housing Association, charging for green waste, increase in car park income, net income generated from Treadmills phase 1 and the potential investment in the £40m commercial portfolio;
2) revenue levels being maintained as far as possible to maximise interest income and maintain borrowing at low levels to support the revenue budget through the tax-payers reserve;
3) the New Homes Bonus Grant being paid to 2023/24 albeit at a reducing level;
4) the business rate retention scheme estimating a consistent level of business rates to be retained over 10 years;
5) a prudent increase in Council Tax of £5 on a Band D equivalent property per annum for the duration of the Strategy

8.10 It is anticipated in the Financial Strategy for 2020/21 the Council will have Reserves and Balances of £13,512,043. This provides the Council with a strong financial position to deal with the future financial challenges it is facing.

9.0 SPENDING PRESSURES:

Pay

9.1 The National Employers, who negotiates pay on behalf of 350 local authorities, have confirmed on 23 January 2020 that “The Employers are committed to engaging with the unions in a meaningful way in order to achieve a pay deal that is fair to hard working employees and affordable for councils. There is no suggestion at this stage that there will be anything other than a one-year pay deal for 2020/21, although it is very unlikely that a deal can be agreed in time for implementation on 1 April. However, councils should be mindful of the Government’s £10.50 NLW target for 2024 which presents a huge challenge to the sector and will no doubt dominate pay negotiations from 2021 onwards”. With this in mind the Council has included a 2.5% increase in this Council’s Financial Strategy and 2% for the next 10 years.

Pensions

9.2 The 3 year triennial actuarial review valuation of the North Yorkshire Pension Fund has been undertaken at 31 March 2018 by Aon (the pension fund actuary) which provides the pension cost information for three years from 2020/21 to 2022/23. The purpose of the valuation is to set out a ‘contribution’ plan to secure the solvency and long-term cost efficiency of the Pension Fund as required by the Local Government pension scheme regulations. In practice this means calculating the funding position and setting out the contributions payable of each employer in the Pension Fund. The 2019 valuation leads to contributions being certified for employers over the period from 1 April 2020 to 31 Match 2023. The total valuation of the fund is currently at 115.4% for Hambleton District Council with the past contribution calculation being reduced to zero and the current contribution rate increasing to 19.1% from 16.5%. Overall there is a net nil effect on the budget. This has been included in the financial strategy.

Recycling Contract

9.3 The recycling contract was renewed in 2019/20 with the result from the overall tender being a reduction to the budget of £201,000 per annum and the recycling occurring within the UK. This has been included in the financial strategy along with consideration of the volatile position of the recycling market which affects the 'basket' price associated with monthly income / expenditure claims through the contract. The quarterly movement of the recycling market is continually being reviewed and the effect taken into account during quarterly financial monitoring reports.

Energy prices

9.4 Energy and vehicle fuel prices continue to be volatile. Prudent provision has therefore been included for continued annual increases in charges for gas, electricity and vehicle fuel for the period of the Financial Strategy.

Capital Programme

9.5 The Financial Strategy provides an estimate of the capital resources that will be required between 2020/21 and 2029/30. The Programme has been constructed to ensure that expenditure is not only maintained within existing resources but that there are capital resources available at the end of the Strategy to provide for the future.

10.0 FINANCIAL RISK ANALYSIS:

10.1 The key financial risks and associated implications for the Financial Strategy are detailed below, a score of high, medium or low has been given to the likelihood of each risk occurring and the impact of risk on the Financial Strategy should it occur:-

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative action	Net Prob	Net Imp	Net Total
Reduction in Government Funding	Loss of income	4	5	20	Lobby Government and respond to any consultations. Budget planning and efficiency savings.	4	5	20
Central Government Policy changes e.g. changes to New Homes Bonus Grant, and Business rate Retention and Fair Funding review for local government.	Loss of income	4	5	20	Engagement in consultation and Government policy creation. Communicate to senior management and members the financial impact of changes via the Financial strategy.	4	5	20
Under the Business Rate Retention scheme failure to meet the target for business rate collection set by Government represents a cost to the Council. Also, under this scheme the Government has transferred the risk of business rate no payment to the Council.	Loss of income	3	5	15	Monitor business growth and reduction through collection rates. Act as an enabler with partners on economic development initiatives.	3	5	15

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative action	Net Prob	Net Imp	Net Total
New Homes Bonus grant ceases to be distributed by Government and the Council does not benefit from future Government housing schemes.	Loss of income	3	5	15	Use the Council's powers to encourage house building.	3	5	15
Council Tax income levels are not as projected and linked to Government referendum limits.	Loss of income	3	5	15	Monitor Government policy and lobby as required. Financial Strategy seminar to Members so they are clearly informed regarding the impact of alternative decisions.	3	5	15
Implications of Devolution and Combined Authority – deal not finalised.	Loss of income	3	5	15	Engage in all discussions, be aware of current thinking.	3	5	15
Inability to find new income generating revenue streams.	Loss of Income	3	5	15	Work started already to find alternative income sources. Future changes built into the Financial Strategy.	3	5	15
A continued low Bank Base Rate beyond 2019 would impact on the Council's ability to generate investment income from balances.	Loss of income	4	3	12	Look for other investment opportunities.	4	3	12
Fees and charges should be set at a level to maintain a balance between service use and income generation.	Loss of income	4	3	12	Set fees and charges at a fair and reasonable level	4	3	12
Inflationary pressures	Increase in Expenditure	4	3	12	Budget reporting process	4	3	12

FINANCIAL STRATEGY **ANNEX A(1)**

ASSUMPTIONS

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Inflation										
	%	%	%	%	%	%	%	%	%	%
Council Tax base	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Government support	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest rates	0.75	1.00	1.25	1.50	1.75	2.25	2.25	2.25	2.25	2.25
Budget increase	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Council tax										
Retained business rate increase above RPI %										
Council tax increase £	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Council Tax per household £	114.48	119.48	124.48	129.48	134.48	139.48	144.48	149.48	154.48	159.48
Number of band D properties	37,256	37,666	38,081	38,499	38,923	39,351	39,784	40,222	40,664	41,111
Increase in Band D Properties	409	410	414	419	423	428	433	438	442	447
Government Support										
Retained Business Rates	3,668,073	4,214,465	4,365,193	4,460,227	4,372,403	4,276,187	4,328,624	4,381,734	4,398,138	4,458,138
Revenue Support Grant	90,969	0	0	0	0	0	0	0	0	0
Rural Service Delivery Grant	628,843	0	0	0	0	0	0	0	0	0
Collection Fund Surplus / (Deficit) Transfer	-17,441	20,000	350,000	130,000	40,000	20,000	30,000	30,000	30,000	30,000
New Homes Bonus	1,630,901	836,336	337,028	0	0	0	0	0	0	0
Council Tax	4,265,115	4,500,362	4,740,269	4,984,910	5,234,358	5,488,692	5,747,987	6,012,323	6,281,779	6,556,435
	10,266,460	9,571,164	9,792,491	9,575,137	9,646,761	9,784,878	10,106,611	10,424,057	10,709,917	11,044,573

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Operational budget	9,267,588	9,455,063	9,685,797	9,814,746	9,771,012	9,266,469	9,151,785	9,143,245	9,126,420	9,227,377
Add / (Less): Budget ***	2,082	40,816	(63,496)	(235,323)	(686,238)	(294,130)	(187,820)	(195,774)	(79,973)	(79,973)
NET REVENUE BUDGET	9,269,670	9,495,879	9,622,300	9,579,423	9,084,773	8,972,338	8,963,965	8,947,471	9,046,448	9,147,404
FINANCED BY :										
External support	6,001,345	5,070,801	5,052,221	4,590,227	4,412,403	4,296,187	4,358,624	4,411,734	4,428,138	4,488,138
Council tax	4,265,115	4,500,362	4,740,269	4,984,910	5,234,358	5,488,692	5,747,987	6,012,323	6,281,779	6,556,435
Contribution (to)/from Council Taxpayer Reserve	(996,790)	(75,285)	(170,191)	4,287	(561,988)	(812,540)	(1,142,645)	(1,476,586)	(1,663,469)	(1,897,169)
	9,269,670	9,495,879	9,622,300	9,579,423	9,084,773	8,972,338	8,963,965	8,947,471	9,046,448	9,147,404
***** Includes the Income Generating Revenue Stream**	**187,270**	**400,000**	**600,000**	**800,000**	**1,000,000**	**1,200,000**	**1,300,000**	**1,500,000**	**1,500,000**	**1,500,000**

STATEMENT of RESERVES

Council Taxpayer	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Opening balance	6,003,475	6,789,266	5,567,385	3,737,575	2,533,248	2,645,197	1,557,736	1,450,382	2,426,968	2,190,437
Add: New Homes Bonus	0	0	0	0	0	0	0	0	0	
Add: Interest on balances	0	0	0	0	0	0	0	0	0	
	6,003,475	6,789,266	5,567,385	3,737,575	2,533,248	2,645,197	1,557,736	1,450,382	2,426,968	2,190,437
Less/(Add): Transfers (to)/from Council Taxpayers	(996,790)	(75,285)	(170,191)	4,287	(561,988)	(812,540)	(1,142,645)	(1,476,586)	(1,663,469)	(1,897,169)
Less: Transfers to One Off Fund	400,000	0	400,000	0	0	400,000	0	0	400,000	0
Less: Transfers to Repairs & Renewals Fund	0	200,000	0	0	0	0	0	0	0	0
Less: Transfers to Computer Fund	0	0	1,000,000	0	0	1,000,000	0	0	1,000,000	0
Less: Transfers to Grants Fund	0	8,166	0	0	0	0	0	0	0	0
Less: Transfers to Economic Development Fund	(600,000)	500,000	100,000	750,000	0	0	750,000	0	0	0
Less: Transfers to Income Generating Fund	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Less: Transfers to Capital	211,000	389,000	300,000	250,040	250,040	300,000	300,000	300,000	300,000	300,000
	6,789,266	5,567,385	3,737,575	2,533,248	2,645,197	1,557,736	1,450,382	2,426,968	2,190,437	3,587,606
Repairs and Renewals Fund										
Opening balance	844,799	758,799	843,799	747,799	637,799	551,799	465,799	379,799	293,799	207,799
Add: Transfers from Council Taxpayers Reserve	0	200,000	0	0	0	0	0	0	0	
	844,799	958,799	843,799	747,799	637,799	551,799	465,799	379,799	293,799	207,799
Less: Repairs	0	0	0	0	0	0	0	0	0	
Less: Renewals - Planning & Economy	86,000	91,000	96,000	86,000	86,000	86,000	86,000	86,000	86,000	86,000
Less: Renewals - WASS & Lesiure	0	24,000	0	24,000	0	0	0	0	0	
Less: Renewals - Corporate	0	0	0	0	0	0	0	0	0	
	758,799	843,799	747,799	637,799	551,799	465,799	379,799	293,799	207,799	121,799
Computer Fund										
Opening balance	1,180,388	794,900	592,900	1,395,900	1,133,900	912,900	1,712,900	1,502,900	1,292,900	2,082,900
Add: Transfers from Council Taxpayers Reserve	0	0	1,000,000	0	0	1,000,000	0	0	1,000,000	
	1,180,388	794,900	1,592,900	1,395,900	1,133,900	1,912,900	1,712,900	1,502,900	2,292,900	2,082,900
Less : Payments in year - CAPITAL & REVENUE	385,488	202,000	197,000	262,000	221,000	200,000	210,000	210,000	210,000	210,000
	794,900	592,900	1,395,900	1,133,900	912,900	1,712,900	1,502,900	1,292,900	2,082,900	1,872,900
Grants Fund										
Opening balance	93,134	43,134	0	0	0	0	0	0	0	0
Add: Transfers from Council Taxpayers Reserve	0	8,166	0	0	0	0	0	0	0	0
	93,134	51,300	0	0	0	0	0	0	0	0
Less: Payments in year	50,000	51,300	0	0	0	0	0	0	0	0
	43,134	0	0	0	0	0	0	0	0	0
Economic Development Fund										
Opening balance	937,873	1,137,847	1,063,597	639,874	889,874	489,874	159,874	609,874	362,319	162,319
Add: Transfers from Council Taxpayers Reserve	(600,000)	500,000	100,000	750,000			750,000			
Add: Sale of Prison Site	1,500,000	0	0	0	0	0	0	0	0	0
	1,837,873	1,637,847	1,163,597	1,389,874	889,874	489,874	909,874	609,874	362,319	162,319
Less: Payments in year	700,026	574,250	523,723	500,000	400,000	330,000	300,000	247,555	200,000	162,319
	1,137,847	1,063,597	639,874	889,874	489,874	159,874	609,874	362,319	162,319	0
One Off Fund										
Opening balance	1,238,953	1,388,953	1,238,953	1,488,953	1,338,953	1,188,953	1,588,953	1,388,953	1,388,953	1,588,953
Add: Transfers from Council Taxpayers Reserve	400,000	0	400,000	0	0	400,000	0	0	400,000	0
	1,638,953	1,388,953	1,638,953	1,488,953	1,338,953	1,588,953	1,588,953	1,388,953	1,788,953	1,588,953
Less: Payments in year	250,000	150,000	150,000	150,000	150,000		200,000	0	200,000	0
	1,388,953	1,238,953	1,488,953	1,338,953	1,188,953	1,588,953	1,388,953	1,388,953	1,588,953	1,588,953

Income Generating Fund										
Opening balance	0	0	0	0	0	0	0	0	0	0
Add: Transfers from Council Taxpayers Reserve	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Less: Payments in year	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
	0	0	0	0	0	0	0	0	0	0
General Fund Working Balance	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Capital Resources										
Resources brought forward	1,841,683	599,144	843,180	811,552	821,552	789,892	858,533	868,533	908,533	908,533
PLUS : New Receipts										
Add: Transfers from Council Taxpayers Reserve	211,000	389,000	300,000	250,040	250,040	300,000	300,000	300,000	300,000	300,000
Add: Transfers from One Off Fund	0	0	0	0	0	0	0	0	0	0
Sale of land	222,000	250,000	0	0	0	0	0	0	0	0
Sale of Assets	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Revenue Contribution	134,701	135,036	138,372	117,960	118,300	118,641	110,000	90,000	50,000	50,000
Grants	3,562,424	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
	4,140,125	1,184,036	848,372	778,000	778,340	828,641	820,000	800,000	760,000	760,000
LESS : Capital Expenditure	5,382,664	940,000	880,000	768,000	810,000	760,000	810,000	760,000	760,000	760,000
Total resources available	599,144	843,180	811,552	821,552	789,892	858,533	868,533	908,533	908,533	908,533

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Revenue reserves										
Council taxpayers	6,789,266	5,567,385	3,737,575	2,533,248	2,645,197	1,557,736	1,450,382	2,426,968	2,190,437	3,587,606
Repairs and Renewals Fund	758,799	843,799	747,799	637,799	551,799	465,799	379,799	293,799	207,799	121,799
Computer Fund	794,900	592,900	1,395,900	1,133,900	912,900	1,712,900	1,502,900	1,292,900	2,082,900	1,872,900
Grants Fund	43,134	0	0	0	0	0	0	0	0	0
Economic Development Fund	1,137,847	1,063,597	639,874	889,874	489,874	159,874	609,874	362,319	162,319	0
One Off Fund	1,388,953	1,238,953	1,488,953	1,338,953	1,188,953	1,588,953	1,388,953	1,388,953	1,588,953	1,588,953
Income Generating Fund	0	0	0	0	0	0	0	0	0	0
	10,912,899	9,306,634	8,010,101	6,533,774	5,788,723	5,485,262	5,331,908	5,764,939	6,232,408	7,171,258
Capital Receipts										
Resources available	599,144	843,180	811,552	821,552	789,892	858,533	868,533	908,533	908,533	908,533
	599,144	843,180	811,552	821,552	789,892	858,533	868,533	908,533	908,533	908,533
General Fund Working Balance	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total Reserve Balances	13,512,043	12,149,814	10,821,653	9,355,326	8,578,615	8,343,795	8,200,441	8,673,472	9,140,941	10,079,791

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HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2020

Subject: **2019/20 Q3 CAPITAL MONITORING AND TREASURY MANAGEMENT REPORT**

All Wards
Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

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1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of this report is to provide Members with the Quarter 3 update at 31 December 2019 on the progress of the capital programme 2019/20 and the treasury management position. A full schedule of the capital programme 2019/20 is attached at Annex A, together with the relevant update on progress of each scheme.

1.2 Capital expenditure is intrinsically linked with treasury management as the way that the capital programme is funded, directly effects the treasury management arrangements of the Council. The majority of the Council's capital expenditure is funded by grants, capital receipts, reserves and borrowing. The use of the Council's funds affects the daily treasury management cash flow position, as well as the requirement to investment surplus funds.

2.0 CAPITAL PROGRAMME SUMMARY:

2.1 The 2019/20 capital programme was approved by Cabinet at Quarter 2 on 3 December 2019 at 27,959,045.

2.2 At this Quarter 3 monitor, a net decrease to the capital programme of £6,124,630 results in a total revised capital programme of £21,834,415.

2.3 The net decrease of £6,124,630 to be approved in this report is detailed in Annex B and is made up of:-

a) increase in expenditure of £444,515 supported from capital reserves and borrowing

b) decrease in expenditure of £57,688 due to funding no longer required,

c) increase in expenditure of £323,000 funded externally; and

d) decrease in expenditure of £6,834,457 due to schemes rolled forward to 2020/21.

2.4 Table 2 below outlines the variances reported against each portfolio area.

Portfolio	Current Approved Expenditure	Revised Expenditure Q3	Variance Increase/ (decrease)	Request for additional funding	Funding no longer required	External Funding	Schemes re-profiled to future years
	£	£	£	£	£	£	£
Leisure and Communities	1,962,504	1,619,441	(343,063)	101,149	(56,014)	323,000	(711,198)
Environment	345,788	160,821	(184,967)	12,000	-	-	(196,967)
Economic and Planning	4,920,751	1,185,278	(3,735,473)	866	-	-	(3,736,339)
Finance and Commercial	930,140	698,808	(231,332)	-	(1,674)	-	(229,658)
Economic Development Fund	176,072	57,762	(118,310)	-	-	-	(118,310)
Corporate Schemes	19,623,790	18,112,305	(1,511,485)	330,500	-	-	(1,841,985)
Total	**27,959,045**	**21,834,415**	**(6,124,630)**	**444,515**	**(57,688)**	**323,000**	**(6,834,457)**

Table 2: Capital Programme Q3 2019/20

2.5 To 31 December 2019 capital expenditure of £2,645,983 has been incurred or committed representing 39% of the revised Quarter 3 capital programme position of £6,834,415 when the Property fund of £15m is excluded. It is expected that the capital programme will come in on target at the end of the financial year.

2.6 The proposed changes to the Capital Programme, which require approval by this Cabinet, are detailed for each of the four portfolio areas, the Economic Development Fund and Corporate Schemes at Annex B

3.0 FUNDING THE CAPITAL PROGRAMME:

3.1 For 2019/20, at Quarter 3, the capital programme of £21,834,415 is being funded from £18,050,817 external borrowing, £1,856,236 external grants/contributions, £747,808 from the Computer Fund, £516,033 from Capital Receipts, £322,300 from the Council Tax Payers Reserve, £149,368 from revenue, £84,091 from the Repairs and Renewals Reserve, £57,762 from the Economic Development Fund and £50,000 from the One Off Fund.

3.2 The external grant funding has increased in Quarter 3 by £323,000. This is as a result of s106 funding of £253,000 and a contribution from the Department of Education of £68,000 for the Thirsk and Sowerby Sports Village project and the improvements to the road infrastructure. In addition, a contribution of £2,000 has been received from Brompton Parish Council in regards to the Public lighting replacement scheme.

3.3 The capital receipts estimated to be received during 2019/20 is £250,000

3.4 Therefore at year end in accordance with accounting practice the capital programme will be financed using all available in year funding prior to using the Council's capital reserves. At Quarter 3 it is estimated that £266,033 of reserve funding will be used.

3.5 The overall funding position continues to be closely monitored to ensure the overall capital programme remains affordable and sustainable over the 10 year approved capital plan.

3.6 It should be noted that the report reflects the capital programme position as if approval has been agreed by Cabinet. This is detailed in the recommendations below.

4.0 TREASURY MANAGEMENT POSITION 2019/20:

4.1 The Treasury Management review at Quarter 3 2019/20 is attached at Annex C and provides Members with an update on the:

(a) treasury management position
(b) economy and interest rates
(c) investment policy
(d) investment performance
(e) borrowing position
(f) compliance with prudential and treasury indicators

4.2 The Treasury Management Strategy Statement (TMSS) for 2019/20 which details the Council's approach to treasury management was approved by this Council on 26 February 2019. There was one policy change to the Treasury Management Strategy Statement at Qtr 2, in relation to the investment counterparty limits.

4.3 The investment position at Quarter 3, 31 December 2019 is higher than usual as the large payments for the capital programme are scheduled for Quarters 4. The balance at the end of Quarter 3 was £18,110,000 with an average interest rate return of 0.89% for the year to date. This is all invested in short term commodities for liquidity purposes due to the numerous capital projects that are currently ongoing within the Council. £4,360,000 is invested in Money Market Funds which has instant access, £5,730,000 is invested in a 175 day notice account with Lloyds, £4,300,000 is in a 95 day notice account with Santander and £3,720,000 is invested in a 35 day notice account with Handelsbanken. The balance has been divided into these commodities so that the best yield is obtained whilst ensuring the money is available by the Council when required.

4.4 The total borrowing by the Council with the Public Works Loan Board (PWLB) is £22,700,000 taken over five loans with varying maturity dates. Further borrowing is predicted in 2019/20 to carry out the Council's capital programme.

4.5 At Quarter 3 the Council had given a total of £35,000,000 of loans to a Local Housing Association. This has been made up of ten individual loans with varying maturity dates and fulfils the agreement taken out with the Housing Association.

4.6 The interest received from the loans to the local Housing Association is not included in this section of the report because the loan is classed as capital expenditure under economic development to support local businesses. However the interest earned in the third quarter from the £35,000,000 loaned to the Local Housing association is £368,690. This totals £1,106,070 to date in 2019/20 and is on target for the annual budget of £1,474,760.

4.7 The Council has operated within the treasury and prudential indicators set out at Annex E. The approved limits were not breached during the Quarter 3 in 2019/20.

4.8 Annex F, in line with good practice on openness and transparency, explains the Council's relationship with its third party companies; it details the financial position of the Joint Venture Company and provides information on the progress of the Commercial Portfolio and Crematorium projects.

5.0 LINK TO COUNCIL PRIORITIES:

5.1 All schemes approved as part of the capital programme have been evaluated against key corporate priorities. Schemes are only undertaken and approved by Cabinet in accordance with the Council Plan and supporting project initiation documentation.

5.2 Treasury Management supports all aspects of the Council's priorities as the income earned on investments or reduced interest paid on borrowing contributes to the Council's funding position which supports Council services.

6.0 RISK ASSESSMENT:

6.1 There are no risks associated with approving this report. However, the risks associated with not receiving regular monitoring reports are potentially more serious.

7.0 FINANCIAL IMPLICATIONS:

7.1 The financial implications are dealt with in the body of the report.

8.0 LEGAL IMPLICATIONS:

8.1 Treasury Management activities and the Capital programme conform to the Local Government Act 2003 and the Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice.

9.0 EQUALITY/DIVERSITY ISSUES:

9.1 The capital programme seeks to address key equality issues that affect the Council and the public. The main schemes that specifically addressed equalities in the third quarter of 2019/20 is the disabled facilities grant scheme and the pool access scheme for all four leisure centres.

10.0 RECOMMENDATIONS:

10.1 That Cabinet approves and recommends to Council:-

(1) the net decrease of £6,124,630 in the capital programme to £21,834,415 and all expenditure movements as detailed in Annex B and also in the capital programme attached at Annex A;

(2) the increase of capital expenditure of £767,515 funded as follows: £114,015 is funded from capital receipts, £330,500 from borrowing, and £323,000 is from external grants/contributions;

(3) the funding allocation to the capital programme as detailed in paragraph 3.1 and 3.2;

(4) the treasury management and prudential indicators at Annex E; and

(5) to note the position of the Council's third party companies at Annex F.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE AND COMMERCIAL (S151 OFFICER)

Background papers: Capital programme working papers Q3
Treasury management working papers Q3

Author ref: SC

Contact: Saskia Calton
Corporate Finance Manager
Direct Line No 01609 767226

Councillor / Officer	Capital Scheme	Budget Approved at Qtr 2	Qtr 3	Qtr 3 + 2019/20	Third Party Cont	Third Party Cont Qtr 3	Cost to the Council £	Expenditure at 31st December 2019	Anticipated Expenditure Year End	Variance	Change in Funding Taken / (Returned) Capital Reserve	Explanation
		£	£	£	£	£	£	£	£	£	£	
Cllr Fortune	**Leisure & Communities**											
	NLC - Internal Painting	3,861		3,861			3,861	1,270	3,861	-		Scheme is progressing and estimated to be completed by March 2020.
	NLC - Spinning Bikes	14,000		14,000			14,000	-	14,000	-		Scheme is progressing and estimated to be completed by March 2020.
	NLC - Pool Tank Tiles	20,000	(20,000)	-			-	-	-	(20,000)		Request of £20,000 to be transferred to NLC - Pool Flume Improvements due to scheme required more urgently.
	NLC - Pool Flume Improvements	-	20,000	20,000			20,000	-	20,000	20,000		Request of funding from NLC Pool Tank Tiles of £20,000 to be used for this new scheme. The scheme is under review and estimated to be completed by March 2020.
	NLC - Flat Roof Enhancement	9,682		9,682			9,682	9,682	9,682	-		Scheme is completed.
	SLC - Re-design of Reception Area	0		-			-	-	-	0		
	SLC - AWP Improvements	0		-			-	-	-	0		
	SLC - Activity Room	0		-			-	-	-	0		
	SLC - Underwater Detection System	60,000		60,000			60,000	-	60,000	-		Scheme is progressing with order placed and delivery of scheme expected by end of March 2020.
	SLC - Changing Room Air Handling Unit	35,000		35,000			35,000	-	35,000	-		Scheme is progressing and estimated to be completed by March 2020.
	SLC - Leisure Improvement scheme	243,900	(30,000)	213,900			213,900	-	213,900	(30,000)		Request of £30,000 to be rolled forward to 2020/21 for Phase 3 of the project. Phase 1 has been completed with Phase 2 (reception area) progressing and estimated to be completed by March 2020.
	BLC - Water Pumps	10,000		10,000			10,000	3,756	10,000	-		Scheme is progressing and to be completed by March 2020.
	BLC - Gym Floor	0		0			-	-	-	0		
	SLC &T&SLC - Shower Areas	0		0			-	-	-	0		
	T&SLC - Feasibility Study	15,000	99,500	114,500			114,500	10,400	114,500	99,500	99,500	Request of £99,500 for the improvement of Thirsk & Sowerby Leisure Centre to enable comprehensively specifications to the scheme and achieve an accurate level of confidence in costings.
	T&SLC - Pool Plant Valves	28,000	(28,000)	-			-	-	-	(28,000)		Request of roll forward of £28,000 to 2020/21 due to scheme is expected to align with major works at leisure centre in 2020/21.
	Gym Equipment Refresh	0		-			-	-	-	0		
	All Leisure Centres - Pool Plant Equipment Replacement	30,933		30,933			30,933	6,500	30,933	-		Scheme is progressing and estimated to be completed by March 2020.
	All Leisure Centres - Energy Management	0		-			-	-	-	0		
	All Leisure Centres - Pool access	5,619		5,619			5,619	-	5,619	-		Scheme is progressing and estimated to be completed by March 2020.
	All Leisure Centres - (except NLC) Gym Equipment	0		0			-	-	-	-		
	Thirsk & Sowerby Sports Village	250,000	296,500	546,500	250,000	296,500	-	132,362	546,500	296,500		Phases 1 and 2 are in a maintenance phase and final retention payments are due to be paid in March 2020. £24,500 will need to be rolled forward for the improvements to hockey, netball and indoor cricket as this will be completed at the beginning of Quarter 1 in 2020/21. In addition, £321,000 for the improvements to the road infrastructure around the adjacent primary school to the Sports village is requested. The increase funding will come from s106 agreements of £253,000 and a contribution from the Department of Education of £68,000.
	Fitness track lighting for Thirsk & Sowerby S	6,485	(403)	6,082	6,485	(403)	-	6,082	6,082	(403)		Scheme completed with a small underspend of £403. Cost is being met by Thirsk & Sowerby Harriers.

Councillor / Officer	Capital Scheme	Budget Approved at Qtr 2	Qtr 3	Qtr 3 + 2019/20	Third Party Cont	Third Party Cont Qtr 3	Cost to the Council £	Expenditure at 31st December 2019	Anticipated Expenditure Year End	Variance	Change in Funding Taken / (Returned) Capital Reserve	Explanation
Cllr Sanderson												
	Public lighting replacement	34,230	2,000	36,230		2,000	34,230	34,700	36,230	2,000		Request of £2,000 to the scheme which has been contributed from Brompton Parish Council.
	LED Lantern Replacement Scheme	144,601	(55,611)	88,990	81,130		7,860	75,491	88,990	(55,611)	(55,611)	Scheme to be completed in March 2020 with £55,611 to be return to fund since alternative equipment has been sourced which means reductions in expenditure.
	Air Conditioning - Legislation requirement	13,358		13,358			13,358	9,555	13,358	-		Scheme is progressing and estimated to be completed by March 2020.
	Energy Efficiency (Market Assessment)	-		-			-	-	-	-		
	Forum Atrium	10,000	(10,000)	-			-	-	-	(10,000)		Request of £10,000 to be rolled forward to 2020/21 due to options being assessed and work now planned for the summer 2020.
	Forum - Gas Fired Water Heater	10,000	(2,462)	7,538	1,100		6,438	3,595	7,538	(2,462)		Scheme is completed and final invoices. Underspend of £2,462 requested to be used to fund overspend for the Civic Centre External Woodwork Scheme - Dormers
	Facilities Lightening Protection	21,000	(11,442)	9,558			9,558	7,319	9,558	(11,442)		Scheme part complete with the remainder to complete in next year. Request of £11,442 to be rolled forward to 2020/21.
	World of James Herriot - External Repairs	6,645		6,645			6,645	6,645	6,645	-		Scheme completed
	World of James Herriot - Hydraulic Lift refurb	26,800		26,800			26,800	26,800	26,800	-		Scheme completed
	Civic Centre - External Woodwork Scheme - Dormers	8,735	9,781	18,516			18,516	7,394	18,516	9,781		Scheme completed with an overspend of £9,781 due to the work extend being greater than first anticipated. £9,781 requested to be funded from underspend from the Forum Gas Fired Water Heater scheme of £2,462, the Civic Centre External Woodwork Scheme - Stairwells of £500 and Boundary Signs scheme of £6,819.
	Civic Centre - External Woodwork Scheme - Stairwells	2,000	(500)	1,500			1,500	1,500	1,500	(500)		Scheme completed with a £500 underspend request to be used to cover overspend for the Civic Centre External Woodwork Scheme - Dormers.
	Civic Centre/Northallerton Leisure Centre Increased Car Parking Provision	30,912	2,013	32,925			32,925	32,863	32,925	2,013	1,649	Scheme completed with a small overspend of £2,013 which £364 requested to be transferred from the Boundary Signs scheme of £364 and £1,649 additional requested from funding.
	Civic Centre - Accommodation	211,000		211,000			211,000	106,777	211,000	-		Scheme is progressing and estimated to be completed by March 2020.
	Civic Centre - Roof Repairs	15,000		15,000			15,000	15,000	15,000	-		Scheme completed.
	Car Park Reinstatements	102,127	(89,256)	12,871			12,871	2,871	12,871	(89,256)		Scheme is progressing with work now rescheduled to take place in 2020/21. Request of £89,256 to be rolled forward to 2020/21.
	Car Park Improvement Scheme	550,000	(518,000)	32,000			32,000	20,241	32,000	(518,000)		Scheme is progressing with work now rescheduled to take place in 2020/21. Request of £518,000 to be rolled forward to 2020/21.
	Adoptions - Electric Bollards - Thirsk & Northallerton	31,558		31,558			31,558	23,768	31,558	-		Scheme is progressing and estimated to be completed by March 2020.
	St Mary's Closed Churchyard Wall Repairs	1,729		1,729			1,729	1,729	1,729	-		Scheme completed.
	Boundary Signs	7,183	(7,183)	-			-	-	-	(7,183)		Scheme complete with the underspend requested to be used to cover the Civic Centre External Woodwork Scheme - Dormers of £6,819 and £364 for the Civic Centre/Northallerton Leisure Centre Increased Car Parking Provision.
	Community Investment Scheme	3,146		3,146			3,146	455	3,146	-		Scheme is progressing and estimated to be completed by March 2020.
	Total Scheme Value Leisure & Communit	**1,962,504**	**(343,063)**	**1,619,441**	**338,715**	**298,097**	**982,629**	**546,755**	**1,619,441**	**(343,063)**	**45,538**	

Councillor / Officer	Capital Scheme	Budget Approved at Qtr 2	Qtr 3	Qtr 3 + 2019/20	Third Party Cont	Third Party Cont Qtr 3	Cost to the Council £	Expenditure at 31st December 2019	Anticipated Expenditure Year End	Variance	Change in Funding Taken / (Returned) Capital Reserve	Explanation
Cllr Watson	**Environment**											
	Purchase of bins and boxes for refuse and r	67,799		67,799	10,000		57,799	55,468	67,799	-		Scheme is progressing and estimated to be completed by March 2020.
	Northallerton Depot Improvement Scheme	96,000	(80,000)	16,000			16,000	3,706	16,000	(80,000)		Request of £80,000 to be rolled forward to 2020/21 since consultants will not be appointed until in January 2020.
	Northallerton Depot - HGV Full Roof Replacement	0		0			-		0	-		
	Northallerton Depot External Works	4,917	(4,917)	-			-	-	-	(4,917)		Request of £4,917 to be rolled forward to 2020/21 since consultants will mot be appointed until in January 2020.
	Northallerton Depot - Fleet Washers	8,190		8,190			8,190	8,190	8,190	-		Scheme complete
	Northallerton Depot - Health & Safety & Security Improvements	0		0			-		0	-		
	Stokesley Depot Welfare	23,832		23,832			23,832	21,541	23,832	-		Scheme complete
	Bridge End House - Condition Survey Urgent Repairs	0		0			-		0	-		
	Darlington Road Depot - Condition Survey Urgent Repairs	0		0			-		0	-		
	Fly Tipping Project Equipment Surveillance	21,000		21,000			21,000	3,115	21,000	-		Scheme completed apart from magnetic signs for the small fleet. Scheme expected to be completed by March 2020.
	WASS - Digital Depot System	100,000	(100,000)	-			-	-	-	(100,000)		Request of £100,000 to be rolled forward to 2020/21 since results of testing are not expected until at the end of March 2020 which will inform the decision making process for the scheme.
	Waste and Street Scene - Telematics	12,050	(12,050)	-			-	-	-	(12,050)		Request of £12,050 to be rolled forward to 2020/21 since part of the Digital Depot System scheme.
	Depot Electric charging points	-	12,000	12,000			12,000	-	12,000	12,000	12,000	Request of £12,000 to provide electric charging points at the Northallerton Depot.
	Dash Camera Small Fleet	12,000		12,000			12,000	560	12,000	-		Scheme complete awaiting final invoices
	Total Scheme Value Environment	**345,788**	**(184,967)**	**160,821**	**10,000**	**-**	**150,821**	**92,580**	**160,821**	**(184,967)**	**12,000**	
Cllr Mrs Sanderson	**Economy & Planning**											
	Bedale Gateway Car Park	521,710	(521,710)	-			-	-	-	(521,710)		Request of roll forward of £521,710 as scheme is on hold and will be reviewed during Quarter 4.
	Bedale Bridge and Cycle Scheme	505,566	(450,561)	55,005	453,361	(398,356)	-	8,290	55,005	(450,561)		Request of £450,561 to be rolled forward to 2020/21 when the majority of the scheme is expected to take place.
Cllr Wilkinson												
	Workspaces Health and Safety Aspects	6,663	383	7,046			7,046	237	7,046	383	383	Scheme completed with a small overspend of £383.
	Workspaces - Lighting Improvements	6,362		6,362			6,362	6,362	6,362	-		Scheme completed.
	Workspace Renewal Scheme	1,570		1,570			1,570	-	1,570	-		Scheme is progressing with supplier on site and invoices expected before end of March 2020.
	Workspace Risk Reduction Scheme	22,381	483	22,864			22,864	10,641	22,864	483	483	Request of £483 since further works were identified during project.
	Workspaces - Lift Works (LOLER)	6,000		6,000			6,000	-	6,000	-		Scheme is under review to identify what requirements are needed.
	Workspaces - Air Con Refurbishments	6,000		6,000			6,000	-	6,000	-		Scheme is under review to identify what requirements are needed.
	Northallerton Connections	3,160,893	(2,640,000)	520,893	3,160,893	(2,640,000)	-	219,297	520,893	(2,640,000)		Scheme is in progress with work estimated to commence in February 2020. Request of roll forward of £2,640,000 to 2020/21.
	Dalton Bridge Voluntary Contribution Busine	8,566		8,566			8,566	2,075	8,566	-		Scheme completed with retention and outstanding invoices still to be agreed with NYCC.
Cllr Webster												
	Disabled Facilities Grant	675,040	(124,068)	550,972	675,040	(124,068)	-	317,679	550,972	(124,068)		Request of roll forward of 124,068 to 2020/21 with majority of the grant funding spent in year.
	Total Scheme Value Economy & Planning	**4,920,751**	**(3,735,473)**	**1,185,278**	**4,289,294**	**(3,162,424)**	**58,408**	**564,580.32**	**1,185,278**	**(3,735,473)**	**866**	

Councillor / Officer	Capital Scheme	Budget Approved at Qtr 2	Qtr 3	Qtr 3 + 2019/20	Third Party Cont	Third Party Cont Qtr 3	Cost to the Council £	Expenditure at 31st December 2019	Anticipated Expenditure Year End	Variance	Change in Funding Taken / (Returned) Capital Reserve	Explanation
Cllr Mrs Sanderson	**Finance & Commercial**											
	ICT Improvements 2019/20	416,593	(5,000)	411,593			411,593	321,511	411,593	(5,000)		Request of roll forward of £5,000 due to project needing the buy-in of the other tenants at the Civic Centre
	ICT - Civica Estore and Icon Upgrade V17.3/v18	63,260	(62,760)	500			500	-	500	(62,760)		Request roll forward of £62,760 since works are to be completed after the implementation of the Finance System Project.
	ICT - Finance System	228,950	(21,000)	207,950			207,950	120,980	207,950	(21,000)		Request roll forward of £21,000 as this is contractually due on the go live date of 1 April 2020.
	Housing Benefits - Electronic Forms & CRM Portal	20,000	(20,000)	-			-	-	-	(20,000)		Request for roll forward of £20,000 since implementation is now due after April 2020.
	EHO - Management Information System (MIS)	52,770		52,770			52,770	-	52,770	-		Implementation and invoices expected at the end of March 2020.
	CRM/Mitel Telephony Integration	-		-			-		-	-		
	DM - Development Management Information System (MIS)	48,200	(48,200)	-			-	-	-	(48,200)		Request roll forward of £48,200 due to project scope being redeveloped after supplier ownership change.
	Web Accessibility Upgrade.	80,000	(68,000)	12,000			12,000	-	12,000	(68,000)		Return a roll forward of £68,000 as the project will be delivered between January - September 2020
	ICT Customer Excellence	4,698	(4,698)	-			-	-	-	(4,698)		Request for roll forward of £4,698 due to implementation now due after April 2020.
	ICT Council Chamber	6,145		6,145			6,145	538	6,145	-		Scheme is progressing and estimated to be completed by March 2020.
	ICT- Leisure Management System	6,850		6,850			6,850	6,850	6,850	-		Scheme completed.
	ICT - Northgate System Upgrade	1,000		1,000			1,000	-	1,000	-		Scheme is progressing and estimated to be completed by March 2020.
	ICT - Govemetric Customer Satisfaction Upgrade	1,674	(1,674)	-			-	-	-	(1,674)	(1,674)	Request a return to fund of £1,674. The current Govmetric installations meet the current service requirements.
	Total Scheme Value Finance & Commerci	**930,140**	**(231,332)**	**698,808**	**-**	**-**	**698,808**	**449,878**	**698,808**	**(231,332)**	**(1,674)**	
Cllr Wilkinson	**Economic Development Fund**											
	Dalton Bridge EDF Improvement Infrastructu	14,057		14,057			14,057	-	14,057	0		Scheme completed with retention and outstanding invoices still to be agreed with NYCC.
	Market Towns Investment Plans - Bedale	0		-			-	-	-	0		
	Market Towns Investment Plans - Easingwold	0		-			-	-	-	0		
	Market Towns Investment Plans - Northallerton	0		-			-	-	-	0		
	Market Towns Investment Plans - Stokesley	0		-			-	-	-	0		
	Market Towns Investment Plans - Thirsk	0		-			-	-	-	0		
	Industrial Estates/Employment land	92,015	(58,310)	33,705			33,705	18,700	33,705	(58,310)		Request of £58,310 to be rolled forward to 2020/21 due to the bulk of the work now rescheduled to next year.
	Footfall Counters	10,000		10,000			10,000	-	10,000	-		Scheme is progressing and estimated to be completed by March 2020.
	Industrial Park Review	60,000	(60,000)	-			-	-	-	(60,000)		Request roll forward of £60,000 to 2020/21 due to reviews rescheduled to next year.
	Total Scheme Value EDF	**176,072**	**(118,310)**	**57,762**	**-**	**-**	**57,762**	**18,700**	**57,762**	**(118,310)**	**-**	
Cllr Wilkinson	**Corporate Schemes**											
	Dalton Bridge BID Payment	61,488		61,488			61,488	29,753	61,488	-		Scheme completed with retention and outstanding invoices still to be agreed with NYCC.
	Commercial Investment Property portfolio	15,000,000		15,000,000	-	-	15,000,000	13,476	15,000,000	-		Scheme is progressing and property investments are estimated to undertaken by March 2020.
	Treadmills Phase 1	4,312,302	(1,561,665)	2,750,637	-	-	2,750,637	896,249	2,750,637	(1,561,665)		Scheme is progressing with some of the work now taking place in April 2020. Request of £1,561,665 to be rolled forward to 2020/21.
	Crematorium	250,000	50,180	300,180	-	-	300,180	34,012	300,180	50,180	330,500	Request of £330,500 of which £280,320 is requested to be rolled forward to 2020/21. This is due to that the consultant fees and survey costs for the crematorium development are now expected earlier in the development process and increased cost in relation to the procurement process.
	Ground Source Heat Pumps - Civic Centre and all Leisure Centres	-		0	-	-	-		-	-		
	Total Scheme Value Corporate Schemes	**19,623,790**	**(1,511,485)**	**18,112,305**	**-**	**-**	**18,112,305**	**973,490**	**18,112,305**	**(1,511,485)**	**330,500**	
	Total Capital Programme 2019/20	**27,959,045**	**(6,124,630)**	**21,834,415**	**4,638,009**	**(2,864,327)**	**20,060,733**	**2,645,983**	**21,834,415**	**(6,124,630)**	**387,230**	

Annex B

PROPOSED CHANGES TO THE CAPITAL PROGRAMME:

1.1 The proposed changes to the capital programme, detailed for each of the portfolio areas are listed below:

1.2 Leisure and Communities – 18 schemes affect the capital programme at Quarter 3:

(a) Northallerton Leisure Centre – Pool Tank Tiles: request of £20,000 to be transferred to Northallerton Leisure Centre - Pool Flume Improvements due to scheme required more urgently.

(b) Northallerton Leisure Centre – Pool Flume Improvements: request of funding from Northallerton Leisure Centre Pool Tank Tiles of £20,000 to be used for this new scheme. The scheme is under review and estimated to be completed by March 2020.

(c) Stokesley Leisure Centre – Leisure Improvement Scheme: request of £30,000 to be rolled forward to 2020/21 for Phase 3 of the project. Phase 1 has been completed with Phase 2 (reception area) progressing and estimated to be completed by March 2020.

(d) Thirsk and Sowerby Leisure Centre – Feasibility Study: request of £99,500 in order to comprehensively specify the scheme and achieve an accurate level of confidence in costing it up, where a range of preliminary works (surveys, designs and assessments) needs to be undertaken.

(e) Thirsk and Sowerby Leisure Centre – Pool Plant Valves: request of roll forward of £28,000 to 2020/21 due to scheme is expected to align with major works at leisure centre in 2020/21.

(f) Thirsk & Sowerby Sports Village: Phases 1 and 2 are now in a maintenance phase and final retention payments are due to be paid in March 2020. Request is made for a roll forward of £24,500 for the improvements to hockey, netball and indoor cricket to 2020/21. In addition, £321,000 for the improvements to the road infrastructure around the adjacent primary school to the Sports Village is requested. The increase funding will come from s106 agreements of £253,000 and a contribution from the Department of Education of £68,000.

(g) Fitness Track Lighting for Thirsk and Sowerby Sports Village: scheme completed with a small underspend of £403. The scheme cost is being funded by Thirsk & Sowerby Harriers.

(h) Public lighting replacement: request to add £2,000 to the scheme which has been contributed from Brompton Parish Council.

(i) LED Lantern Replacement scheme: scheme to be completed in March 2020 with £55,611 to return to fund as alternative equipment has been sourced which means reductions in expenditure.

(j) Forum Atrium: request of £10,000 to be rolled forward to 2020/21 due to options being assessed and work now planned for the summer 2020.

(k) Forum – Gas Fired Water Heater: scheme is completed and final invoices have been received. Underspend of £2,462 requested to be used to fund overspend for the Civic Centre External Woodwork Scheme – Dormers.

(l) Facilities Lightening Protection: scheme part complete with the remainder to be completed in the next year. Request of £11,442 to be rolled forward to 2020/21.

(m) Civic Centre - External Woodwork Scheme - Dormers: scheme completed with an overspend of £9,781 due to the extent of required work being greater than first anticipated. £2,462 is requested to be funded from underspends from the Forum Gas Fired Water Heater Scheme, £500 from the Civic Centre External Woodwork Scheme - Stairwells and £6,819 from the Boundary Signs Scheme.

(n) Civic Centre - External Woodwork Scheme – Stairwells: scheme completed with a £500 underspend request to be used to cover overspend for the Civic Centre External Woodwork Scheme - Dormers.

(o) Civic Centre/Northallerton Leisure Centre Increased Car Parking Provision: scheme completed with a small overspend of £2,013 which £364 requested to be transferred from the Boundary Signs scheme and £1,649 additional requested from funding.

(p) Car Park Reinstatements: scheme is progressing with work now rescheduled to take place in 2020/21. Request of £89,256 to be rolled forward to 2020/21.

(q) Car Park Improvement Scheme: scheme is progressing with work now rescheduled to take place in 2020/21. Request of £518,000 to be rolled forward to 2020/21.

(r) Boundary Signs: scheme complete with underspend of £7,183, request underspend to be used to cover the Civic Centre External Woodwork Scheme - Dormers of £6,819 and £364 for the Civic Centre/Northallerton Leisure Centre Increased Car Parking Provision.

1.3 Environment – 5 schemes affect the capital programme at Quarter 3:

(a) Northallerton Depot Improvement Scheme: request of £80,000 to be rolled forward to 2020/21 since consultants will be appointed in January 2020.

(b) Northallerton Depot External Works: request of £4,917 to be rolled forward to 2020/21 since consultants will be appointed in January 2020.

(c) Waste and Street Scene - Digital Depot System: request of £100,000 to be rolled forward to 2020/21 since testing results are not expected until at the end of March 2020 which will inform the decision making process for the scheme.

(d) Waste and Street Scene – Telematics: request of £12,050 to be rolled forward to 2020/21 as part of the Digital Depot System scheme.

(e) Depot Electric charging points: request of £12,000 to provide electric charging points at the Northallerton Depot.

1.4 Economy and Planning - 6 schemes affect the capital programme at Quarter 3:

(a) Bedale Gateway Car Park: request of roll forward of £521,710 as scheme is on hold and will be reviewed during Quarter 4.

(b) Bedale Bridge and Cycle Scheme: request of £450,561 to be rolled forward to 2020/21 when the majority of the scheme is expected to take place.

(c) Workspaces Health and Safety Aspects: scheme completed with a small overspend of £383.

(d) Workspaces Risk Reduction scheme: request of additional £483 as further works were identified during project.

(e) Northallerton Connections: scheme is in progress with work estimated to commence in February 2020. Request of roll forward of £2,640,000 to 2020/21.

(f) Disabled Facilities Grant: majority of the grant funding was spent in year with a roll forward request of 124,068 to 2020/21.

1.5 Finance and Commercial - 8 schemes affect the capital programme at Quarter 3:

(a) ICT Improvements 2019/20: request of roll forward of £5,000 due to project needing the buy-in of the other tenants at the Civic Centre.

(b) ICT - Civica Estore and Icon Upgrade V17.3/v18: request roll forward of £62,760 since works are to be completed after the implementation of the Finance System Project.

(c) ICT - Finance System: request roll forward of £21,000 as this is contractually due on the go live date of 1 April 2020.

(d) Housing Benefits - Electronic Forms & CRM Portal: request for roll forward of £20,000 since implementation is now due after April 2020.

(e) Development Management Information System (MIS): request roll forward of £48,200 due to project scope being redeveloped after supplier ownership change.

(f) Web Accessibility Upgrade: request a roll forward of £68,000 as the project will be delivered between January - September 2020

(g) ICT Customer Excellence: request for roll forward of £4,698 due to implementation now due after April 2020.

(h) ICT - Govmetric Customer Satisfaction Upgrade: request a return to fund of £1,674. The current Govmetric installations meet the current service requirements.

1.6 Economic Development Fund - 2 schemes affect the capital programme at Quarter 3:

(a) Industrial Estates/Employment land: request of £58,310 to be rolled forward to 2020/21 due to the bulk of the work now rescheduled to next year.

(b) Industrial Park Review: request roll forward of £60,000 to 2020/21 due to reviews rescheduled to next year.

1.7 Corporate Schemes – 2 schemes affected in the capital programme at Quarter 3:

(a) Treadmills Phase 1: scheme is progressing with some of the work now taking place in April 2020. Request of £1,561,665 to be rolled forward to 2020/21.

(b) Crematorium: request of increased expenditure for the initial preparations of the project on the crematorium from £250,000 to £580,500 where £280,320 is to be rolled forward to 2020/21. This is due to consultant fees and survey costs for the crematorium development being incurred earlier in the development process as well as increased costs in relation to the procurement process.

1.8 Capital schemes are monitored on a monthly basis and reported to Cabinet quarterly, ensuring that the majority of schemes are held within budget or reported to Council at the earliest opportunity.

1.9 New Schemes added to the capital programme all have supporting Project Initiation Documentation to ensure projects are affordable, sustainable and prudent.

ANNEX C

TREASURY MANAGEMENT POSITION 2019/20 – QUARTER 3

1.0 LEGISLATIVE REQUIREMENT:

1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (Treasury Management Strategy Statement, Annual and Mid-year reports, as well as quarterly updates). This report therefore ensures this Council is implementing best practice in accordance with the Code.

1.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This Quarter 3 report therefore updates Members on the current treasury management position and is presented to Cabinet and also Audit, Governance and Standards Committee.

1.3 The Council's treasury management position is based on its requirement to fund the capital programme and it's operational cash flow need. The Council looks to balance the requirement to borrow from external sources with the surplus funds that are available.

1.4 During 2018/19 the Council supported its capital expenditure by capital receipts, reserves, revenue contribution, long term borrowing , as wells as short term borrowing and the use of surplus funds for cash flow purposes. The short term borrowing was taken and repaid in Quarter 1 of 2019/20. The Council continues to have an underlying need to borrow for capital purposes and has five long term external borrowing of £22,700,000. These loans were all taken from Public Works Loan Board (PWLB) as follows;

- £1,200,000 in September 2016 at a rate of 1.05% over 5 years;
- £9,000,000 in March 2019 at a rate of 2.45% over 50 years;
- £2,500,000 in March 2019 at a rate of 2.24% over 45 years;
- £5,000,000 in September 2019 at a rate of 1.20% over 10 years; and
- £5,000,000 in September 2019 at a rate of 1.43% over 15 years.

1.5 The capital financing requirement in 2019/20, which is the amount of borrowing required to support the capital expenditure programme, is set at £56,221,000. The capital expenditure of the Council is also supported by grants, contributions and reserves. The capital financing requirement refers to the amount of borrowing that could be taken to support the capital expenditure programme.

1.6 The following table shows the treasury management position as at 31 December 2019:-

	31 Dec 19 £000's	**Rate %**
Capital Financing Requirement	56,221	
Borrowing	22,700	2.20
Investments	18,110	0.89

Table 1: Borrowing and Investment position at 31 December 2019

1.7 The table shows that changes in the capital expenditure programme only affects the treasury management position through the surplus funds that are available to the Council to invest, to earn investment income.

2.0 THE ECONOMY, INTEREST RATES AND TREASURY MANAGEMENT STRATEGY:

2.1 The economic background and interest rate forecast, which sets the environment in which the Council's treasury management operates, is attached at Annex D.

3.0 ANNUAL INVESTMENT STRATEGY 2019/20 – QUARTER 3:

3.1 The Treasury Management Strategy Statement (TMSS) for 2019/20 which includes the Annual Investments Strategy, was approved by the Council on 26 February 2019. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

3.2 The Council's priority is security of its surplus funds when investing with financial institutions. However the Council will always aim to achieve the optimum return (yield) on investments in line with its risk appetite and which is commensurate with proper levels of liquidity and security. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months. Investments are placed with highly credit rated financial institutions, using the Council's treasury Management advisers – Link Asset Services - suggested creditworthiness approach including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Link Asset Services.

3.3 The average level of funds available for investment purposes during Quarter 3 – 31 December 2019 - was £20,200,000 The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

3.4

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.57%	0.89%	£44,242

Table 2: Investment performance for Quarter 3 at 31 December 2019

3.5 The table shows that the Council monitors its cash flow investments against the 7 day rate. The Council outperformed the 7 day benchmark by 0.32%.

3.6 The Council's budgeted investment return for 2019/20 was approved at £35,000. In Quarter 3 monitoring it has been reported that the income is estimated to be £100,000, which is an increase of £65,000 due to increased surplus cash invested in short term investments as a result of taking loans from the Public Works Loan Board before capital expenditure has occurred. These have also been invested in a variety of fixed term call accounts that attract higher rates of interest, whilst still remaining accessible. This will be closely monitored throughout the year.

4.0 BORROWING 2019/20 – QUARTER 3

4.1 At 31 December 2019 the Council had five loans to the value of £22,700,000 of long term borrowing with the Public Works Loan Board (PWLB). These can be seen in the paragraph 1.4.

4.2 The table below shows the Public Works Loans Board (PWLB) interest rates which were available for loans during the first nine months of 2019/20. The Public Works Loans Board (PWLB) is the mechanism by which the Government allows local authorities to borrow at slightly lower interest rates than are available to other institutions. Certainty rates, as detailed in the table, are interest rates available to local authorities if they inform the Government of their borrowing requirements and are 0.02% (or 20 basis points) below Public Works Loans Board (PWLB) rates. This was introduced by the Government in October 2012.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.47%	1.20%	1.39%	1.98%	1.81%
Date	08/10/2019	08/10/2019	08/10/2019	08/10/2019	08/10/2019
High	2.67%	2.63%	2.87%	3.42%	3.25%
Date	05/12/2019	31/12/2019	31/12/2019	31/12/2019	31/12/2019
Average	2.51%	2.38%	2.58%	3.15%	2.99%

Table 3: Public Works Loan Board (PWLB) certainty rates, quarter ended 31 December 2019

4.3 **Treasury Borrowing**: Due to the overall financial position and the underlying need to borrow for capital purposes, external borrowing of £22,700,000 has been taken up to Quarter 3 2019/20 from the Public Works Loans Board (PWLB).

4.4 It is anticipated that further borrowing will be required in 2019/20 to support the overall Capital Programme.

4.5 **Rescheduling of Borrowing**: Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted Public Works Loan Board (PWLB) new borrowing rates since October 2019. No debt rescheduling has therefore been undertaken to date in the current financial year. The 100bps increase in Public Works Loan Board (PWLB) rates from 9 October 2019 only applied to new borrowing rates, not to premature repayment rates.

4.6 **Repayment of Borrowing**: the Council did not have any borrowing to repay during Quarter 3 of 2019/20.

5.0 COMPLIANCE WITH PRUDENTIAL AND TREASURY INDICATORS:

5.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) were approved in the Treasury Management Strategy Statement by Council on 26 February 2019 and are in compliance with the Council's Treasury Management Practices.

5.2 During the financial year to date the Council has operated within the Treasury and Prudential Indicators approved which are attached at Annex E.

5.3 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the Quarter ended 31 December 2019.

Economic Update

1.1 ECONOMIC BACKGROUND:

UK. Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 back up to +0.4% and quarter 4 expected to come in around zero. Political and Brexit uncertainty have dampened growth in 2019.
Despite political uncertainty ending with a decisive overall majority for the Conservative government in the December general election which clears the way for the UK to leave the EU on 31 January 2020, we still have much uncertainty as to whether there will be a reasonable trade deal achieved by the end of 2020.

After the Monetary Policy Committee (MPC) 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 Monetary Policy Committee (MPC) until these remaining uncertainties over the likely type of Brexit become clear. If there was a no deal exit, it is likely that Bank Rate would be cut in order to support growth. However, if growth was to flag significantly in any event, the Monetary Policy Committee (MPC) could also cut Bank Rate in 2020. The Government has announced some major spending increases and is expected to make further commitments in the spring budget; these will provide some support to growth and will take some pressure off the Monetary Policy Committee (MPC) to act to stimulate growth by either cutting Bank Rate or implementing other monetary policy measures.

The Monetary Policy Committee (MPC) did have some concerns over the trend in wage inflation, which was on a rising trend, and peaked at a new post financial crisis high of 3.9% in June. Since then, however, it has been falling steadily back to 3.5% in October, (3 month average figure, excluding bonuses). Growth in employment picked up again to 24,000 in the three months to October, after a fall in the previous month's figures. However, this is still well below the 2018 average, although the unemployment rate remained at 3.8 percent, its lowest rate since 1975.

As for **Consumer Price Index (CPI) inflation** itself, this fell to 1.5% in October and November and is likely to remain between 1.5% and 2% over the next two years. If there was a no deal Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.
The strong wage inflation figure and the fall in Consumer Price Index (CPI) inflation is good news for **consumers** as their spending power is improving in this scenario as the difference between the two figures is now around 2.0%, i.e. a real term 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.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the rate of growth to 2.9% for 2018, just below his target of 3%. Growth in quarter 1 of 2019 was a strong 3.1% but growth fell

back to 2.0% in quarter 2 and 2.1% in quarter 3. The strong growth in employment numbers during 2018 has subsided into a weaker trend of growth during 2019, indicating that the economy is cooling, while inflationary pressures have also been weakening. After the Fed increased rates by 0.25% in December 2018 to between 2.25% and 2.50%, it has taken decisive action to reverse monetary policy by cutting rates by 0.25% in each of July, September and October in order to counter the downturn in the outlook for US and world growth. The Fed is now likely to pause to see how the economy responds during 2020.

EUROZONE. The annual rate of growth has been steadily falling, from 1.8% in 2018 to only 1.1% y/y in quarter 3 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in Eurozone growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the European Central Bank (ECB) to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a third round of Targeted Longer-term Refinancing Operations (TLTROs); this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new Targeted Longer-term Refinancing Operations (TLTROs) will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in Eurozone and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount. It also increased the maturity of the third round of Targeted Longer-term Refinancing Operations (TLTROs) from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the European Central Bank (ECB) stated that governments will need to help stimulate growth by fiscal policy.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. The trade war with the US does not currently appear to be having a particularly significant impact on growth. Major progress still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

JAPAN. has been struggling to stimulate consistent significant Gross Domestic Product (GDP) growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. The trade war between the US and China on tariffs is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on

the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during the first ten months of 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest Purchasing Managers' Index (PMI) survey statistics of economic health for the US, UK, EU and China have all been weak which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during 2020 is expected to be weak.

1.2 INTEREST RATE FORECAST:

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

After the August 2018 increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the Monetary Policy Committee (MPC) has put any further action on hold, probably until such time as the fog of Brexit might clear. While the general election in December 2019 has provided political certainty leading to implementation of the UK leaving the EU on 31/01/2020, there is still much uncertainty on what sort of trade deal may be agreed by the end of 2020 and its likely impact on the UK economy. The above forecast, and other comments in this report, are based on a central assumption that there will be some form of muddle through agreement on a reasonable form of Brexit trade deal. Bank Rate forecasts will have to change if this assumption does not materialise e.g. a no deal Brexit could prompt the Monetary Policy Committee (MPC) to do an immediate cut of Bank Rate. All other forecasts for investment and borrowing rates would also have to change.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term Public Works Loan Board (PWLB) rates are broadly similarly to the downside.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

BOND YIELDS / PUBLIC WORKS LOAN BOARD (**PWLB) RATES**. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen over the last year, many bond yields up to 10 years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at record high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first 10 months of 2019 we therefore saw a sharp fall in longer term Public Works Loan Board (PWLB) rates to completely unprecedented historic low levels - until the Treasury unexpectedly added 1% to all Public Works Loan Board (PWLB) rates from 9th October 2019. Since then, those fears have partially subsided and gilt yields and Public Works Loan Board (PWLB) rates have been rising. The potential danger that may be lurking in investor minds is that Japan has become mired in a 20 year malaise of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that many major western economies could be heading into a similar scenario.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop, (see appendix 4 Eurozone downside risk). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

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ANNEX E

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS
2019/20 – 31 DECEMBER 2019

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits – the Authorised Limit and the Operational Boundary - as detailed below. The Council approved the Treasury and Prudential Indicators (affordability limits), for the 2019/20 financial year at Council on 26 February 2019 in the Treasury Management Strategy Statement.

The main purpose of the indicators is to control how much a Council needs to borrow.
In 2019/20, The Treasury Management Strategy Statement approved the capital financing requirement at £77,665,000 and this allows the Council the ability to either use surplus funds to support the capital expenditure or to take external borrowing.

The Prudential and Treasury Indicators are detailed below as approved at Council prior to the beginning of the 2019/20 financial year – Original Budget - and Quarter 3 Actual:

1. PRUDENTIAL INDICATORS	**2019/20**	**2019/20**
Extract from budget and rent setting report	**Original Budget**	**Actual Q3**
	£'000	**£'000**
Capital Expenditure	44,317	21,834
Capital Financing Requirement 31 March 2020	77,665	56,221
Capital Financing Requirement – Brought Forward	37,664	38,170
Capital Financing Requirement – Council Services	1,913	3,051
Capital Financing Requirement – Commercial Activities	38,088	15,000
Annual Change in the Capital Financing Requirement	-	21,444
In year borrowing requirement	40,001	18,051
Brought forward 1 April	12,664	12,700
Carried forward 31 March	52,665	34,700
Ratio of financing costs to net revenue stream	2.87%	3.17%

2. TREASURY MANAGEMENT INDICATORS	2019/20	2019/20
	Original Budget	Actual Q3
	£'000	£'000
Authorised Limit for external debt	81,000	81,000
Operational Boundary for external debt	79,400	£79,400
External debt	52,665	22,700
Investments	5,000	18,110

Maturity structure of fixed rate borrowing during 2019/20	Lower limit	Upper limit
Under 12 months	**0%**	**100%**
12 months to 2 years	**0%**	**100%**
2 years to 5 years	**0%**	**100%**
5 years to 10 years	**0%**	**100%**
10 years to 20 years	**0%**	**100%**
20 years to 30 years	**0%**	**100%**
30 years to 40 years	**0%**	**100%**
40 years to 50 years	**0%**	**100%**

Annex F

Third Party Companies Update at Quarter 3 2019/20

1.0 Introduction

1.1 The purpose of this Annex is to provide information in line with the Local Government Ethical Standards and The Review undertaken by the Committee on Standards in Public Life. This identified areas of 'best practice' for local authorities which represent a benchmark for ethical practice. It recommends that the Council should report on separate bodies they have set up / created or which they own and publish the separate bodies annual reports and minutes in an accessible place. Reporting on the separate bodies will also be included in the Council's annual governance statement which is presented to the Audit Governance and Standards Committee on an annual basis in July each year.

1.2 In order for the Council to provide a full picture of the relationship with separate bodies and abide by the Nolan principle of openness and to be transparent the information included here reports on the financial position of the Council's third party bodies and also provides information on the location of the annual reports.

1.3 The Council has set up third party bodies, in line with legal requirements, as set out in the Council Plan to ensure ongoing financial sustainability and further information is included below. The Council creates and supports new opportunities and new income streams to ensure the on-going affordability of council services.

2.0 Third Party Companies

2.1 The Council currently has a Joint venture Partnership with Wykeland – Central Northallerton Development Company Ltd - that was formed in October 2017. Further information is in paragraph 3.0.

2.2 In addition, two further companies limited by shares have been set up in line with the in September 2019 Council approval of the Commercial Property Investment Portfolio and delegated authority given to the Chief Executive to set up a further wholly owned company for the purpose of acquiring and managing investment properties. Further information is in paragraph 4.0.

2.3 The two companies are:

- Hambleton District Holdings
- Hambleton Property Limited

3.0 Central Northallerton Development Company Limited

3.1 **Annual Accounts 2018/19** – Central Northallerton Development Company Limited has produced final accounts for two years where the Annual Report and Financial Statements 31 March 2019 for 2018/19 are published at Companies House and are also available on the Council's website. The link is as follows:
https://www.hambleton.gov.uk/info/20257/council_budget_and_spending/267/statement_of_accounts/4

3.2 Quarter 3 2019/20 as 31 December 2020 - Attached at Appendix A is Central Northallerton Development Company Limited's financial position at Quarter 3 2019/20, which is supplied for transparency purposes. The following information highlights information from the accounts:

- The accounts show a loss for the financial period from 1 April 2019 to 31 December 2019 of £7,373 an increase compared to quarter 2 due to general running costs of the site e.g. security

- The ‘Turnover’ is the rent received from Crosby Road Car Park of £70,411 where HDC receives 100% of the initial £55,000, £55,000 to £70,000 goes to CNDCL (of which HDC will receive 50%) and then after £70,000 HDC receives 60% and Wykeland 40%. This is detailed in the 4 September 2018 Cabinet report;

- The Crosby Road Car Park rent received during 2019/20 will be used to support the capital works that have occurred at the car park which at quarter 3 stood at £94,609. This is correctly reflected in Hambleton District Council’s accounts that no rent will be received.

- The ‘Investment Properties’ detailed in the balance sheet mainly relate to the Crosby Road Car park;

- The ‘Inventories’ figure £1,434,429, in the balance sheet mainly relates to the development of the south side of the Treadmills site; the amount expended on the development at quarter 3 was £1,043,492 and this has been funded by Hambleton District Council in line with Council approval of the process to purchase the south side of The Treadmills site in July 2018.

- The ‘Loan from Hambleton District Council’ in the balance sheet of £2,415,248 is in relation to the land transfer of the former prison site; and

- The loss brought forward from previous years is £67,271.

4.0 Commercial Property Investment Portfolio

4.1 The two companies set up for the Commercial Property Investment Portfolio are 100% owned by the Council and will operate as follows:

- Hambleton District Holdings – has been set up:
  - to support the Council if it further develops other future companies where the structure to enable this already exists though the Holding Company
  - to provide equity to the subsidiary company for the commercial property portfolio investment

- Hambleton Property Limited – has been set up to invest in commercial property investment to generate income.

4.2 The companies are operated in line with the Governance arrangements set out in the Investment Strategy. External Legal and Financial advice is sought as required to support the ongoing development and operation in line with the Capital Strategy approved by Council in February 2019. Minutes of meetings are to be published on the Council’s website as well as the Annual Report completed at financial year end 31 March 2020.

4.3 The creation of the companies enables Lambert Smith Hampton as property advisors and property managers to search out and recommend investments which should be beneficial to generate income. It should be noted that Countrywide announced on 29 November 2019 that Lambert Smith Hampton is being sold to Great Global Holdings; this should not impact on the Commercial Investment property Portfolio.

4.5 At 31 December 2019 no investment had yet occurred.

Appendix A

Central Northallerton Development Company Limited's financial portion at Quarter 3 2019/20

Statement of comprehensive income for the year ended 31 March 2020 - for the period ending 31 December 2019

	Notes	Period ended 31-Dec-19	Year ended 31-Mar-19
Turnover		70,411	1,661,249
Cost of Sales		0	(1,676,706)
Gross profit (loss)		70,411	(15,457)
Administrative expenses		(77,784)	(39,391)
Loss on ordinary activities before taxation		**(7,373)**	**(54,848)**
Tax on loss on ordinary activities		0	0
Profit/(Loss) for the financial year/period		**(7,373)**	**(54,848)**

Balance Sheet for the for the period ending 31 December 2019

	Notes	31-Dec-19	31-Mar-19
Fixed Assets			
Investment Properties		94,610	0
Current Assets			
Inventories		1,434,429	1,156,395
Debtors		33,347	1,993,409
Cash at bank and in hand		799,496	0
		2,267,272	3,149,804
Creditors: amounts falling due in within one year		**(21,274)**	**(801,823)**
Net Current assets/(liabilities)		**2,245,998**	**2,347,981**
Total assets less current liabilities		**2,340,608**	**2,347,981**
Creditors: amounts falling due after more than one year		**(2,415,248)**	**(2,415,248)**
Net Liabilities		**(74,640)**	**(67,267)**
Capital and Reserves			
Called up share capital		4	4
Profit and loss account		(74,644)	(67,271)
Total shareholder' deficit		**(74,640)**	**(67,267)**

Statement of changes in equity for the year ended 31 March 2020 - for the period ending 31 December 2019

	Called up share capital £	Profit and loss account £	Total shareholders' deficit £
Balance at 31 March 2019	**4**	**(67,271)**	**(67,267)**
Profit for the financial year to date	-	(7,373)	(7,373)
Balance at 31 December 2019	**4**	**(74,644)**	**(74,640)**

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HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2020

Subject: **2019/20 Q3 REVENUE MONITORING REPORT**

All Wards;
Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

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1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of this report is to update Members on the revenue budget position of the Council and the reserve funds at the end of December 2019.

1.2 The Quarter 3 monitoring for the Capital Programme and Treasury Management position is contained in a separate report on this Cabinet agenda.

1.3 This report focuses on three key areas:-

(a) Changes to the revenue budget
(b) Additional grant income received
(c) Reserve funds.

2.0 REVENUE BUDGET:

2.1 The Council set its budget on 12 February 2019 for 2019/20 at £9,085,870 in line with the approved Financial Strategy 2019/20 to 2028/29.

2.2 At Cabinet on 3 December 2019, the Quarter 2 revenue monitoring report kept the budget at £9,085,870 since the total expected overspends were covered by underspends during the year. The approved budget at Quarter 2 in accordance with the Council portfolio themes is detailed below:

	£
Economy and Planning	1,773,850
Environment	3,776,640
Finance & Commercial	227,780
Leisure & Communities	1,837,500
Law and Governance	1,335,000
Drainage Board Levies	135,100
Net Revenue Expenditure	**9,085,870**

3.0 BUDGET POSITION TO DECEMBER 2019:

3.1 Since the budget for 2019/20 was set in February 2019, adjustments to the budget outlook have occurred. The table below details the changes that have been approved through separate reports to Cabinet and also those that have been identified and are recommended to this Cabinet for approval at budget monitoring Quarter 3:

3.2 Table 1 shows the latest 2019/20 budget information only as future years forecast and the 2020/21 budget are included on other items on the agenda.

	2019/20 £
Budget Outlook approved at 12 February 2019	9,085,870
Changes to budget outlook:	
Quarter 1 Variances:	
Corporate Costs Increase	80,890
Departmental Increases	5,270
Quarter 2 Variances:	
Corporate Costs Savings	(80,900)
Departmental Movements	(65,660)
Annual Budgeted Savings	60,400
Quarter 3 Variances:	
Corporate Costs Increase	4,650
Departmental Movements	(4,650)
Budget Outlook Q3	9,085,870
Financial Strategy 12 Feb 2019	9,085,870
Budget Outlook Q3 Surplus / (Shortfall)	-

Table 1: Budget 2019/20 Qtr 3

3.3 In 2019/20 the budget started at £9,085,870 as stated in the Financial Strategy and illustrated in the table above. At the end of Quarter 2, the budget remained at £9,085,870 as previous shortfalls from Quarter 1 were covered within the year from additional income or reduced expenditure found in Quarter 2 monitoring. At Quarter 3 monitoring the table shows the budget remaining at £9,085,870, numerous underspends and overspends for the year have been identified which has resulted in some budget movements however in total there is no effect to the total budget therefore the revenue budget continues to be £9,085,870 as Table 1 above shows.

3.4 An explanation of the Quarter 3 variances to be approved in this Cabinet report are detailed below where there are three main areas of change to the 2019/20 budget at Quarter 3. In total there is no overall change to the budget and it remains at £9,085,870.

(a) Corporate Cost increase of £4,650.

(b) Significant Departmental Movement resulting in an underspend of £4,650.

(c) Department movements which have nil effect on the budget but exceed £20,000 and therefore require Cabinet approval as stated in the Council's financial regulations.

3.5 The Corporate Cost movements in the budget are:

(i) A Corporate Salary Savings exercise analysing vacant posts has resulted in a £189,150 saving, however related expenditure has been identified of £193,800 resulting in a Quarter 3 increase of £4,650.

3.6 Significant Departmental Movement savings of £4,650 include the following:-

(i) Environment – £5,520 additional Environmental Licencing income has been identified to be received during 2019/20.

(ii) Economy & Planning – An underspend of £76,150 is estimated. This is in relation to additional Planning Application fees that are anticipated to be £100,000. However, there has been reduction in the public requesting advice before submitting a planning application, resulting in a £12,270 reduction of Planning Advice income. Planning consultancy advice for the section has been required by the Council during the year costing an additional £11,580.

(iii) Finance & Commercial – A total overspend of £12,000 relates to a number of areas. £25,000 relates to a decrease of income from reclaiming overpaid housing benefits, this is due to less claims being processed by the Council as the Department of Works and Pensions (DWP) now charge this through Universal Credit claims. £12,000 of Universal Credit funding has also been reduced as some elements of support are no longer undertaken by the Council. Timing of the capital programme expenditure has resulted in higher than anticipated cashflow balances which have been short term invested resulting in an estimated £25,000 of additional investment interest income in 2019/20.

(iv) Leisure & Communities – Improvement works by Central Northallerton Development Company Ltd to the car park at Crosby Road will mean that the Council will not receive any share of car parking income during 2019/20 resulting in a £65,020 shortfall.

3.7 Departmental budget movements that have nil effect on the overall budget but exceed £20,000, as detailed in the Council's Financial Regulations require Cabinet approval as follows:

a) Court Costs recovered from Tax Payers has been reduced by £30,300 due to a reduction in the magistrates court costs and increased customer engagement resulting in more sustainable arrangements so that court costs are not applicable. This has been offset by £15,930 of salary savings within the Revenue and Benefit section due to vacant posts and an additional £14,370 from Family Annexes grant resulting in a nil effect.

b) Housing Benefit payments are expected to reduce by £1,894,450 for the year due to Universal Credits, the subsidy received by the Council will also reduce in line with the lower payments by £1,894,450 resulting in a nil effect.

c) Universal Credits also have an effect on the amount of Rent Allowance Payments of overpaid housing benefits income received by the Council as these are expected to be £60,000 lower than the budget, this can be offset by a reduction of £60,000 in the provision for Bad Debts as the debt outstanding relating to Housing Benefits is decreasing.

d) One Public Estate - £20,000 contribution has been received for the Civic Centre to undertake the feasibility study on accommodation of the centre in relation to partnership working.

e) Bed & Breakfast Rents and Rent Rebate - an increase in Bed and Breakfast usage for emergency Homelessness cases has increased the Budget by £20,000, this is covered by Housing Benefit subsidy so that there is a nil effect on the budget.

f) Waste and Recycling vehicle cost budgets are to be adjusted at Quarter 3 to reflect the estimated annual costs. £30,000 is to be allocated to Kerbside Recycling which can be offset by £25,000 reduction of Household Waste Collection and £5,000 reduction of Street Cleansing.

3.8 The revised changes to the budget at Quarter 3 listed above result in a nil effect on the 2019/20 Budget. Therefore in the recommendations section of this report for approval by Cabinet and Council, the original budget set at £9,085,870 will remain.

4.0 CIL RESERVE

4.1 The Community Infrastructure Levy (CIL) balance as at 31 December 2019 is £4,060,288. The Council is committed to using this reserve for priority schemes and to distribute to parishes. The movements in 2019/20 can be seen in the table below.

	Amount
2019/20 Opening Balance	**2,779,238**
Add in-year income	1,523,012
Less in-year payments to parishes	(241,962)
2019/20 Closing Balance Quarter 3	**4,060,288**

Table 2: CIL Reserve

5.0 OTHER MATTERS - GRANTS:

5.1 There have not been any grants and contributions to be allocated to the Council and paid into the One Off Fund Reserve during Quarter 3 of 2019/20.

6.0 SENSITIVITY ANALYSIS

6.1 Further to the recommendations for changes to the budget in this Quarter 3 monitoring report, this report also highlights where there are areas of budget uncertainty. This can give Members early warning of possible issues in the future. All areas will be monitored closely and an update provided for Quarter 3 as at this time there is uncertainty surrounding these figures to include them as an adjustment to the budget. Annex 'A' attached details the sensitivity analysis.

7.0 RESERVE FUNDING

7.1 The table below shows the position on the revenue reserves at Quarter 3 if the recommendations are approved in this Cabinet report. Further information is also described below.

Reserve Fund	Balance at 30 Sept 2019 £	Q3 Movement (from) / to Reserves £	Balance at 31 Dec 2019 £
General Fund	2,000,000	-	2,000,000
Council Taxpayers Reserve	6,584,272	(150,000)	6,434,272
Grants Fund	94,434	-	94,434
Economic Development Fund	755,921	181,953	937,874
One Off Fund	421,744	(171,924)	249,820
Computer Fund	950,054	(231,332)	718,722
Repairs & Renewal Fund	976,890	-	976,890
Community Safety Partnership	20,183	-	20,183
Swimming Project Reserve	2,026	-	2,026
Local Plan Reserve	-	-	-
Make a Difference Fund	129,594	-	129,594
Community Housing Fund	119,188	-	119,188
Community Infrastructure Levy (CIL) 5% Admin Reserve	19,312	-	19,312
Income Generating Fund	163,002	-	163,002
Total Revenue Reserves	12,236,620	(371,303)	11,865,317
Capital Reserves			
Capital Grants Unapplied	4,581,294	-	4,581,294
General Capital Receipts	2,107,716	-	2,107,716
Total Capital Reserves	6,689,010	-	6,689,010
Total Reserves	18,925,630	(371,303)	18,554,327

7.2 Economic Development Fund – In Quarter 3, the opening balance was £755,921 with the net movement of £181,953; split as £118,310 reduced capital expenditure and £63,643 reduced revenue expenditure.

7.3 The Economic Development Fund rolls forward funds to 2020/21 totalling £193,404. This comprises revenue schemes totalling £75,094 and capital schemes £118,310. The individual revenue roll forwards comprise of: £12,460 for the Support of Business Networks, £1,000 for contributions to subscriptions to the Federation of Small Business, £9,900 for improving broadband infrastructure and £51,734 for the Market investment plans for the towns of Bedale, Easingwold, Stokesley and Thirsk. The capital roll forwards are £30,000 from each of the Industrial Parks Reviews for the towns of Leeming and Dalton and £58,310 for the Employment Land scheme. The Economic Development Fund requests additional revenue expenditure of £11,451, £1,719 for the Northallerton Market Town investment plan and £9,732 for Identifying & Securing Investment. This results in a net movement at Quarter 3 of £181,953.

7.4 The Economic Development fund has allocated fund to future years' allocations and at Quarter 3 allocates £193,404 from funds rolled forward from 2019/20. The result from changes in Quarter 3 currently leaves £654,033 remaining for future projects.

7.5 Council Tax Payers Reserve – £150,000 has been transferred from the Council Tax Payers Reserve to the One Off fund to support spend allocated for future projects.

7.6 One Off Fund - In Quarter 3, the initial balance is £421,744 and £150,000 was transferred from the Council Tax Payers Reserve in Quarter 3. Expenditure to be allocated from the One Off Fund is detailed in the table below at £321,924. The balance on the One Off Fund at Quarter 3 is £249,820.

Expenditure in 2019/20 from the One Off Fund	**Amount**
Individual Electoral Registration allocation of Grant	9,420
Employee Costs	130,000
Tour De Yorkshire – increased expenditure	9,242
Development Management - IT Consultancy	1,262
Communications - Consultancy	22,000
Events and Legacy programme – RAF Leeming 80 years Event	50,000
Professional Advice – Vehicle/Company Structure	100,000
Total expenditure recommended for approval at Q3	**321,924**

7.7 At Quarter 3, is it recommended to Cabinet and Council that the allocation from the One Off Fund at £321,924 is approved.

7.8 Computer Fund – In Quarter 3, the opening balance was £950,054 with the net movement of £231,332. £1,674 is being returned to fund due to a project underspend and a further £229,658 is requested for roll forward into 2020/21. Due to the project implementation occurring on or beyond 1 April 2020 roll forwards are requested for the following individual schemes: £48,200 is requested for the Development Management Information System, £68,000 for the Website Upgrade, £62,760 for the ICON cash receipting upgrade, £24,698 for the CRM development and £21,000 for the New Finance system. A further £5,000 is requested for roll forward due to complications with the technology roll out from the supplier.

7.9 Repairs & Renewal Fund – £1,026,890 has been brought forward from 2018/19 to fund Repairs and Renewal projects to ensure that the Council's assets are maintained to an acceptable standard. At outturn 2018/19, £50,000 was approved to be transferred from the reserve to support the revenue repairs budget in 2019/20 resulting in the current balance of £976,890.

7.10 Local Plan Reserve – There have been no allocations to or from the Local Plan Reserve in Quarter 3.

7.11 Make a Difference Fund – Successful awards will invest in worthy local community projects which help improve life in neighbourhoods and which support the work of the voluntary sector and will be expended by 31 March 2020.

7.12 Income Generating Fund: The reserve is used to financially support projects in the initial stages of development which will generate revenue income to contribute to the future funding of the Council.

7.13 Other Reserves – There has been no movement on other reserves held by the Council at Quarter 3 2019/20.

8.0 WAIVER OF PROCUREMENT RULES:

8.1 It is the Council's policy to obtain competitive quotations or tenders for the purchase of products, work that is to be undertaken or for services to be provided. However, a waiver may be agreed by Cabinet (or the Chief Executive in an emergency) if they are satisfied, after considering a written report that the waiver is justified.

8.2 The Chief Executive has approved the following waiver, for which Single Quote/ Tender Waiver Forms have been completed as the annual cost for the contract is £19,000. The contract with Capita is to provide project management cover for the Business and Economy Service so current live projects with tight delivery timescales due to resource shortages can be progressed. There are specific skills required for managing the significant infrastructure project which are not available elsewhere within the Council.

9.0 LINK TO COUNCIL PRIORITIES:

9.1 The monitoring of the financial budget throughout the year and reporting the financial year end position assists in ensuring the Council's service requirements are met and contributes to the achievement of the priorities set out in the Council Plan.

10.0 RISK ASSESSMENT:

10.1 There are no major risks associated with this report.

11.0 FINANCIAL IMPLICATIONS:

11.1 The financial implications are dealt with in the body of the report.

12.0 LEGAL IMPLICATIONS:

12.1 It is a legal requirement under s25 of the Local Government Act 2003 to set a balance budget and monitor the financial position throughout the year.

13.0 EQUALITY/DIVERSITY ISSUES:

13.1 Equality and Diversity issues have been considered however there are no issues associated with this report.

14.0 RECOMMENDATIONS:

14.1 That Cabinet approves and recommends to Council:

(1) the budget remains at £9,085,870 as detailed in paragraph 3.2;

(2) the transfer of funds detailed in paragraph 7.5 from the Council Tax Payers Reserve of £150,000 to the One Off fund in paragraph 7.6;

(3) the total movement of the Economic Development Fund of £193,404 at paragraph 7.3 to be returned and to note that the Economic Development Fund remaining balance to be allocated at paragraph 7.4 is £654,033;

(4) the allocation from the One Off Fund at paragraph 7.6 of £321,924; and

(5) to approve the waiver as detailed in paragraph 8.2.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE AND COMMERCIAL (S151 OFFICER)

Background papers: Budget Monitoring Q3 working papers
Author ref: SC
Contact: Saskia Calton, Corporate Finance Manager
Direct Line: 01609 767226

Annex A

Budget 2019/20 Qtr 3 Sensitivity Analysis – potential savings / costs

Council Directorates	Area of Sensitivity	Commentary
Economy and Planning	Planning Fees	This will continue to be closely monitored due to the estimated income being so high, it is currently estimated that the target will be reached
	Workspace Management Income	This will continue to be closely monitored.
	Land Charges Income	It appears that private search companies are being used more and more instead of the Council for land searches. This will be monitored closely as reduced numbers of searches will result in reduced income.
Environment	Operational Services – Fuel Prices	This is being kept under review as prices are currently on the rise and any significant increase will require additional budget.
	Kerbside Recycling Contract	Basket price changes will affect the budget, this will be closely monitored throughout the year.
	Homelessness Prevention	Rent Bond Scheme – The process for Homelessness Bonds have altered where invoices are raised when bonds/rent in advance to the applicant. This will be closely monitored along with the Bed and Breakfast Budgets that are increasing.
Finance & Commercial	Housing Benefit Payments	Whilst any increase in Housing Benefit payments will be partly offset by subsidy, the budget is so large that a small increase in percentage terms can lead to a large amount in monetary terms.
Leisure & Communities	Winter Maintenance	Higher than budgeted costs paid in the previous year's therefore will closely monitor costs in 2019/20

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2020

Subject: **2020/21 CAPITAL PROGRAMME BUDGET, TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS**

All Wards;
Portfolio Holder for Finance and Economic Development: Councillor P R Wilkinson

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1.0 PURPOSE AND BACKGROUND:

1.1 This report considers the 10 year Capital Programme covering the financial years 2020/21 to 2029/30, the 2020/21 Capital Programme and the Treasury Management Strategy Statement; including the Minimum Revenue Provision policy statement and Annual Investment Strategy.

1.2 The 10 year Capital Programme is set within the fiscal parameters of the Financial Strategy, a key feature of which is to ensure that at the end of the 10 year Strategy sufficient reserve funds – grants, contribution and capital receipts – remain available so that the Council's capital plans are affordable, sustainable and prudent. In addition to reserves being maintained, the Council can also use borrowing to support the Capital programme. The Financial Strategy which supports the Capital Programme 2020/21 to 2029/30 is being approved at this February 2020 Cabinet.

1.3 It is a legal requirement under the Local Government Act 2003 and the CIPFA Prudential Code to ensure that the Capital Programme is affordable, sustainable and prudent over a 3 year period. The 10 year Capital Programme 2020/21 to 2029/30 clearly adheres to this requirement and it should be noted that the 10 year Programme is an estimate.

1.4 Prior to expenditure being incurred on any scheme a Value for Money project appraisal occurs for each project and the annual Capital Programme is approved at Council before the commencement of the new financial year. The 2020/21 Capital Programme is detailed in this report.

1.5 The Treasury Management Strategy Statement includes the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and the Prudential and Treasury indicators. The Treasury Management Strategy manages the cash flow position of the Council on a long and short term basis to ensure that cash is available when needed and surplus funds are invested in with low risk counterparties (ensuring security of funding is key), providing adequate liquidity, whilst also considering investment return.

1.6 The Capital Programme and Treasury Management Strategy are monitored through the setting of the Prudential and Treasury Management Indicators on an annual basis prior to the beginning of the new financial year.

1.7 This report seeks approval for
(a) the 10 year Capital Programme 2020/21 to 2029/30
(b) the Capital Programme for the coming financial year 2020/21, which is informed by the 10 year Capital Programme
(c) the Treasury Management Strategy Statement 2020/21
(d) the Minimum Revenue Provision Policy Statement 2020/21
(e) the Prudential and Treasury Indicators 2020/21

2.0 10 YEAR CAPITAL PRGORAMME 2020/21 TO 2029/30:

2.1 The 10 Year Capital Programme 2020/21 to 2029/30 shows capital expenditure of £48,608,180 which is funded by reserves, contributions, capital receipts, borrowing and surplus funds of £52,656,942, which leaves a balance of funding of £4,048,762, £1,145,530 of this reserve funding balance is allocated for a revenue purpose to support repairs & renewals of the Council's assets, ICT development and development of the economy, this leaves £2,903,232 to be used on capital projects in future years. The Financial Strategy supports this 10 Year Capital Programme which shows it is affordable, sustainable and prudent over the long term.

2.2 The 10 Year Capital Programme 2020/21 to 2029/30 is financed from 4 earmarked reserves as well as borrowing or reduction in surplus funds:

	£
Repairs and Renewals Fund	423,000
Computer Fund	1,842,488
Capital Receipts Reserve	12,630,664
Economic Development Fund	3,757,343
Borrowing / Surplus Funds	29,954,685
	48,608,180

In essence, the Capital Programme is split into these four sections; the detailed Capital Programme is shown in Annexes A1, A2, A3 and A4.

2.3 **Repairs and Renewals Fund -** Annex A1 details the funding available in the Repairs and Renewals Fund, together with a detailed estimate of the schemes that will utilise this funding over the next 10 years. This fund will be used to fund all repairs and renewals, including a proportion of those in the revenue budget. This practice will protect the repairs budget, from being used to fund other items of expenditure and eliminate excessive spending at the end of the year.

2.4 **Computer Fund** - Annex A2 details the funding available in the Computer Fund, together with an estimate of how this funding will be utilised over the next 10 years. No specific schemes are detailed through the 10 year strategy because it is envisaged that schemes will emerge from the review of all service areas on an ongoing basis which will provide the detail of the computer programme.

2.5 The Repairs and Renewals Fund and Computer Fund at the end of the 10 year Strategy will require additional funding to be allocated to continue necessary investment. This will be facilitated by income generation opportunities available to the Council and continued revenue efficiencies savings from existing budgets.

2.6 **Capital Receipts Reserve** - Annex A3 details the funding available in the Capital Receipts Reserve, together with an estimate of future receipts and the detailed schemes to be financed from the Reserve over the next 10 years. The Capital Receipts Reserve has sufficient balances to continue to fund capital expenditure beyond the 10 year Capital Programme.

2.7 **Economic Development Fund** – Annex A4 details the Economic Development Fund which was created in 2014/15 when £5,000,000 was allocated. The Investment Plan was approved at Cabinet on 2 December 2014. Funding remaining to be allocated at Quarter 3 2019/20 is £654,033.

2.8 **Borrowing / Surplus funds** – Borrowing or surplus funds can be used to support the Capital Programme in accordance with the Treasury Management Strategy Statement; this details the borrowing that can occur during 2020/21 in accordance with the capital programme. There is still the flexibility that surplus funds could contribute to the funding of capital expenditure and both these options will be considered in the light of the treasury management, economic and interest rate environment.

2.9 In preparing the 10 Year Capital Programme a number of schemes were put forward that were deemed not to be business critical at this time and therefore are not incorporated in the 10 Year Capital Programme. These schemes will be reassessed in the future and incorporated into future capital programmes, if they become business critical.

3.0 2020/21 CAPITAL PROGRAMME BUDGET:

3.1 The Capital Programme 2020/21 totals £36,321,583 and is funded as follows:

	£
Repairs and Renewals Fund	36,000
Computer Fund	345,488
Capital Receipts Reserve	5,382,664
Economic Development Fund	602,746
Borrowing / Surplus Funds	29,954,685
	36,321,583

3.2 The Capital Programme 2020/21 is attached at Annex B. This details the capital expenditure cost and also the total cost to the Council, along with associated funding received from third parties in respect of the schemes.

3.3 All schemes have been assessed to allow a considered and informed judgement to be made in respect of the Value for Money of each scheme. It is believed that each scheme does represent value for money. The reasons for this judgement are:-

- each scheme contributes towards the attainment of a particular Council Plan project and / or have a number of clear community benefits;
- schemes can generate ongoing revenue savings;
- although the cost of each scheme is indicative, prior to implementation each scheme will follow the Council's procurement process to ensure best value is achieved; and
- each scheme has a clear completion date.

3.4 A proposal form for each scheme giving evidence of how value for money has been obtained has been reviewed by the Corporate Project Management Board (PMB) which has replaced the Corporate Capital Monitoring Group; it is chaired by the Director of Finance and Commercial (s151 Officer).

3.5 The 10 Year Capital Programme and the 2020/21 Capital Programme will be used to inform the Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and the calculation of the Prudential Indicators as detailed in Paragraph 4.0 and subsequent paragraphs.

4.0 2020/21 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS:

4.1 The Treasury Management Strategy sets out a framework for how the Council will manage its investments, cash flows and borrowings for 2020/21. The Treasury Management Strategy Statement including the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and Prudential and Treasury Management Indicators is attached at Annex C. The Treasury Management Strategy specifically sets out:

- the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA (Chartered Institute of Public Finance and Accounts) Prudential Code 2017, the CIPFA Treasury Management Code of Practice 2017 and the Ministry of Housing, Communities and Local Government (MHCLG) 2018 Statutory Guidance on Minimum Revenue Provision and Investment Guidance;
- identifies reporting arrangements and responsibilities;
- clarifies the potential requirement to borrow;
- clearly states that the Council's priorities for investment are the security of capital, whilst also considering liquidity and rate of return;
- identifies the type and the limits for investments and counterparties with which those investments can be placed as well as the maximum duration of the investment;
- the calculations of the Prudential and Treasury Management Indicators based on the Capital Programme funding requirements; including the Authorised Borrowing limit

4.2 Approval of the Treasury Management Strategy Statement is required by the Local Government Act and Code of Practices as detailed above and advice has been taken from the Council's Treasury Management advisors, Link Asset Services, in constructing this strategy.

4.3 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code which requires all local authorities to prepare a capital strategy report. "020/21 is the second time the capital strategy has been reported and it provides the following:

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

4.4 The Capital Strategy 2020/21 is reported elsewhere on this agenda and is separate from the Treasury Management Strategy Statement, where non-treasury investments will be reported through the Capital Strategy and treasury investments through this report. This ensures the separation of the core treasury function under the security, liquidity and yield principles and the policy and commercialism investments usually driven by capital expenditure on an asset.

4.5 It should be noted that in the Treasury Management Strategy Statement which includes the Prudential Indicators, reference is made to commercial activities / non-financial investments which can also be called non-treasury investments. These are mainly incorporated in the Capital Strategy however reference is made in this report to provide a full understanding of how the capital expenditure decisions on non-treasury investments affects the Council's treasury managment activities. An example of this would be the purchase of property with

a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances. Both actions would affect treasury management.

4.6 The Treasury Management Strategy Statement for 2020/21 reflects the improved stability of the banking sector, as well as a more risk adverse approach to the system of credit ratings. The proposed Strategy is influenced by the Capital expenditure plans for 2020/21 and the next 10 years. It can be summarised as follows:

- The Council's Capital Financing Requirement and the potential need to borrow;

- The Minimum Revenue Provision policy is defined determining the minimum revenue payments that are required;

- The Council continues with its investment priority as being the security of capital and also liquidity of its funds, whilst maximising returns commensurate with risk;

- Investment of surplus funds can be made to other Local Authorities, nationalised banks, banks which are part of the UK banking system support package, as well as other UK banks and building societies, subject to the application of Link Asset Services' credit worthiness criteria;

- Investments of surplus funds can be made in foreign Banks and institutions of AA-sovereign rated countries subject to Link Asset Services' credit worthiness criteria;

- Limits for all investments to be placed with specified and non-specified investments are:

  Individual Limits – These limits will be set at 35% of total investments or £7m per counterparty whichever is the higher. There are three exceptions to this policy:

  (a) with counterparties that are backed by the Government – Royal Bank of Scotland and Natwest – (and therefore are more secure) there will be a 40% limit or £7m per counterparty whichever is the higher;

  (b) with the Council's own bank – Lloyds – and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £7m per counterparty, whichever is the higher;

  (c) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

  Group Limits – this policy recognises that individual counterparties (banks/financial institutions etc), whilst being sound in themselves, may be part of a larger group. This brings with it added risks where parent institutions may be in difficulties. Therefore, due to the reduced surplus balances available for investment, the group limit will also be as stated for the individual limits as it is important to diversify the risk to a variety of counterparties.

4.7 **Authorised Limit for external debt** – it should be noted that the Authorised Limit has increased from £60.2m in 2019/20 to £90m in 2020/21 and onwards due to the Council's commitment to commercialisation and especially the commercial Investment Property portfolio agenda.

4.8 The Scheme of Delegation is attached at Annex D and the role of the Director of Finance and Commercial (s151 Officer) is attached at Annex E. This is in accordance with the revised Codes and details that the specific roles of the chief financial officer - Director of Finance and Commercial (s151 Officer) at this Council - have been extended in respect of investment in non-treasury investments (non-financial assets) as well as the responsibility in relation to Treasury Management, that those charged with governance are responsible for Treasury Management activities within the organisation; it is recommended to be approved by Cabinet and Council.

5.0 LINK TO COUNCIL PRIORITIES:

5.1 This report links to the efficient use of Council resources, where the Capital Programme 2020/21 demonstrates value for money in the implementation of the individual capital schemes and the Treasury Management Strategy Statement ensure the Council maximises its return on investments. Both the Capital Programme and Treasury Management allow more resources to be freed up to invest in the Council's other priorities, values and imperatives.

6.0 RISK ASSESSMENT:

6.1 There are two main risks associated with setting the Capital Programme and the Treasury Management Strategy Statement 2020/21:

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative action	Net Prob	Net Imp	Net Total
Proposed capital schemes for 2020/21 are not assessed for risk prior to the commencement of the schemes	The Council is unable to control capital expenditure or redirect resources to priority areas	3	5	15	Capital Scheme Proposal Forms are prepared for each individual capital scheme, including the assessment of risk.	2	5	10
Treasury management function is a high risk area due to the volume and level of large investment of money transactions.	The value of the investment could be lost, liquidity of the Council could be reduced and yield not maximised.	3	5	15	The Local Government Act 2003, supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 2017 are all adhered to as required	3	5	15

Prob = Probability, Imp = Impact, Score range is Low = 1, High = 5

7.0 FINANCIAL IMPLICATIONS:

7.1 The financial implications are contained within the body of the report.

8.0 LEGAL IMPLICATIONS:

8.1 The Council is legally required to set a balanced 3 year Capital Programme budget and Treasury Management Strategy Statement as set out in Local Government Act 2003. This Council has set a 10 Year Capital Plan to assist with medium term financial planning, budget and Council Tax setting for 2020/21 and future years. This report provides detail of the Capital Programme 2020/21 and also includes the requirements for the Treasury Management Strategy Statement.

8.2 Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code 2017 and the CIPFA Treasury Management Code of Practice 2017. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance has been updated by the Secretary of State under section 21(1A) of the Local Government Act 2003 which came into effect for 1 April 2019.

9.0 EQUALITY/DIVERSITY ISSUES:

9.1 The equality and diversity implications of the individual schemes will be assessed by individual departments once the Capital Programme 2020/21 has been approved and the schemes are further developed. Any implications will be identified in the individual schemes project plans.

10.0 RECOMMENDATIONS:

10.1 It is recommended that Cabinet approves and recommends to Council that:-

1) the 10 Year Capital Programme 2020/21 to 2029/30 at £48,608,180 be approved, as detailed in paragraph 2.2 and attached at Annex A;

2) the Capital Programme 2020/21 at £36,321,583 detailed in Annex B be approved for implementation;

3) the Treasury Management Strategy attached at Annex C be approved;

4) the Minimum Revenue Provision Policy Statement attached in the body of the Treasury Management Strategy Statement Annex C be approved;

5) the Prudential and Treasury Indicators attached at Annex C in the body of the Treasury Management Strategy Statement be approved;

6) the Treasury Management Scheme of Delegation at Annex D be approved; and

7) the Treasury Management role of the S151 Officer attached at Annex E be approved.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE AND COMMERCIAL (S151 OFFICER)

Background papers: None
Author ref: SC
Contact: Saskia Calton, Corporate Finance Manager, Direct Line No: 01609 767226

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Capital Programme 2020/21

10 YEAR CAPITAL PLAN 2020/21 TO 2029/30 — **ANNEX A1**

REPAIRS AND RENEWALS FUND	Yr 1 20/21	Yr 2 21/22	Yr 3 22/23	Yr 4 23/24	Yr 5 24/25	Yr 6 25/26	Yr 7 26/27	Yr 8 27/28	Yr 9 28/29	Yr 10 29/30	Total
	£	£	£	£	£	£	£	£	£	£	£
INCOME											
Opening balance	(844,799)	(758,799)	(843,799)	(747,799)	(637,799)	(551,799)	(465,799)	(379,799)	(293,799)	(207,799)	
Add: Transfers to / (from) Taxpayers Reserve	0	(200,000)	0	0	0	0	0	0	0	0	
	(844,799)	(958,799)	(843,799)	(747,799)	(637,799)	(551,799)	(465,799)	(379,799)	(293,799)	(207,799)	(1,044,799)
EXPENDITURE											
Repairs and Renewals - Revenue	0	0	0	0	0	0	0	0	0	0	0
DFG Revenue	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	500,000
											0
Public lighting replacement	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	360,000
Civic Centre- Carpet Replacement	0	0	10,000	0	0	0	0	0	0	0	10,000
Civic Centre- Internal Painting	0	5,000	0	0	0	0	0	0	0	0	5,000
NLC- Internal Painting	0	0	0	0	0	0	0	0	0	0	0
Gym equipment refresh	0	24,000	0	24,000	0	0	0	0	0	0	48,000
NLC - Pool Tank Tiles	0	0	0	0	0	0	0	0	0	0	0
NLC - Pool Flume Improvements	0	0	0	0	0	0	0	0	0	0	0
Total Repairs and Renewal Capital	**36,000**	**65,000**	**46,000**	**60,000**	**36,000**	**36,000**	**36,000**	**36,000**	**36,000**	**36,000**	**423,000**
TOTAL REPAIRS AND RENEWALS EXP	**86,000**	**115,000**	**96,000**	**110,000**	**86,000**	**86,000**	**86,000**	**86,000**	**86,000**	**86,000**	**923,000**
BALANCE ON REPAIRS & RENEWALS FUND	**(758,799)**	**(843,799)**	**(747,799)**	**(637,799)**	**(551,799)**	**(465,799)**	**(379,799)**	**(293,799)**	**(207,799)**	**(121,799)**	**(121,799)**

10 YEAR CAPITAL PLAN 2020/21 TO 2029/30 — **ANNEX A2**

COMPUTER FUND	Yr 1 20/21	Yr 2 21/22	Yr 3 22/23	Yr 4 23/24	Yr 5 24/25	Yr 6 25/26	Yr 7 26/27	Yr 8 27/28	Yr 9 28/29	Yr 10 29/30	Total
	£	£	£	£	£	£	£	£	£	£	£
INCOME											
Opening balance	(1,180,388)	(794,900)	(592,900)	(1,395,900)	(1,133,900)	(912,900)	(1,712,900)	(1,502,900)	(1,292,900)	(2,082,900)	
Add: Transfers from Council Taxpayers Reserve	0	0	(1,000,000)		0	(1,000,000)			(1,000,000)		
	(1,180,388)	(794,900)	(1,592,900)	(1,395,900)	(1,133,900)	(1,912,900)	(1,712,900)	(1,502,900)	(2,292,900)	(2,082,900)	(4,180,388)
EXPENDITURE											
ICT REVENUE COSTS	40,000	40,000	45,000	45,000	45,000	50,000	50,000	50,000	50,000	50,000	465,000
ICT Improvements - CAPITAL	94,528	162,000	152,000	217,000	176,000	150,000	160,000	160,000	160,000	160,000	1,591,528
Web Accessibility Upgrade.	68,000	0	0	0	0	0	0	0	0	0	68,000
E-store Payment Portal and upgrade V17.3/v18	62,760	0	0	0	0	0	0	0	0	0	62,760
Finance system	21,000	0	0	0	0	0	0	0	0	0	21,000
Housing Benefits - Electronic Forms & CRM Portal	20,000	0	0	0	0	0	0	0	0	0	20,000
EHO - Management Information System (MIS)	0	0	0	0	0	0	0	0	0	0	0
DM - Development Management Information System (MIS)	48,200	0	0	0	0	0	0	0	0	0	48,200
Civic Centre ICT Accommodation - Computer Fund funded	0	0	0	0	0	0	0	0	0	0	0
CRM/Mitel Telephony Integration	7,000	0	0	0	0	0	0	0	0	0	7,000
Public Lighting software upgrade	24,000	0	0	0	0	0	0	0	0	0	24,000
TOTAL COMPUTER FUND EXPENDITURE	**385,488**	**202,000**	**197,000**	**262,000**	**221,000**	**200,000**	**210,000**	**210,000**	**210,000**	**210,000**	**2,307,488**
BALANCE ON COMPUTER FUND	**(794,900)**	**(592,900)**	**(1,395,900)**	**(1,133,900)**	**(912,900)**	**(1,712,900)**	**(1,502,900)**	**(1,292,900)**	**(2,082,900)**	**(1,872,900)**	**(1,872,900)**

CAPITAL RECIEPTS RESERVE	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	
	£	£	£	£	£	£	£	£	£	£	£
INCOME											
Opening Balance	(1,841,683)	(599,144)	(843,180)	(811,552)	(821,552)	(789,892)	(858,533)	(868,533)	(908,533)	(908,533)	
Add: Capital Receipts Estimated	(222,000)	(250,000)	0	0	0	0	0	0	0	0	
Add: Capital receipts - sale of bins	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	
Add: Estimated Grants (DFG)	(524,068)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	
Add: Estimated Grants (s106)	(398,356)	0	0	0				0	0	0	
Add: Estimated Grants (ERDF)	0	0	0	0				0	0	0	
Add: Estimated Contributions	0	0	0	0				0	0	0	
Add: Trsf from Council Tax payers Reserve	(211,000)	(389,000)	(300,000)	(250,040)	(250,040)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	
Add: Trsf from One Off Fund	0	0	0	0	0	0	0	0	0	0	
Add: External Funding Grants (LEP)	(2,640,000)	0	0	0	0	0	0	0	0	0	
Add: External Funding: Fitness Track Lighting	0	0	0	0	0	0	0	0	0	0	
Add: BID contribution for Dalton Bridge	0	0	0	0	0	0	0	0	0	0	
Add: Capital Grants for LED Public Lightning	0	0	0	0	0	0	0	0	0	0	
Add: Revenue contributions for Kerbside bins (9006)	(66,951)	(67,286)	(67,622)	(67,960)	(68,300)	(68,641)	0	0	0	0	
Add: Revenue contributions for LED Public Lightning (9006)	(13,500)	(13,500)	(16,500)	0	0	0	0	0	0	0	
Add: Revenue contributions for DFG budget savings (3540)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	
Add: Revenue contributions for LED Public Lightning 2018 (9006)	0	0	0	0	0	0	(60,000)	(40,000)	0	0	
Add: Revenue contributions for LED Lighting Muga Pitch (9006)	(4,250)	(4,250)	(4,250)	0	0	0	0	0	0	0	
Add: Revenue contributions for Civic Centre Accommodations	0	0	0	0	0	0	0	0	0	0	
Total Estimated Capital Receipts	**(5,981,808)**	**(1,783,180)**	**(1,691,552)**	**(1,589,552)**	**(1,599,892)**	**(1,618,533)**	**(1,678,533)**	**(1,668,533)**	**(1,668,533)**	**(1,668,533)**	**(13,539,197)**
EXPENDITURE											
Disabled Facilities Grants	524,068	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	4,124,068
Purchase of bins for refuse and recycling - New Waste Strategy	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	500,000
Purchase of bins for refuse and recycling - New Waste Strategy	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	100,000
Car Park Improvement Scheme	518,000	0	0	0	0	0	0	0	0	0	518,000
Car Park Restatements	89,256	85,000	0	0	50,000	0	50,000	0	0	0	274,256
Bedale North End Cobbles	0	0	120,000	0	0	0	0	0	0	0	120,000
Bedale Gateway Car Park	521,710	0	0	0	0	0	0	0	0	0	521,710
Adoptions - Electric Bollards - Thirsk & Northallerton	0	0	0	0	0	0	0	0	0	0	0
Facilities Lighting Protection	11,442	0	0	0	0	0	0	0	0	0	11,442
LED Lighting replacement scheme	0	0	0	0	0	0	0	0	0	0	0
District Council Boundary Signs	0	0	0	0	0	0	0	0	0	0	0
St Marys Closed Churchyard - Boundary Wall repairs	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - External Woodwork replacement scheme Dormers	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - External Woodwork replacement scheme Stairwells	0	0	0	0	0	0	0	0	0	0	0
Civic Centre Accommodation	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Roof repairs	0	0	0	0	0	0	0	0	0	0	0
Air Conditioning - legislation requirements	0	0	0	0	0	0	0	0	0	0	0
Bedale Bridge and Cycle Scheme	450,561	0	0	0	0	0	0	0	0	0	450,561
WOJH - External Enhancements	0	0	0	0	0	0	0	0	0	0	0
WOJH - Hydraulic Lift refurbishment	0	0	0	0	0	0	0	0	0	0	0
Forum Atrium - Capital Repairs	10,000	0	0	0	0	0	0	0	0	0	10,000
Forum - Gas Fired Water Heater	0	0	0	0	0	0	0	0	0	0	0
Workspaces - Health and Safety aspects	0	0	0	0	0	0	0	0	0	0	0
Workspaces - Roller Shutter Doors	8,000	0	0	8,000	0	0	0	0	0	0	16,000
Workspace - Lift Works (LOLER)	0	0	0	0	0	0	0	0	0	0	0
Workspaces - Air Con Refurbishments	0	0	0	0	0	0	0	0	0	0	0
Workspaces - Lighting Improvements	0	0	0	0	0	0	0	0	0	0	0
Workspaces - renewal scheme	0	0	0	0	0	0	0	0	0	0	0
Workspace General scheme	0	0	0	0	0	0	0	0	0	0	0
Northallerton Depot - Access Road resurfacing	35,000	0	0	0	0	0	0	0	0	0	35,000
Northallerton Depot - Improvement scheme	80,000	0	0	0	0	0	0	0	0	0	80,000
Northallerton Depot External Works	4,917	0	0	0	0	0	0	0	0	0	4,917
Waste and Street Scene - Telematics	12,050	0	0	0	0	0	0	0	0	0	12,050
Northallerton Depot - Electric Charging points	0	0	0	0	0	0	0	0	0	0	0
Waste and Street Scene - Digital Depot System	100,000	0	0	0	0	0	0	0	0	0	100,000
Northallerton Depot - Fleet Washers	0	0	0	0	0	0	0	0	0	0	0
Stokesely Depot - Welfare Facilities	0	0	0	0	0	0	0	0	0	0	0
Fly Tipping Project Equipment - Surveillance	0	0	0	0	0	0	0	0	0	0	0
Dash Camera Small Fleet	0	0	0	0	0	0	0	0	0	0	0
Additional Parking - NLC and Civic Centre	0	0	0	0	0	0	0	0	0	0	0
Energy Efficiency - Market Assessment	8,160	0	0	0	0	0	0	0	0	0	8,160
Thirsk SP Feasibility Study	0	0	0	0	0	0	0	0	0	0	0
Thirsk SP Pool Plant Valves	28,000	0	0	0	0	0	0	0	0	0	28,000
Northallerton LC - Improvement Scheme	0	6,000	0	0	0	0	0	0	0	0	6,000
Northallerton LC - Spinning Bikes	0	0	0	0	0	0	0	0	0	0	0
Northallerton LC - Flat Roof Enhancement	0	0	0	0	0	0	0	0	0	0	0
Stokesley LC - Underwater Detection System	0	0	0	0	0	0	0	0	0	0	0
Stokesley LC - Changing Room Air Handling Unit	0	0	0	0	0	0	0	0	0	0	0
Stokesley LC - Improvement Scheme	30,000	0	0	0	0	0	0	0	0	0	30,000
Bedale LC - Water Pumps	0	0	0	0	0	0	0	0	0	0	0
Bedale LC - Gym Floor	6,000	0	0	0	0	0	0	0	0	0	6,000
All Leisure Centres - Pool Plant Equipment Replacement	0	0	0	0	0	0	0	0	0	0	0
All Leisure Centres - Pool access	0	0	0	0	0	0	0	0	0	0	0
All Leisure Centres - Energy Management	10,000	0	0	0	0	0	0	0	0	0	10,000
Thirsk & Sowerby - Sports Village	24,500	0	0	0	0	0	0	0	0	0	24,500
Thirsk & Sowerby - Fitness track lighting	0	0	0	0	0	0	0	0	0	0	0
Community Investment Scheme	0	0	0	0	0	0	0	0	0	0	0
Northallerton Connections	2,640,000	0	0	0	0	0	0	0	0	0	2,640,000
Dalton Bridge Voluntary Contribution Business	0	0	0	0	0	0	0	0	0	0	0
Fire Alarm System - Civic Centre	45,000	0	0	0	0	0	0	0	0	0	45,000
Civic Centre - Roof Verges	15,000	0	0	0	0	0	0	0	0	0	15,000
Workspaces - Electrical Distribution replacement programme	30,000	0	0	0	0	0	0	0	0	0	30,000
BLC - Fitness Suite A/C Indoor unit	13,000	0	0	0	0	0	0	0	0	0	13,000
NLC - Swimming Pool Heat Exchangers No.1 & No.2	20,000	0	0	0	0	0	0	0	0	0	20,000
NLC - Cold Water Storage Tank	20,000	0	0	0	0	0	0	0	0	0	20,000
NLC - Staircases to flume and studio repairs	16,000	0	0	0	0	0	0	0	0	0	16,000
SLC - Swimming Pool Heat Exchangers and Boiler shunt pump	19,000	0	0	0	0	0	0	0	0	0	19,000
BLC - Shower Areas	18,000	0	0	0	0	0	0	0	0	0	18,000
BLC - Upgrade of Sauna Area	15,000	0	0	0	0	0	0	0	0	0	15,000
Northallerton LC - Improvement Scheme	0	0	0	0	0	0	0	0	0	0	0
ADDITIONAL SCHEMES	0	389,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	2,789,000
TOTAL CAPITAL RECEIPTS EXPENDITURE	**5,382,664**	**940,000**	**880,000**	**768,000**	**810,000**	**760,000**	**810,000**	**760,000**	**760,000**	**760,000**	**12,630,664**
BALANCE ON CAPITAL RECEIPTS RESERVE	**(599,144)**	**(843,180)**	**(811,552)**	**(821,552)**	**(789,892)**	**(858,533)**	**(868,533)**	**(908,533)**	**(908,533)**	**(908,533)**	**(908,533)**

10 YEAR CAPITAL PLAN 2020/21 TO 2029/30

ANNEX A4

ECONOMIC DEVELOPMENT FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	
	£	£	£	£	£	£	£	£	£	£	£
INCOME											
Opening Balance	(937,873)	(1,137,847)	(1,063,597)	(639,874)	(889,874)	(489,874)	(159,874)	(609,874)	(362,319)	(162,319)	
Add: Transfers from Council Taxpayers Reserve	600,000	(500,000)	(100,000)	(750,000)	0	0	(750,000)	0	0	0	
Add: Estimated Capital Receipts from sale of prison site	(1,500,000)	0	0	0	0	0	0	0	0	0	
Add: Estimated income from third party contributions	0	0	0	0	0	0	0	0	0	0	
	(1,837,873)	(1,637,847)	(1,163,597)	(1,389,874)	(889,874)	(489,874)	(909,874)	(609,874)	(362,319)	(162,319)	(3,937,873)
EXPENDITURE											
Economic Development Revenue Expenditure	97,280	74,250	9,000								180,530
Economic Development Capital Expenditure	602,746	500,000	514,723	500,000	400,000	330,000	300,000	247,555	200,000	162,319	3,757,343
TOTAL ECONOMIC DEVELOPMENT FUND EXPENDITURE	**700,026**	**574,250**	**523,723**	**500,000**	**400,000**	**330,000**	**300,000**	**247,555**	**200,000**	**162,319**	**3,937,873**
BALANCE ON ECONOMIC DEVELOPMENT FUND	**(1,137,847)**	**(1,063,597)**	**(639,874)**	**(889,874)**	**(489,874)**	**(159,874)**	**(609,874)**	**(362,319)**	**(162,319)**	**0**	**0**

10 YEAR CAPITAL PLAN 2020/21 TO 2029/30

ANNEX A5

BORROWING / SURPLUS FUNDS	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	
INCOME	£	£	£	£	£	£	£	£	£	£	£
Add: Borrowing	(29,954,685)	0	0	0	0	0	0	0	0	0	(29,954,685)
EXPENDITURE											
Loan to Housing Association	0	0	0	0	0	0	0	0	0	0	0
BID Project	0	0	0	0	0	0	0	0	0	0	0
Crematorium	280,320	0	0	0	0	0	0	0	0	0	280,320
Treadmills Phase 1 Purchase	5,061,665	0	0	0	0	0	0	0	0	0	5,061,665
Treadmills Phase 2 Purchase	9,612,700	0	0	0	0	0	0	0	0	0	9,612,700
Commercial Investment Property portfolio	15,000,000	0	0	0	0	0	0	0	0	0	15,000,000
TOTAL BORROWING AND SURPLUS FUNDS	**29,954,685**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**29,954,685**
BALANCE ON SURPLUS FUNDS	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

10 YEAR CAPITAL PLAN 2020/21 TO 2029/30

ANNEX A6

TOTAL CAPITAL PROGRAMME	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	
	£	£	£	£	£	£	£	£	£	£	
REPAIRS AND RENEWALS FUND	36,000	65,000	46,000	60,000	36,000	36,000	36,000	36,000	36,000	36,000	423,000
COMPUTER FUND	345,488	162,000	152,000	217,000	176,000	150,000	160,000	160,000	160,000	160,000	1,842,488
CAPITAL RECIEPTS RESERVE	5,382,664	940,000	880,000	768,000	810,000	760,000	810,000	760,000	760,000	760,000	12,630,664
ECONOMIC DEVELOPMENT FUND	602,746	500,000	514,723	500,000	400,000	330,000	300,000	247,555	200,000	162,319	3,757,343
BORROWING SURPLUS FUNDS	29,954,685	0	0	0	0	0	0	0	0	0	29,954,685
BALANCE ON BORROWING / SURPLUS FUNDS	**36,321,583**	**1,667,000**	**1,592,723**	**1,545,000**	**1,422,000**	**1,276,000**	**1,306,000**	**1,203,555**	**1,156,000**	**1,118,319**	**48,608,180**

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Cabinet Member/ Responsible Officer	Repairs & Renewals Fund	Capital Expenditure 2020/21 Only £	Third Party Contribution £	Cost to the Council £
Cllr Sanderson	**Leisure & Communities**			
SL	Public lighting replacement	36,000	0	36,000
	Repairs & Renewals Fund Capital Programme 2020/21	**36,000**	**0**	**36,000**

Cabinet Member/ Responsible Officer	Computer Fund	Capital Expenditure 2020/21 Only £	Third Party Contribution £	Cost to the Council £
Cllr Sanderson	**Leisure & Communities**			
SL	Public Lightning software upgrade	24,000	0	24,000
Cllr Sanderson	**Finance & Commercial**			
LBW	ICT Improvements	84,830	0	84,830
	Computer Fund Capital Programme 2020/21	**108,830**	**0**	**108,830**

Cabinet Member/ Responsible Officer	Capital Fund	Capital Expenditure 2020/21 Only £	Third Party Contribution £	Cost to the Council £
Cllr Fortune	**Leisure & Communities**			
SL	BLC - Fitness Suite A/C Indoor unit	13,000	0	13,000
SL	NLC - Swimming Pool Heat Exchangers No.1 & No.2	20,000	0	20,000
SL	NLC - Cold Water Storage Tank	20,000	0	20,000
SL	NLC - Staircases to flume and studio repairs	16,000	0	16,000
SL	SLC - Swimming Pool Heat Exchangers and Boiler shunt pump	19,000	0	19,000
SL	BLC - Shower Areas	18,000	0	18,000
SL	BLC - Upgrade of Sauna Area	15,000	0	15,000
Cllr Sanderson	**Leisure & Communities**			
SL	Fire Alarm System - Civic Centre	45,000		45,000
SL	Civic Centre - Roof Verges	15,000		15,000
Cllr Watson	**Environment**			
PS	Purchase of bins for refuse and recycling - New Waste Strategy	60,000	10,000	50,000
PS	Northallerton Depot - Access Road resurfacing	35,000	0	35,000
Cllr Webster	**Economy & Planning**			
HK	Disabled Facilities Grant	400,000	400,000	0
Cllr Wilkinson	**Economy & Planning**			
HK	Workspaces - Roller Shutter Doors	8,000	0	8,000
HK	Workspaces - Electrical Distribution replacement programme	30,000	0	30,000
LBW	Economic Development Fund	484,436	0	484,436
Cllr Wilkinson	**Finance & Commercial**			
LBW	Treadmills Phase 2	9,612,700	0	9,612,700
	Capital Fund Capital Programme 2020/21	**10,811,136**	**410,000**	**10,401,136**

Cabinet Member/ Responsible Officer	Total Capital Programme 2020/21	Capital Expenditure 2020/21 Only £	Third Party Contribution £	Cost to the Council £
Cllr Fortune/Cllr Sanderson	**Leisure & Communities**	241,000	0	241,000
Cllr Watson	**Environment**	95,000	10,000	85,000
Cllr Sanderson/Cllr Wilkinson/Cllr Webster	**Economy & Planning**	922,436	400,000	522,436
Cllr Sanderson/Cllr Wilkinson	**Finance & Commercial**	9,697,530	0	9,697,530
	Total Capital Programme 2020/21	**10,955,966**	**410,000**	**10,545,966**

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ANNEX C

TREASURY MANAGEMENT STRATEGY STATEMENT - MINIMUM REVENUE PROVISION POLICY STATEMENT and ANNUAL INVESTMENT STRATEGY 2020/21

1.0 INTRODUCTION:

1.1 Background

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

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

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

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

1.1.5 CIPFA defines Treasury Management as:

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

1.2 Reporting Requirements

Capital Strategy

1.2.1 The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

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

- the implications for future financial sustainability.

1.2.2 The aim of the Capital Strategy is to ensure that all elected members on the Full Council fully understand the overall long term policy objectives and the resulting capital strategy requirements, governance procedures and risk appetite.

1.2.3 The Capital Strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Strategy 2020/21 will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (Minimum Revenue Provision (MRP) policy);
- For non-loan type investments, the cost against the current market value; and
- The risks associated with each activity.

1.2.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs, investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.2.5 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance and CIPFA Prudential Code 2017 have not been adhered to.

1.2.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

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

Treasury Management Reporting

1.2.8 The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. In addition quarterly review reports provide a regular update to Cabinet.

Prudential and treasury indicators and treasury strategy

1.2.9 The first, and most important report is forward looking and covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report

1.2.10 This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision In addition, this Council will receive quarterly update reports.

An Annual Treasury Report

1.2.11 This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

1.2.12 The above reports are required to be adequately scrutinised by Members before being recommended to the Council. This role is undertaken by Cabinet, in addition to this scrutiny role, Audit, Governance and Standards Committee also scrutinese these reports.

1.3 **Treasury Management Strategy for 2020/21**

1.3.1 The strategy for 2020/21 covers two main areas:

(a) Capital issues

- the capital expenditure plans and the associated prudential indicators; and
- the Minimum Revenue Provision (MRP) policy.

(b) Treasury Management issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- credit worthiness policy;
- policy on use of external service providers; and
- member training.

1.3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code 2017, the CIPFA Treasury Management Code 2017 and the Ministry of Housing, Communities and Local Government (MHCLG) Minimum Revenue Provision Guidance (MRP) and Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2020/21 TO 2022/23:

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

Capital Expenditure

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

Capital Expenditure	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Services	15,730,840	6,834,415	21,321,583	1,667,000	1,592,723
Commercial activities/ non- financial investments*	-	15,000,000	15,000,000	-	-
New Finance Lease	-	-	630,994	630,994	630,994
Total	**15,730,840**	**21,834,415**	**36,952,577**	**2,297,994**	**2,223,717**

* Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

2.3 Other long term liabilities. The above financing need excludes other long term liabilities, such as Private Finance Initiatives and leasing arrangements which already include borrowing instruments. The Council has no Private Finance Initiatives (PFI).

2.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need. In 2020/21, borrowing may occur to support the Capital Programme.

Capital Expenditure £	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Existing Capital Programme	15,730,840	21,834,415	36,321,583	1,667,000	1,592,723
New Finance Lease	-	-	630,994	630,994	630,994
Total expenditure	**15,730,840**	**21,834,415**	**36,952,577**	**2,297,994**	**2,223,717**
Financed by:					
Capital receipts	215,560	516,033	1,474,539	15,964	41,628
Capital grants	2,109,660	1,856,236	3,562,424	400,000	400,000
Capital reserves	1,551,426	1,261,961	1,195,234	1,116,000	1,012,723
Revenue	79,786	149,368	134,701	135,036	138,372
Finance Lease	-	-	630,994	630,994	630,994
Total Financing	**3,956,432**	**3,783,598**	**6,997,892**	**2,297,994**	**2,223,717**
Net financing need for the year	**11,774,408**	**18,050,817**	**29,954,685**	**-**	**-**

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

Commercial activities / non-financial investments £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Expenditure	-	15,000,000	15,000,000	-	-
Financing costs	-	-	-	-	-
Net financing need for the year	-	15,000,000	15,000,000	0	0
Percentage of total net financing need	**0%**	**83.10%**	**50.08%**	**0%**	**0%**

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

2.5 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

2.7 The CFR is detailed in the table below and for 2020/21 the underlying need for the Council to borrow is £86,073,196. This is a combination of numerous projects the Council is committed to delivering in the 10 year Capital Programme and significant schemes that contribute to this are the loan to the local housing association, the development of the treadmills site and the Commercial property portfolio. These capital projects and the associated borrowing requirement relate to both commercial activities (non-treasury investments) and service activities (also non-treasury investments) and this is detailed in the capital expenditure table above. The CFR provides the Council with the flexibility to use borrowing to support the capital programme if it chooses to do so but still allows the use of surplus funds if available; this is known as internal borrowing. If external borrowing is taken, consideration is given to the Treasury Management environment to ensure that the best option is achieved in relation to interest rates in the short and long term.

2.8 The Capital Financing Requirement (CFR) includes any other long term liabilities (e.g. Private Finance Initiative schemes (PFI), finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such Private Finance Initiative schemes or Finance Leases.

2.9 The Council is asked to approve the CFR projections below:-

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement					
Capital Financing Requirement B/F	**26,395,196**	**38,169,604**	**56,220,421**	**86,073,196**	**85,915,896**
CFR - Services	11,774,408	3,050,817	14,929,455	(52,000)	(53,600)

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
CFR – Commercial activities/ non-financial investments	-	15,000,000	14,923,320	(105,300)	(108,450)
Total CFR C/F	**38,169,604**	**56,220,421**	**86,073,196**	**85,915,896**	**85,753,846**
Movement in the Capital Financing Requirement	**11,774,408**	**18,050,817**	**29,852,775**	**(157,300)**	**(162,050)**
Movement in Capital Financing Requirement represented by					
Net financing need for the year (above)	**11,774,408**	**18,050,817**	**29,954,685**	**-**	**-**
Less Minimum Revenue Provision and other financing movements	-	-	(101,910)	(157,300)	(162,050)
Movement in the Capital Financing Requirement	**11,774,408**	**18,050,817**	**29,852,775**	**(157,300)**	**(162,050)**

2.10 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.4 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Council's remaining activity.

Minimum Revenue provision (MRP) Policy Statement

2.11 It is a statutory requirement that the Council reports on the Minimum Revenue Position and explains this policy. The Minimum Revenue Provision Policy describes that the Council is required to pay off an element of the accumulated General Fund capital spend each year, the Capital Financing Requirement (CFR) through a revenue charge known as the Minimum Revenue Provision (MRP). The Council is also allowed to undertake additional voluntary payments if required. This is known as the Voluntary Revenue Provision (VRP).

2.12 This Council in 2020/21 will have a Capital Financing Requirement of £86,073,196 to support the total capital programme and this is the potential amount of borrowing that may be required in 2020/21.

2.13 Ministry of Housing, Communities and Local Government (MHCLG) regulations have been issued which require the Full Council to approve a Minimum Revenue Provision (MRP) Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following Minimum Revenue Provision Statement which includes four different approaches for:

1. Capital expenditure on supported and unsupported borrowing
2. Commercial Investment Property portfolio
3. Loan to Third parties
4. Voluntary Revenue Provision

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

- **Based on Capital Financing Requirement** (CFR) – Minimum Revenue Provision (MRP) will be based on the Capital Financing Requirement. This option provides for an approximate 4% reduction in the borrowing need (Capital Financing Requirement) each year.

2.15 From 1 April 2008 for all unsupported borrowing (including Private Finance Initiative and finance leases) the Minimum Revenue Provision policy will be*:*

- **Asset Life Method** – Minimum Revenue Provision will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life. There are two main methods that will be considered to achieve this either the equal instalment method or the Annuity method. The estimated life of the asset would usually not exceed the useful life of 50 years but consideration will be given to exceed this in the following two scenarios:
  - an appropriately qualified professional advisor's opinion is that an asset will deliver service functionality for more than 50 years then the use the life suggested by its professional advisor will be used
  - for a lease or PFI asset, where the length of the lease/PFI contract exceeds 50 years, the length of the lease/PFI contract will be used

2.16 In using the Asset Life Method for the prudent provision for the Minimum Revenue Provision the following can be noted:

- There are **two methods of calculation** and the Council reserves the right to select the most appropriate method, depending on the type of project:
  - **Equal instalment** which normally generates a series of equal annual amounts over the estimated life of the asset, where there are equal instalments of interest and principle charged
  - **annuity method** which has the advantage of linking Minimum Revenue Provision to the flow of benefits from an asset where the benefits are expected to increase in later years. It is attractive in connection with projects promoting regeneration or schemes where revenues will increase over time.

- **Freehold land** cannot properly have a life attributed to it, so it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.

- **Timing of the Minimum Revenue Provision** - Provision for debt will normally commence in the financial year following the one in which the expenditure is incurred, however in the case of the provision of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This "MRP holiday" would be perhaps 2 or 3 years in the case of major projects, or possibly longer for some complex infrastructure schemes; this could make projects more affordable

2.17 In addition, where repayments are included in annual Private Finance Initiative schemes or finance leases then this will be applied as the Minimum Revenue Provision (MRP).

2.18 For capital expenditure that will be incurred specifically in relation to the commercial Property Investment portfolio a different approach will be taken to the minimum revenue provision. The capital expenditure occurs through the company structure where a loan is provided directly to the third party subsidiary company – Hambleton property Ltd - from the Council and Equity is provided to the Holding Company Ltd which then provides this equity to the subsidiary. Therefore, no MRP is charged on the loan to the third party in the Council's account as when the third party – Hambleton Property Ltd – sells the Investment Property a capital receipts will be realised and this funding will be used to repay the loan to

the Council, so decreasing the Capital Financing requirement. No loan repayment is required in relation to the company structure from the third party Subsidiary to the Council.

2.19 In addition in line with accounting standard IFRS 9, an annual impairment review will occur of the third party subsidiary Investment property to ensure that HDC will be repaid the loan amount in full, if this looks like this will not occur then an expert valuer will review the position and if the valuer confirms that the market shows a short term position and that in the future it is expected that the Investment Property will again increase in value then no minimum revenue provision will be charged. If however the expert valuer believes that the value of the Investment Property has fallen then a Voluntary Revenue Provision will be charged so that the Council is making a prudent provision. If in the event when the subsidiary sells the Investment property and the loan is fully repaid then the Voluntary Revenue Provision can be reversed if this is not required. If Minimum Revenue Provision had been charged (instead of VRP) then this would not have been able to be reversed.

2.20 For the Equity portion, the Minimum Revenue Provision policy is to ensure it is charged over the life of the contract with the third party subsidiary company for the Investment Property – so Minimum Revenue Provision on the acquisition of share capital is over 20 years. In addition the Minimum Revenue Provision charged in relation to the Equity will not be on the full Equity because when the third party subsidiary sells the Investment Property, the value should be equal or greater than the value when the Investment property was purchased; the MRP on the equity will be charged on the expenses that occur when the property is purchased (the costs greater than the purchase value) and also will take into account the expected expenditure that will occur on the sale of the property and any other associated costs. The Council is therefore being prudent within the Minimum Revenue Provision Policy as described. This will be reviewed on an annual basis.

2.21 It is important to note that with regards to the loan from the Council to the third party subsidiary company that a charge (legal agreement) will be taken by the Council on the Property that the third party subsidiary purchases so that the Council has the first charge over the property and therefore as long as the value of the property in future is equal or greater than the purchase value then no Minimum Revenue provision or loan repayment from the subsidiary is required. Voluntary Revenue Provision could be charged as described in the Policy above if it appears the value of the property will fall.

2.22 The Capital Financing Requirement for the loan to the local Housing Association at the beginning of 2020/21 is £35,000,000. The agreement with the local Housing Association states they will make bullet repayments to the Council at years 5, 10, 15, 20 and 25. The bullet repayments made throughout the life of the loan will be set aside by the Council when received to ensure that prudent provision is made for regular repayment. These regular bullet points will be earmarked and used as the Minimum Revenue Provision that the Council needs to make on a regular basis to reduce the Capital Financing Requirement. Therefore, for the £35,000,000 loaned to the local Housing Association by the first time the MRP charge will be made to the revenue account to reduce the level of Capital Financing Requirement will be 2020/21 and at regular intervals thereafter. It should be noted that if no borrowing has been taken to support the capital financing requirement and instead the Council's surplus funds have been used then no MRP charge will be made.

2.23 Finally Voluntary Revenue Provision is where the Council believes it is prudent to set aside an increased amount to repay the Capital Financing Requirement during the year. Any charges made over the statutory Minimum Revenue Provision i.e. voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, the cumulative overpayment made each year must be disclosed. Up until the 31 March 2019 the total Voluntary Revenue Provision overpayments were £0m. This Council has never overpaid minimum revenue provision so this does not apply; however it is noted here for future reference if ever needed.

Core funds and expected investment balances

2.24 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances. Working capital balances (Debtors and Creditors) shown in the table are included in 'Other' which is the estimated position at the year-end; these may fluctuate during the year. The Council will run its cash close to zero, therefore reducing its external borrowing costs as interest rates for investments remain at a low level.

Year End Resources	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Fund balances / reserves	14,037,064	12,298,622	12,912,899	11,506,634	10,410,101
Capital receipts	2,107,716	1,841,683	599,144	843,180	811,552
Provisions	640,568	610,000	610,000	610,000	610,000
Other	8,361,932	7,575,000	5,180,000	5,508,000	5,358,000
Total core funds	**25,147,280**	**22,325,305**	**19,302,043**	**18,467,814**	**17,189,653**
Under/over borrowing	**23,469,604**	**21,520,421**	**17,073,196**	**16,915,896**	**16,753,846**
Expected investments	**1,677,676**	**804,884**	**2,228,847**	**1,551,918**	**435,807**

Affordability Prudential Indicators

2.25 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.26 **Ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream.

%	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Services	0.18%	3.17%	4.25%	6.89%	6.77%
Commercial activities /non-financial investments	0.00%	0.00%	7.75%	8.41%	8.28%
Total	0.18%	3.17%	12.00%	15.30%	15.05%

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

2.28 This shows the proportion of finance costs in relation to the Council's total net income position; where the finance costs are the interest on borrowing and the minimum revenue

provision set aside to repay that borrowing and where the total net income position is the net funding position of the council – Council tax, business rates, grant funding, income generated – and also income received from the loan to the local housing association.

3.0 BORROWING:

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

3.2 Current Portfolio Position

3.2.1 The overall treasury position as at 31 March 2019 and for the position as at 31 December 2019 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual 31.03.19	Actual 31.03.19	Current 31.12.19	Current 31.12.19
	£000	%	£000	%
Treasury Investments				
Banks	1,546	100	14,182	76
Money Market Funds	-	-	4,360	24
Total Treasury Investments	**1,546**	**100**	**18,542**	**100**
Treasury External Borrowing				
Local Authorities	2,000	14	-	-
Public Works Loan Board	12,700	86	22,700	100
Total External Borrowing	**14,700**	**100**	**22,700**	**100**
Net Treasury Investments / (Borrowing)	(13,154)	-	(4,158)	-

3.2.2 The Council's forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need the Capital Financing Requirement (CFR), highlighting any over or under borrowing. The actual position for 2018/19 and the estimated position for future years is reflected in the table below:

£	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt					
Debt at 1 April	6,200,000	14,700,000	34,700,000	69,000,000	69,000,000
Expected change in Debt	8,500,000	20,000,000	34,300,000	-	-
Actual gross debt at 31 March	**14,700,000**	**34,700,000**	**69,000,000**	**69,000,000**	**69,000,000**
The Capital Financing Requirement	**38,169,604**	**56,220,421**	**86,073,196**	**85,915,896**	**85,753,846**
Under / (over) borrowing	**23,469,604**	**21,520,421**	**17,073,196**	**16,915,896**	**16,753,846**

3.2.3 Within the above figures, the level of debt relating to commercial activities / non-financial investment is:

£	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt for commercial activities / non-financial investments					
Actual debt at 31 March £m	-	15,000,000	30,000,000	30,000,000	30,000,000
Percentage of total external debt %	0%	43.23%	43.48%	43.48%	43.48%

3.2.4 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt, does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

3.2.5 The Director of Finance and Commercial (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.3 **Treasury Indicators: Limits to Borrowing Activity**

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

Operational boundary	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	43,000,000	57,400,000	57,400,000	57,400,000
Other long term liabilities	600,000	1,000,000	1,000,000	1,000,000
Commercial activities/non-financial investments	15,000,000	30,000,000	30,000,000	30,000,000
Total	**58,600,000**	**88,400,000**	**88,400,000**	**88,400,000**

3.3.2 **The Authorised Limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

Authorised limit £	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	44,200,000	59,000,000	59,000,000	59,000,000
Other long term liabilities	1,000,000	1,000,000	1,000,000	1,000,000
Commercial activities/non-financial investments	15,000,000	30,000,000	30,000,000	30,000,000
Total	**60,200,000**	**90,000,000**	**90,000,000**	**90,000,000**

3.4 **Prospects for Interest Rates and Economic Background**

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

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Mar 2020	0.75	2.40	2.70	3.30	3.20
Jun 2020	0.75	2.40	2.70	3.40	3.30
Sep 2020	0.75	2.50	2.70	3.40	3.30
Dec 2020	0.75	2.50	2.80	3.50	3.40
Mar 2021	1.00	2.60	2.90	3.60	3.50
Jun 2021	1.00	2.70	3.00	3.70	3.60
Sep 2021	1.00	2.80	3.10	3.70	3.60
Dec 2021	1.00	2.90	3.20	3.80	3.70
Mar 2022	1.00	2.90	3.20	3.90	3.80
Jun 2022	1.25	3.00	3.30	4.00	3.90
Sep 2022	1.25	3.10	3.30	4.00	3.90
Dec 2022	1.25	3.20	3.40	4.10	4.00
Mar 2023	1.25	3.20	3.50	4.10	4.00

3.4.3 The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

3.4.4 It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the Monetary Policy Committee (MPC) became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the Monetary Policy Committee (MPC) were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK Gross Domestic Product (GDP) growth in 2019, especially around mid-year. There is still some residual risk that the Monetary Policy Committee (MPC) could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the Monetary Policy Committee (MPC) would raise Bank Rate.

3.4.5 Bond yields / Public Works Loan Board (PWLB) rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

3.4.6 During the first half of 2019/20 to 30 September, gilt yields plunged and caused a near halving of longer term Public Works Loan Board (PWLB) rates to completely unprecedented historic low levels. (See paragraph 3.4.10 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9 October 2019.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the

correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

3.4.7 One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

3.4.8 Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

3.4.9 The overall longer run future trend is for gilt yields, and consequently Public Works Loan Board (PWLB) rates, to rise, albeit gently. From time to time, gilt yields, and therefore Public Works Loan Board (PWLB) rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

3.4.10 In addition, Public Works Loan Board (PWLB) rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in Public Works Loan Board (PWLB) rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9 October 2019.

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

3.5.1 Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings;

- Borrowing interest rates were on a major falling trend during the first half of 2019/20 but then jumped up by 100 bps on 9 October 2019. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in Public Works Loan Board (PWLB) rates requires a major rethink of local authority treasury management strategy and risk management.

- While this authority will not be able to avoid borrowing to finance new capital expenditure, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.6 **Borrowing Strategy**

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

3.6.2 If the Council does undertake borrowing then interest rates will be viewed from 1 year to 50 years, in accordance with the interest rates available from the markets as well as the Public Works Loans Board (PWLB). For 2020/21 interest rates span between 5 years at 2.40% to 3.20%,10 at 2.70% to 3.50%, 25 at 3.30% to 4.10% or 50 years at 3.20% to 4.0%. The interest rates trend is to increase slightly across all years as the 2020/21 year progresses. Therefore, in the current volatile money market, the borrowing target rate for 2020/21 is set at 3.50%. External borrowing will be considered throughout the financial year when interest rates seem most favourable.

3.6.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Director of Finance and Commercial (Section 151 Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

Any decisions will be reported to Cabinet at the next available opportunity.

3.7 Policy on Borrowing in Advance of Need

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

Borrowing in advance will be made within the constraints that:

- The authority would not look to borrow more than 12 months in advance of need.

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

3.8 Debt Rescheduling

3.8.1 Rescheduling of current borrowing in the Council's debt portfolio is unlikely to occur as the 100 bps increase in Public Works Loan Board (PWLB) rates only applied to new borrowing rates and not to premature debt repayment rates.

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

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

3.9 New financial institutions as a source of borrowing and / or types of borrowing

3.9.1 Following the decision by the Public Works Loan Board (PWLB) on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency

3.9.2 The degree which any of these options proves cheaper than Public Works Loan Board (PWLB) Certainty Rate is still evolving at the time of writing but the Coucnil's treasury management advisors, Link Asset Services, will proviude updated information in due course.

3.10 Approved Sources of Long and Short term Borrowing

3.10.1 The Council has the following sources and types of funding available to use when necessary:

Approved Sources of Long and Short term Borrowing		
On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●

Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	●
Local authority bills	●	●
Overdraft	●	●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	●
Medium Term Notes	●	●
Finance leases	●	●

3.11 Maturity structure of borrowing

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

The Council is asked to approve the following treasury indicators and limits, the Council currently only has fixed interest rate borrowing:

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%

10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

4.0 Annual Investment Strategy

4.1 Investment Policy

4.1.1 The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, which included on the agenda at this Cabinet.

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

- Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018
- The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

4.1.2 The above guidance from the Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA place a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

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

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

3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of types of investment instruments that the treasury management team are authorised to use; there are two lists in Annex C1 under the

categories of 'specified' and 'non-specified' investments and Counterparty limits will be as set through the Council's treasury management practices – schedules.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year; and

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

5. Non-specified investments limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 10% of the total investment portfolio.

6. Transaction limits are set for each type of investment in in Annex C1.

7. This authority will set a limit for the amount of its investments which are invested for longer than 365 days, in Annex C1

8. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, in Annex C1

4.1.3 With regards to counterparty limts and the amount of surplus funds to be placed with any one counterparty or group of counterparties, specific advice has been taken from the Council's Treasury Management Advisors (Link Asset Services) due to the difficulty in placing surplus funds in the current economic environment. Therefore the Counterparty limits are detailed as follows:

Individual Limits – These limits will be set at 35% of total investments or £7m per counterparty whichever is the higher. There are three exceptions to this policy:

(a) with counterparties that are backed by the Government – Royal Bank of Scotland and Natwest – (and therefore are more secure) there will be a 40% limit or £7m per counterparty whichever is the higher.

(b) with the Council's own bank - Lloyds - and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £7m per counterparty whichever is the higher

(c) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

It should be noted that it is expected during 2020/21, that the status of the current counterparties backed by the Government in (a) above may change. If this occurs a report will be brought to Cabinet at the earliest opportunity with the revised limits.

- **Group Limits** – this policy recognises that individual counterparties (banks/financial institutions etc), whilst being sound in themselves, may be part of a larger group. This brings with it added risks where parent institutions may be in difficulties. Therefore, due to the reduced surplus balances available for investment, the group limit will also be as stated for the individual limits as it is important to diversify the risk to a variety of counterparties.

4.1.4 As a result of the change in accounting standards for 2019/20 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse

movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, (MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1st April 2018.

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

4.2 Creditworthiness policy

4.2.1 This Council applies the creditworthiness service provided by Link Asset Services – the Council's Treasury Management Advisors. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;and
- sovereign ratings to select counterparties from only the most creditworthy countries.

4.2.2 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swap (CDS) spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.50
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

4.2.3 The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

4.2.4 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.2.5 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately; and
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

4.2.6 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, as well as information on any external support for banks to help support its decision making process.

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

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

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

4.3 **Country Limits**

4.3.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent), other than the UK where the Council has set no limit. The list of countries that qualify using this AA- credit criteria, as at the date of this report, are shown in Annex C2. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.3.2 The UK sovereign rating is currently AA and following advice from Link Asset Services, the Council's Treasury Management Advisors, and the Council will still operate with UK counterparties.

4.3.3 The Council has determined that, other than the United Kingdom where no limit will apply, a maximum of 30% of total investments or £3.0m whichever is the lower will be invested in a single institution of a AA- sovereign rated country

4.3.4 In addition, this policy restricts the total of investments in foreign countries to 40% of the total investments.

4.4 **Investment Strategy**

4.4.1 **In-house funds**
Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

4.4.2 **Investment returns expectations**
On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by Quarter 1 2023/24. Bank Rate forecasts for financial year ends (March) are:

- Qtr 1 2021 0.75%
- Qtr 1 2022 1.00%
- Qtr 1 2023 1.25%

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

- 2019/20 0.75%
- 2020/21 0.75%
- 2021/22 1.00%
- 2022/23 1.25%
- 2023/24 1.50%
- 2024/25 1.75%
- Later years 2.25%

4.4.4 The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

4.4.5 The balance of risks to increases in Bank Rate and shorter term Public Works Loan Board (PWLB) rates are broadly similarly to the downside.

4.4.6 In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

4.4.7 **Invesment Treasury Indicator and Limit**
Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

Maximum principal sums invested > 365 days			
£	**2020/21**	**2021/22**	**2022/23**
Principal sums invested > 365 days	£1,000,000	£1,000,000	£1,000,000

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

4.5 **Investment Risk Benchmarking**

4.5.1 This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 1, 3, 6 or 12 month LIBID.

4.6 **End of year investment report**

4.6.1 At the end of the 2019/20 financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5.0 Policy on the Use of External Service Providers and Training

5.1 Policy on the Use of External Service Providers

5.1.1 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

5.1.3 In addition, to appointing external treasury management advisors, it is worth noting that for the undertaking of non-treasury investments, e.g. investment in commercial properties, then a further advisor would be appointed as the Council would require specialist property advice. The scope of investments in the future within the Council's operations will include both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties.

5.2 Training

5.2.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This applies to Cabinet members and members on Scrutiny committee. During 2020/21, members will be offered training to provide an overview of treasury management and also any specific treasury management are they would choose. This training can be provided by Council officers or by the external service provider – Link Asset Services. The training needs of treasury management officers in the Council are periodically reviewed and officers have the opportunity to attend seminars and update services from Link Asset Services.

TREASURY MANAGEMENT PRACTICE – TMP1
CREDIT AND COUNTERPARTY RISK MANAGEMENT
- SPECIFIED AND NON-SPECIFIED INVESTMENTS AND LIMITS

1.0 SPECIFIED INVESTMENTS:

1.1 All such investments will be sterling denominated, with **maturities up to maximum of 1 year,** meeting the minimum 'high' quality criteria where applicable.

2.0 NON-SPECIFIED INVESTMENTS:

2.1 These are any investments which do not meet the Specified Investment criteria. A maximum of 100% will be held in aggregate in non-specified investment

3.0 INVESTMENT INSTRUMENTS:

3.1 A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

3.2 The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	yellow	100%	6 months
UK Government gilts	yellow		5 years
UK Government Treasury bills	yellow		364 days
Bonds issued by multilateral development banks	yellow		5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LVNAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid

Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	yellow	100%	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating		

A) – SPECIFIED

Institution / Counterparty	***Minimum 'High' Credit Criteria***	***Use***
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – housing associations	--	In-house
Term deposits – banks and building societies	Coded: Orange on Link Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house
UK Part nationalised banks	Coded: Blue on Link Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Mangers

Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Coded: Blue on Link Asset Services' Matrix. Fitch's rating: Long-term AAA, Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Mangers
Collateralised deposit	Coded: Orange on Link Asset Services' Matrix / UK Sovereign rating	In-house and Fund Mangers
UK Government Gilts	UK Sovereign rating	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	Coded: Orange on Link Asset Services' Matrix / Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is guaranteed by the UK Government	UK Sovereign rating	In-house buy and hold and Fund Managers
Sovereign bond issues (other than the UK Government)	Coded: Orange on Link Asset Services' Matrix / Long term AAA	In-house buy and hold and Fund Managers
Treasury Bills	UK Sovereign rating	Fund Managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1a. Money Market Funds (CNAV)	MMF rating	In-house and Fund Managers
1b. Money Market Funds (LVNAV)	MMF rating	In-house and Fund Managers
1c. Money Market Funds (VNAV)	MMF rating	In-house and Fund Managers
2a Ultra-Short Bond Funds with a credit score of 1.25	Bond fund rating	In-house and Fund Managers
2b.Ultra-Short Bond Funds with a credit score of 1.50	Bond fund rating	In-house and Fund Managers
3. Bond Funds	Bond fund rating	In-house and Fund Managers
4. Gilt Funds	UK sovereign rating	In-house and Fund Managers

NON-SPECIFIED INVESTMENTS*:*

A maximum of 100% can be held in aggregate in non-specified investment

1. Maturities of ANY period

Institution / Counterparty	**Minimum Credit Criteria**	**Use**	**Max % of total investments**	**Max. maturity period**
Term deposits – banks and building societies	Coded: red (6mths) and green (3mths) on Link Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	100%	3-6 Months
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Coded: orange (1yr) red (6mths) and green (3mths) on Link Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	40%	1 Year
Certificates of deposits issued by banks and building societies.	Coded: orange (1yr) red (6mths) and green (3mths) on Link Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house buy and hold and Fund Managers	30%	1 Year
Commercial paper other	Coded: orange (1yr) red (6mths) and green (3mths) on Link Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house	30%	1 Year

Corporate Bonds	Coded: orange (1yr) red (6mths) and green (3mths) on Link Asset Services' Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Managers	30%	1 Year
Floating Rate Notes:	Long-term AAA	Fund Managers	N/A – Capital Expenditure	N/A – Capital Expenditure
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
Corporate Bond Fund	-	In house and Fund Managers		

2. Maturities in excess of 1 year

Institution / Counterparty	**Minimum Credit Criteria**	**Use**	**Max % of total investments**	**Max. maturity period**
Term deposits – local authorities	--	In-house	30%	> 1 year
Term deposits – banks and building societies	Coded: Purple (2yrs)) on Link Asset Services' Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house	30%	> 1 year
Certificates of deposits issued by banks and building societies	Coded: Purple(2yrs) on Link Asset Services' Matrix / Short-term F1+, Long-term AA-	Fund Managers	30%	> 1 year
Collaterised deposit	UK Sovereign rating	In-house and Fund Managers	30%	> 1 year
UK Government Gilts	UK Sovereign rating	In-house and Fund Managers	30%	> 1 year

Bonds issued by multilateral development banks	Long term AAA	In-house and Fund Managers	30%	> 1 year
Sovereign bond issues (i.e. other than the UK Government)	Long term AAA	In-house and Fund Managers	30%	> 1 year
Corporate Bonds	Long term AAA	In-house and Fund Managers	30%	> 1 year
Collective Investment Schemes structure as open Ended Investment Companies (OEICs)				
1. Bond Funds	Long-term AAA	In-house and Fund Managers	30%	> 1 year
2. Gilt Funds	Long-term AAA	In-house and Fund Managers	30%	> 1 year

ANNEX C2

APPROVED COUNTRIES FOR INVESTMENT
Current List as at 3 January 2020

Link Asset Services has advised that Councils should only use approved counterparties from countries with a minimum sovereign credit rating determined by the Council. This Council has determined that it will only use those countries with the sovereign rating of AA- or higher other than the UK where the Council has set no limit. This list will be monitored at least weekly (and for information purposes only, includes other sovereign ratings)

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- UK

AA-

- Belgium
- Qatar

ANNEX C3

ECONOMIC BACKGROUND

UK

Brexit

2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the general election on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

Gross Domestic Product (GDP) growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another quarterly Inflation Report, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among Monetary Policy Committee (MPC) members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the Monetary Policy Committee (MPC) voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The Monetary Policy Committee (MPC) warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the Monetary Policy Committee (MPC) views inflation as causing little concern in the near future.

The Monetary Policy Committee (MPC) meeting of 19 December repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the Monetary Policy Committee (MPC) were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the Monetary Policy Committee (MPC) has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to Gross Domestic Product (GDP) growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably

in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for inflation itself, Consumer Price Index (CPI) has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the Monetary Policy Committee (MPC) at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the labour market, growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than Consumer Price Index (CPI) inflation), earnings grew by about 2.0%. As 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. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA

President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. Growth in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to Quarter 3 into Quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, Consumer Price Index (CPI) inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. At its September meeting it also said it was going to start buying Treasuries again, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total Gross Domestic Product (GDP). It will also impact developing countries dependent on exporting commodities to China.

However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE
Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German Gross Domestic Product (GDP) growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in Eurozone growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the European Central Bank (ECB) to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a third round of Targeted Longer-term refinancing operations (TLTROs); this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new Targeted Longer-term refinancing operations (TLTROs) will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in Eurozone and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt for an unlimited period. At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of Targeted Longer-term refinancing operations (TLTROs) from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the European Central Bank (ECB) stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the European Central Bank (ECB), Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the European Central Bank (ECB), conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German Christian Democrats (CDU)/Social Democrats (SDP) coalition government and on the current leadership of the Christian Democrats (CDU). The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA
Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN
Has been struggling to stimulate consistent significant Gross Domestic Product (GDP) growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH

Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world Gross Domestic Product (GDP), has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to financial markets due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest Purchasing Managers' Index (PMI) survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.4.1 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. On this basis, while Gross Domestic Product (GDP) growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an orderly non-agreement exit in December 2020, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.

- The balance of risks to increases in Bank Rate and shorter term Public Works Loan Board (PWLB) rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.
Downside risks to current forecasts for UK gilt yields and Public Works Loan Board (PWLB) rates currently include:

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some European banks, particularly Italian banks.
- German minority government. In the German general election of September 2017, Angela Merkel's Christian Democrats (CDU) party was left in a vulnerable minority position dependent on the fractious support of the Social Democrats (SDP) party, as a result of the rise in popularity of the anti-immigration Alternative for Germany (AfD) party. The Christian Democrats (CDU) has done badly in recent state elections but the Social Democrats (SDP) has done particularly badly and this has raised a major question mark over continuing to support the Christian Democrats (CDU). Angela Merkel has stepped down from being the Christian Democrats (CDU) party leader but she intends to remain as Chancellor until 2021.
- Other minority EU governments. Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the International Monetary Fund (IMF) issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was potential for a rerun of the 2008 financial crisis, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on some $19trn of corporate debt in major western economies, if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The International Monetary Fund (IMF)'s answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.

- Geopolitical risks, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and Public Works Loan Board (PWLB) rates

- Brexit – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

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ANNEX D

TREASURY MANAGEMENT SCHEME OF DELEGATION

APPENDIX: Treasury management scheme of delegation

(i) Full Council

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

(ii) Cabinet

- approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices (recommendations to Council);
- budget consideration and approval (recommendations to Council);
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- receiving annual treasury management strategy, annual outturn, quarterly reports and also adhoc reports on treasury management policies, practices and activities; and
- reviewing and scrutinising the treasury management policy and procedures and making recommendations to full Council.

(iii) Audit, Governance and Standards Committee

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

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ANNEX E

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council;
- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council;
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above; and
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed.

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HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2020

Subject: **CAPITAL STRATEGY 2020/21**

All Wards

Portfolio Holder for Finance and Economic Development: Councillor P R Wilkinson

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1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of the capital strategy is to give a clear and concise view of how a local authority determines its priorities for capital investment, sets its risk appetite and decides how much it can afford to borrow.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and Treasury Management Code require from 2019/20 and onwards, local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability. 2020/21 is the second time the capital strategy had been produced.

1.3 The aim of the capital strategy is to provide an understanding of the Council's overall long-term objectives, governance procedures, allocation and monitoring of capital expenditure, risk appetite and to meet legislative requirements on reporting.

1.4 This capital strategy is attached at Annex A and sets out the long term decisions on capital expenditure and capital investments and explains the approach to the:

- High level overview of:
  - Service objectives relating to investments;
  - Corporate governance arrangements for non-treasury investment activities;

- Overview of how associated risk is managed:
  - Risks associated with treasury investments (treasury management investments) and non-treasury investments (commercial investments);

- Implications for future financial sustainability:
  - Expected income, costs and resulting contribution;
  - Debt related to the activity and the associated interest costs;
  - Payback period (Minimum Revenue Provision (MRP) policy);
  - Other ratio analysis;

1.5 This capital strategy is a key document for the Council and forms part of the authority's integrated revenue, capital, balance sheet and reserves planning and is reported separately from the Treasury Management Strategy Statement. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the non-treasury function where the policy for service and commercial investments are usually associated with capital expenditure in relation to an asset. It should be noted that both treasury and non-treasury investments are reported in the annual Capital Programme Budget, Treasury Management Strategy Statement and Prudential Indicator report and also during the year, quarterly monitoring updates – Quarterly Capital Monitoring and Treasury Management Reports – are provided to Cabinet where treasury and non-treasury investments are reported through Prudential, Borrowing and Investment Indicators.

1.6 The non-treasury investments - due to the expenditure being either for commercial activity or for valid service delivery - do not always give priority to security and liquidity over yield (like treasury investment do). For non-treasury investments, decisions on this type of capital expenditure will either be approved at Cabinet or Council in individual reports or in the capital programme cycle. For clarity this is where the capital programme is set on an annual basis in February prior to the beginning of each financial year or in quarterly monitoring reports. Individual reports will identify risks and the impact on the financial sustainability of these schemes.

1.7 In order to undertake non-treasury investments the appropriate legal powers will be reviewed to ensure they are in place and also reports will include the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources. The Council will use its "power to invest" for the prudent management of the Council's financial affairs.

1.8 The Council has considered the Statutory Guidance on Local Government Investments (3rd Edition) (April 2018) in accordance with Local Government Act 2003 and also the CIPFA Prudential Code (amended 2017) when writing the capital strategy and has considered the corporate governance arrangements under which the Council invests for non-treasury capital expenditure specifically for a commercial purpose; detail of this is included in Annex A at paragraph 7.0.

1.9 Monitoring of all capital expenditure and investments will be included in the capital monitoring and treasury management reports that go to Cabinet and Council on a quarterly basis.

1.10 The chief finance officer – Director of Finance (S151 Officer) - will report on the affordability and risk associated with the capital strategy when capital expenditure is to occur on non-treasury investments and will have access to specialised advice to enable conclusions to be reached, where appropriate.

2.0 LINK TO COUNCIL PRIORITIES:

2.1 The capital strategy enables all the Council Plan priorities to be achieved as it gives a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services; along with an overview of how associated risk is managed and the implications for future financial sustainability to enable the Council Plan priorities to be available in the long term.

3.0 RISK ASSESSMENT:

3.1 There are no risks associated in approving the recommendation.

4.0 FINANCIAL IMPLICATIONS:

4.1 The financial implications are dealt with in the body of the report.

5.0 LEGAL IMPLICATIONS:

5.1 The Capital Strategy is required as stated in the Statutory Guidance on Local Government Investments ((3rd Edition) Issued under section 15(1)(a) of the Local Government Act 2003 and is effective for financial years commencing on or after 1 April 2018. This is also detailed in the updated Prudential Code and Treasury Management Code where The Prudential Code means the statutory code of practice, issued by CIPFA: "The Prudential Code for Capital Finance in Local Authorities, 2017 Edition" and the Treasury Management Code means the statutory code of practice issued by CIPFA: "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition".

5.2 The Council has sought legal advice to confirm under which legal powers it is acquiring commercial properties, Counsel's advice on the legal status of the CIPFA guidance and how the capital strategy and non-treasury commercial activity fit with the guidance. This guidance is available in separate reports provided to Cabinet during 2019/20 and will also be referred to for non-treasury commercial activities and in future reports.

6.0 EQUALITY/DIVERSITY ISSUES

6.1 Equality and Diversity Issues have been considered however there are no direct issues associated with this capital strategy report. It should be noted that some capital schemes will have specific implications for equalities and these implications will be assessed by departments when individual schemes are put forward to be approved in the capital programme every year.

7.0 RECOMMENDATIONS:

7.1 That Cabinet approves and recommends to Council the Capital Strategy 2020/21 attached at Annex A of the report.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE AND COMMERCIAL (S151 OFFICER)

Background papers: 10 Year Capital Programme
Treasury Management Strategy Statement
10 Year Financial Strategy 2020/21 to 2029/30

Author ref: LBW

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Annex A

HAMBLETON
DISTRICT COUNCIL

Capital Strategy 2020/21

Contents

CAPITAL STRATEGY

1.0 Purpose

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential and Treasury Management Codes require local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability. This requirement was first introduced in 2019/20.

1.2 The Capital Strategy is a key document for the Council and forms part of the authority's revenue, capital, balance sheet and reserves planning. It provides

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

1.3 The aim of the capital strategy is to provide an understanding of the Council's overall long-term objectives, governance procedures, allocation and monitoring of capital expenditure and risk appetite.

2.0 Scope

2.1 The Capital Strategy is reported separately from the Treasury Management Strategy Statement; treasury investments will be reported through the Treasury Management Strategy Statement only and non-treasury investments will be reported through the Capital Strategy but also through the Treasury Management Strategy Statement as part of the capital and treasury management Prudential Indicators. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the non-treasury function where the policy for service and commercial investments are usually associated with capital expenditure in relation to an asset. This capital strategy sets out the long term decisions on capital expenditure and capital investments and will explain the approach to:

High level overview:

- Service objectives relating to the investments;
- Corporate governance arrangements for non-treasury investment activities;

Overview of how associated risk is managed:

- Risks associated with treasury investments (treasury management investments) and non-treasury investments (capital expenditure including commercial investments);

Implications for future financial sustainability:

- Expected income, costs and resulting contribution;
- Debt related to non-treasury investment activity and the associated interest costs;
- Payback period (Minimum Revenue Provision (MRP) policy);
- Other ratio analysis

2.2 The non-treasury investments (see definition below) - due to the expenditure being either for commercial activity or for valid service delivery - do not always give priority to security and liquidity over yield (like treasury investment do). For non-treasury investments, decisions on this type of capital expenditure will either be approved at

Cabinet or Council in the Capital programme or in individual reports. Individual reports will identify risks and the impact on the financial sustainability of these schemes.

2.3 All Cabinet reports will ensure that the Council has the appropriate legal powers to undertake such non-treasury investments and will also include the 'proportionality of non-treasury investments' so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

2.4 Monitoring of all investments will be included in the quarterly capital and treasury management monitoring reports which are approved by Cabinet and Council.

2.5 The Chief Finance Officer – Director of Finance and Commercial (S151 Officer) - will report explicitly on the affordability and risk associated with the capital strategy as detailed below and, where appropriate, will have access to specialist advice to enable conclusions to be reached.

A high level overview of how capital expenditure and capital financing contribute to the provision of services and comments on treasury management activity

3.0 Definitions

3.1 The definitions in part 3.0 will assist the readers understanding of the Capital Strategy and covers (i) capital expenditure, (ii) treasury management investment (iii) non-treasury management investment, which includes (iv) service investment and commercial investment.

3.2 Capital Expenditure - is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, roads, vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services.

3.3 The 10 year Capital Programme is the authority's plan of capital works for the next ten years, including details on the funding of the schemes. Included are the projects that relate to 'Service Investment' such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment. Commercial Investment is also included in the 10 year Capital Programme.

3.4 The definition of 'Service Investment' and 'Commercial Investment' which are both types of non-treasury investments, along with the definition of 'Treasury Management Investment', is detailed below.

3.5 **Treasury Management investment** – is activity that covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

3.6 For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Strategy Statement and the Annual Investment Strategy.

3.7 The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These are non- treasury investments and include service and commercial investments.

3.8 **Non-Treasury Management Investment** – is the expenditure made on the purchase of a capital asset and are investments for policy reasons outside normal treasury management activity. It is these non-treasury management investments which are the subject of this Capital Strategy and can further be described as Service Investments or Commercial Investments

3.9 **Service Investments (Non-Treasury Management Investment) -** These are investments of capital expenditure held clearly and explicitly in the course of the provision, and for the purposes of operational services of the Council and projects including economic development schemes, ICT schemes, development of council's assets etc.

3.10 **Commercial investments (Non-Treasury Management Investment)** - These are investments taken mainly for financial reasons. These may include:

- expenditure on investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures such as IT providers or building services providers;
- expenditure to third parties where the aim is to enhance and support the local area whilst obtaining generated income through interest;
- expenditure explicitly with the aim of generating income for the prudent management of the Council's financial affairs e.g. fixed assets which are held primarily for financial benefit, such as investment properties;
- this list is not exhaustive.

4.0 Council Objectives

4.1 Council Priorities - The Council has agreed four corporate priorities and a number of corporate aims and objectives which guide its work and are set out in the Council Plan. Capital expenditure for non-treasury investment (Service and Commercial) projects must be in line with these overall objectives as well as individual service aims and objectives.

4.2 Other Council Considerations - Capital Schemes must also comply with other Council policies, strategies and plans of the Council, Contract Procedure Rules, Financial Regulations as well as complying with legislation, such as the Disability Discrimination Act. Important linking documents for reference are:

- Council Plan;
- Asset Management Strategy;
- Risk Management Guide;
- Individual Service Plans;
- Council's Constitution including Contract Procedure Rules and Financial Regulations;
- Economic Development Strategy;
- Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment strategy;
- Financial strategy;
- Capital 10 year programme;
- Commercial Strategy.

4.3 Asset Management Strategy – it is worth highlighting the Asset Management Strategy which is influential in ensuring that capital expenditure contributes to the enhancement and development of the Council's assets to ensure they are used to best effect for the community and to provide services, whilst also considering surplus asset that can be considered for disposal. Future expenditure in new assets – additions to the capital programme – is key for advancement and improvements for all Council objectives as this capital expenditure will be to invest in assets to support services the Council directly delivers however also to invest in commercial opportunities to generate income which will be used to support all Council services in the future.

4.4 The Asset Management Strategy is currently under development and will be reported to Members for approval in the Autumn 2020.

4.5 Performance Management of Capital schemes – In order to ensure that capital expenditure (non-treasury investment – service and commercial) projects are in line with the Council's overall objectives, individual service aims and capital scheme goals clear measurable outcomes should be developed. These objectives should be documented in a Project Initiations Document (PID). After the scheme has been completed, the outcomes should be evaluated to certify that they have been achieved. Post scheme evaluation reviews should be completed by departments for all schemes; those over £50,000 and also strategic capital projects will be reported to Project Management Board. Reviews should look at the effectiveness of the whole project in terms of service delivery outcomes, design and construction, financing etc. and identify good practice and lessons to be learnt in delivering future projects.

4.6 Performance management of capital schemes is currently under review with the terms or reference of Project Management Board being considered to ensure the Board is in line with the Council Plan priority projects. For 2020/21 Directors will take increased responsibility of schemes in their area and the value (currently £50,000) of projects to be reported to Project Management Board will be clarified in the terms of reference revision. This is aimed at increasing the capacity and resources across the Council for improved project performance management.

5.0 Capital Expenditure Plans and Capital Financing

5.1 Capital Expenditure Plans and the Budget Setting Process – Part of the Capital Strategy importantly notes that consideration is given to the capital budget setting process. This is provided to Cabinet and Full Council on an annual basis in February proceeding the new financial year. In order for the capital programme to be constructed, consideration is given to schemes across the Council by reviewing option appraisals and feasibility studies which contribute to the construction of individual capital schemes initially in the form of a high level overview which is followed by a more detailed Project Initiation Document (PID).

5.2 The capital budget setting processes is designed to ensure the capital programme occurs and contributes to service delivery and commercial investment; this process contains the following items:

- Options Appraisals, Feasibility Studies
- Key Criteria for capital expenditure
- Identifying the need for Capital Expenditure/Investment – Project Initiation Document
- Deciding which schemes are to be put forward
- Prioritisation of schemes put forward
- Member Approval Process

- Monitoring of the Capital Programme Expenditure

5.3 Further detail setting out the capital budget setting process is attached at **Annex A**.

5.4 Budget Setting Process: 10 Year Capital Programme – Capital expenditure for service and commercial non-treasury schemes often occur over many years, depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is called a cash flow projection or budget profiling. The length of the planning period is defined by the financing strategy which is 10 years and also considers the risks faced with reference to the life of the project/assets. For example some schemes may span two or three years (e.g. building an extension to a leisure centre) whereas others may be over much longer timeframes (e.g. Commercial Portfolio investments). It should also be noted that some scheme will complete within one financial year.

5.5 The approval of a rolling 10 year capital programme assists the Council in a number of ways. It assists service managers, allowing them to develop longer term capital plans for direct service delivery and also corporately for commercial portfolio income generating schemes to support future delivery of services. It allows greater flexibility in planning workloads and more certainty for preparation work for future schemes. It matches the time requirement for scheme planning and implementation since capital schemes have a considerable initial development phase. It will also allow greater integration of the revenue budget and capital programme.

5.6 Value for Money and procurement - Prior to expenditure being incurred on any scheme a Value for Money project appraisal occurs for each project and the annual Capital Programme is approved at Council before the commencement of the new financial year. Procurement is the purchase of goods and services, with a strategy being developed to assist with the definition of quality standards and securing provision of the best possible services for local people for a given price. The Council has a Procurement Officer that ensures goods and services provide value for money and to see where efficiency savings can be achieved.

5.7 It is essential that all procurement activities comply with EU procurement directives and adhere to the relevant requirements stipulated in directives. This will be monitored during 2020/21 where the implications of Brexit and the UK leaving the EU will be clarified over time. Guidance on this can be sought from the Procurement team. Procurement must also comply with the Councils policies and regulations such as Contract Procedural Rules and Financial Regulations. The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.

5.8 Budget Setting Process: In Year Opportunities - these can be put forward for entry into the capital programme in a managed way either when the capital programme is reviewed each quarter and gets reported to Cabinet and Council or outside of this timetable as a separate Cabinet report to seek approval at any other meeting in the Cabinet cycle. Any other schemes which arise during the year will only be considered for borrowing or funding from central resources if they meet one or more of the following criteria:

- The location of the property to be purchased will bring added value to the estate;

- The requirement for the asset is an extraordinary service demand or commercial requirement which could not be anticipated in the normal planning processes prior to the beginning of the financial year;
- There is a limited time span when the opportunity is available.

5.9 Requests for approval of revisions to the profiling of scheme expenditure across financial years and the movement of budget between schemes (known as a virement) will be considered by Cabinet at the appropriate quarterly reporting points during the financial year. These will be at July Cabinet when the capital outturn report is considered, at September Cabinet for quarter 1, December Cabinet when the mid-year review quarter 2 is considered from 30 September and at the February Cabinet meeting when quarter 3 is reported and the new capital bids are considered for the 10 Year Capital Programme for the next financial year.

5.10 Capital Monitoring process - Once the Capital programme has been set it is monitored on a quarterly basis through Project Management Board which is then reported to Cabinet and full Council.

5.11 Capital Financing, Funding Strategy and Capital Policies - This section sets out the policies of the Council in relation to financing capital expenditure and investment and covers the following capital funding:

- External Funding
- Capital Receipts
- Revenue Funding
- Reserves
- Invest to Save Schemes
- Prudential/Unsupported Borrowing
- Leasing

5.12 Further detail setting out the capital funding is attached at **Annex B**.

6.0 Corporate governance arrangements - Non-Treasury Investment activities

6.1 Corporate Governance Arrangement **-** The governance structure of the Council is detailed in the Council's Constitution where all capital decisions are report to Cabinet and Council for approval. Non-treasury investment is expenditure on capital for service improvements or commercial opportunities. This section does not include treasury management investment which is covered in the Treasury Management Strategy Statement.

6.2 The Council's Programme Management Board - takes a corporate and group view on the capital programme and investment, where this group receives information from the operational Asset Management Working Group. Programme Management Board will also ensure a corporate and group portfolio perspective to the use and allocation of the Council's capital assets and in planning capital investment on service capital expenditure; for commercial capital investment see below. The Programme Management Board receives reports on proposed capital projects, as well as monitoring reports for those included in the Capital programme on a regular basis. Post scheme evaluation reviews should be completed by departments for all schemes; those over £50,000 and also strategic capital projects will be reported to Project Management Board. The terms of reference of Project Management Board are being reviewed during 2020/21 where the value (currently £50,000) of projects to

be reported to Project Management Board will be clarified with Directors taking responsibility for the lower value projects in their area with the Board focusing on the Council Plan projects. The Programme Management Board is key in finalising the Capital Programme for approval at Cabinet and Council every year prior to the beginning of the financial year.

6.3 Management Team - receives the minutes from Programme Management Board on a monthly basis focusing mainly on service capital schemes and is also instrumental in the decision making and recommendations to Cabinet and Council around capital expenditure for commercial investment opportunities.

6.4 Investment Board - A robust decision making process for making time restricted decisions on service capital expenditure below £5m has been approved by Cabinet and Council to provide this ability to the Chief Executive and Leader. This will occur in conjunction with the Investment Board which currently consists of the Chief Executive, the Deputy Chief Executive, the Finance Director (S.151 Officer) and the Director of Legal and Governance (Monitoring Officer) to provide oversight and will only occur if it not possible to convene Cabinet and service capital expenditure decisions are required in a tight timescale.

6.5 Investment Board and Commercial Activities – the process for making commercial investments has been devised to ensure that appropriate oversight, quality assurance and risk management is in place. In addition to Management Team involvement, this includes the Investment Board (as set out in the Cabinet Report "Commercial Opportunities" on the 9th October 2018).

6.6 Further development of the role of the Investment Board was reported to Cabinet and Council in September 2019 in the Commercial property Portfolio Report. This approved the creation of a Commercial Property Portfolio where the Commercial property Investment Strategy detailed the process for the:

- purchase of properties and
- governance arrangements

6.7 The governance and delegation levels are set out in the Investment Strategy on pages 3 to 6 and take into account that the properties will be acquired and managed through a company structure using investment advisers. Legal advice has been taken with regard to the governance structure and delegation authorities. In addition, it should be noted that all commercial investment opportunities and decisions will be brought to Cabinet and Council for approval.

7.0 Corporate Governance arrangements: Guidance from CIPFA Prudential Code and Statutory Investment Guidance

7.1 CIPFA Prudential Code (amended 2017) and Statutory Guidance on Local Government Investments (3rd Edition) (April 2018) in accordance with Local Government Act 2003 has been taken into account when writing the Capital Strategy and considering the corporate governance arrangements under which the Council invests for non-treasury capital expenditure specifically for a commercial purpose.

7.2 The Council has sought legal advice to confirm under which legal powers it is acquiring commercial properties, Counsel's advice on the legal status of the CIPFA guidance and how the capital strategy and non-treasury commercial activity fit with the guidance. This legal Counsel's advice confirmed that the Council should invest in a commercial property portfolio under s4 of the Local Government Act 2011 and therefore set up separate bodies for this commercial activity. The Council will

continue to also note the Local Government Act 2003 and s12 where it can use its "power to invest" for the prudent management of the Council's financial affairs. When non-treausy management activity is undertaken the Council will be mindful of both legal Acts.

7.3 CIPFA's Prudential Code and the Statutory guidance on Local Government investments state that Council should not "borrow in advance of need". The intent of the "borrowing in advance of need" within the revised English Ministry of Housing, Communities and Local Government Investment Guidance (paragraph 46 of the Guidance and 35 of the Commentary) 2018 relates to the borrowing to fund income generating assets, essentially the commercial agenda. In effect a re-working of the "borrowing to on-lend" argument from the then named Department of Communities and Local Government (DCLG) guidance originally issued on 1 April 2004 and the wide acceptance that this was not legal. The expectation within this revised wording is that borrowing to invest in purely income generating assets is to be discouraged and not undertaken, and activity should be financed by capital. However, the Guidance goes on to state that if this is disregarded, and funded by borrowing; the rationale is to be set out to elected members. This can be contrasted with the CIPFA Prudential Code paragraph 45, 62 (and E16), which allows borrowing in advance of need against the Capital Financing Requirement (CFR) for the current and next two financial years.

7.4 The interpretation of the Code and the Statutory Guidance has varied across organisations. However, a large number of Local Authorities have recently invested in Commercial Property in a bid to generate additional revenue; where some Local Authorities have taken borrowing to do so. This Council will undertake borrowing to support commercial investment with the rationale to Members that due to the reduction in Government Funding it is necessary for the Council to look at all options in order to generate income to support services for the future and it will do so through the commercial property portfolio investment being through separate third party bodies.

7.5 The increased borrowing by Local Authorities from the Public Works Loan Board (PWLB) to fund property investments and the continued ambiguity around what constitutes "borrowing in advance of need" to invest in commercial property for profit also prompted CIPFA to release a statement on the 18th Oct 2018 stating that

- "local authorities *must not* borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed."

It further states that

- "CIPFA considers that where the scale of commercial investments including property are not proportionate to the resources of the authority, that this is unlikely to be consistent with the requirements of the Prudential Code and the Treasury Management Code."

7.6 The Council is mindful of the CIPFA prudential Code and does not propose to borrow more than or in advance of need. The rational that the Council intends to borrow is that the capital expenditure for the commercial investment portfolio will be incorporated into the Council's capital programme where the borrowing of the Council will be looked at in it totality within its Capital Financing Requirement and the appropriate Authorised Borrowing Limit will be set. This can be seen in the Treasury Management Strategy Statement that is approved by Council every February prior to the beginning of the new financial year.

7.7 In addition, in relation to commercial investment and proportionality this is described in the 'associated risk' and 'implications for future financial sustainability' sections of this Capital Strategy.

7.8 The Statutory Guidance on Local Government Investments (3rd edition) sets out the expectations in terms of disclosures where a Local Authority chooses to disregard part of the Prudential Code which includes risk management of any potential income shortfall (Paragraph 47).

- "*Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:*

  - *Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and*
  - *The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing."*

7.9 The 'associated risk' and 'implications for future financial sustainability' section of the Capital Strategy addresses these issues. Also, the Commercial Property Portfolio report was approved by Cabinet and Council in September 2019.

7.10 In addition CIPFA is of the view, as well as is stated in the guidance, that if a local authority invests outside its boundary, using borrowing to support this, in other areas of the UK to generate profit then it may be hard to justify this as it is not for core services to the resident. Therefore in accordance with the Counsel's legal advice the Council has set up separate bodies in order to undertake this investment – of a commercial nature – outside the boundaries of the district under Local Government Act 2001 s4. This enables the Council through the capital programme to provide a loan and equity to these separate third party bodies in line with the CIPFA code and Minimum Revenue Provision guidance.

7.11 Reserves of the Council can also be used to fund the commercial property investment in accordance with the guidance and as the commercial property portfolio is within the capital programme, these reserves (surplus funds) and borrowing will be used to support the entire capital expenditure of the Council. No scheme of the council needs to be looked at in isolation as funding relates to the Council's Capital Financing Requirement as a whole. As long as the Council can clarify and confirm its position on prudence then this is in line with the code. The reserves of the Council are further addressed in the 'risk associated' and 'implications for future financial sustainability' section of this Capital Strategy.

7.12 The Council's view on prudence and its prudent approach to the consideration of its position on the Minimum Revenue Provision is included in the 'implications for future financial sustainability' section of this Capital Strategy at paragraph 12.0 - Treasury Management Strategy Statement - Minimum Revenue provision (MRP) Policy Statement.

7.13 The guidance also suggests a range of indicators should be established and reviewed on a regular basis as part of the Capital Strategy; again this is seen in this Capital Strategy in the following two sections - 'risk associated' and 'implications for future financial sustainability'.

An overview of how associated risk is managed

8.0 Associated Risk

8.1 Risk Management Overview - Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

8.2 The aim of risk management is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

8.3 Risk Appetite and Monitoring - To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk by each scheme as well as for the capital programme as a whole.

8.4 The appetite for risk associated with treasury investments (treasury management investments) is centred around the security, liquidity and yield and is covered in the Treasury Management Strategy Statement. For completeness of this Capital Strategy risks associated with treasury investments is attached at **Annex C**

8.5 The appetite for risk associated with capital expenditure on non-treasury investment schemes can be for service investments and commercial investments.

8.6 When the Capital Programme is produced at the beginning of every financial year, the capital budget setting process – as detailed above – includes the requirement for each capital scheme to write a Project Initiation Document. For capital expenditure on Service Investment this Project Initiation Document includes the risks associated with that scheme; these risks are then captured in each of the Department's Section Service Plans, consolidated in the Corporate Risk Register which are monitored on a quarterly basis being reported to Scrutiny Committed and at least annual an update on risk is provided to Audit Governance and Standards Committee.

8.7 For those capital schemes which are of a commercial nature, and are capital assets held primarily for financial return, these schemes are significant to the Council and in accordance with transparency a separate cabinet report would be written which would include the associated risks. These risks are then also included in the Corporate Risk Register and would be reported to Scrutiny on a quarterly basis, with at least an annual update to Audit Governance and Standards Committee.

8.8 An assessment of risk should therefore be built into every capital project and major risks recorded in the Corporate Risk Register. More information is available in the Risk Management Guide which is approved by Audit Governance and Standards Committee.

8.9 When investing in capital assets held primarily for financial returns, under the CIPFA Prudential Code these are defined as investments and so the key principle of control of risk and optimising returns consistent with the level of risk applies.

8.10 Measures to manage risk - The following measures to manage the risks associated with commercial investment are listed below and the Director of Finance (S151 Officer) will report on the affordability of these risks associated with the capital strategy in the Capital Monitoring and Treasury Management report:

(i) Proportionality - Advice from CIPFA is that borrowing for investment should be proportionate to the Council's overall budget and an explanation provided if it is not:

- a 20% limit is deemed as an appropriate level for the commercial investment finance costs to be set at as a proportion of the budget.

(ii) Reserves Position - The financing cost is deemed to be manageable if income from the investment properties was reduced, due to the Council's balance on reserves being £13.5m as detailed in the Financial strategy for 2020/21:

- the Council's 10 Year Financial Strategy 2019/20 to 2028/29 shows that the end of 10 years the reserve position remains at £10m, with the lowest point of reserves being £8.2m.

(iii) Financial strategy review - It is important to note that a shortfall in net income that is received on the commercial investment will reduce the funding that supports the budget, however it is highly unlikely for the entire net income to be eroded so a smaller proportion of funding would need to be found. The Council's reserves are allocated over 10 years in the financial strategy;

- the 10 year financial strategy would be reviewed along with the budget and reported to Members at the earliest opportunity if there was to be a short fall in income.

(iv) Geographical and Sector Diversity - The commercial investment would be made across several assets in different sectors and geographies to reduce the risks associated with this investment. To ensure a low risk profile it is crucial to invest across the UK and in different sectors. Opportunities are likely to be sought in the industrial, warehousing and office sector as well as considering retail.

- the geographical and Sector diversity of commercial investments to be monitored

(v) Low risk of income shortfall -v- return - The risk profiles of assets vary greatly and this is reflected in the yield of an asset. The higher the yield of a commercial investment the more income it generates as a proportion of its purchase price, however this is associated with higher risks e.g. voids, maintenance costs, income shortfall and/or failing tenants. It is therefore crucial to acquire assets where a balance is struck between an acceptable return on investments and a low risk of income shortfall.

- Any proposed investment in a commercial asset will include the purchaser's costs associated with any acquisition.
- All commercial assets will be sought to be occupied under full repairing and insuring terms.

(vi) Yield - The Council's policies for investment decisions is set out in the Commercial Property Portfolio Investment strategy approved by Cabinet and Council in September 2019. The Investment Strategy ensures that purchases are made as advised by the Investment Managers to avoid a reactive approach to market opportunities. This ensures that any investments considered are in a strategic context. Within the Strategy an overall performance objective is to achieve a level of gross income yield over a certain time period which is targeted to balance risks and returns. Advice from

property investment advisors is taken with regards to this target. The Commercial Property Portfolio Investment strategy also considers thresholds and criteria for acquisitions which will provide safeguards to avoid over exposure to one particular location or sector.

- To achieve an average gross income yield of at least 4.50% over 10 years should be targeted to balance risks and returns or an explanation as to why this is not achievable

(vii) Specialist Investment Advice - A property investment advisor has been appointed to act on behalf of the Council within the company structure for the Commercial Property Portfolio investments. Property investment advisors have established relationships that give them access to off-market opportunities, preferential treatment and the experience to avoid bidding wars; approaches by 'agents' would be motivated by the desire to sell a property and would not take into consideration whether these properties are a good investment for the Council and therefore should be avoided.

- The investment advisor has assisted in the development and implementation of the Acquisition Strategy; the Commercial Property Investment Portfolio – Investment strategy was approved at Cabinet and Council in September 2019
- The investment advisor will produces quarterly updates on the Council's Investment Portfolio, the commercial property market, any management issues emerging as well as any risks.
- The investment advisor will act as the property manager carrying out any management function (Licence for Alterations, landlord inspections, rent reviews etc). The management cost would be taken into account when establishing the gross and net yield of the portfolio.
- The Council has sought advice on the terms required in the tendering of the property investment advisor to ensure strict monitoring for the Council and to be able to hold the advisor to account.
- The investment advisor will be held to account by the Investment Board, Management Team and an update provided to Cabinet and Council in usual quarterly financial monitoring.

(viii) Decision Making and the Investment Board - A robust decision making process for making commercial investments has be devised to ensure that appropriate oversight, quality assurance and risk management is in place. This was approved by Cabinet and Council in September 2019.

- 'Commercial Property Investment Portfolio – Investment strategy' – sets the strategy, clear objectives and governance arrangements.

8.11 Due Diligence - For all capital investments, Service Investments and Commercial Investments, the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered. Due diligence process and procedures will include:

- effective scrutiny of proposed investments by the relevant committee;
- identification of the risk to both the capital sums invested and the returns;
- understanding the extent and nature of any external underwriting of those risks;
- the potential impact on the financial sustainability of the Council if those risks come to fruition;
- identification of the assets being held for security against debt and any prior charges on those assets;
- where necessary further independent and expert advice will be sought.

8.12 Legal and Regulatory Risk - This is the risk that changes in laws or regulation and makes a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Council will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

8.13 The Director of Finance and Commercial (S151 Officer) will report explicitly on the affordability and management of these risks, listed above, associated with the capital strategy which will be included in the quarterly monitoring finance reports - Capital Programme and Treasury Management Strategy Statement - to Cabinet as well as reporting risks through the risk management process to Scrutiny Committee and Audit, Governance and Standards Committee. Where appropriate the Director of Finance and Commercial (S151 Officer) will have access to specialised advice to support conclusions reached and will also ensure that due diligence is undertaken where appropriate.

8.12 The Director of Finance and Commercial (S151 Officer) will ensure that Members are adequately informed and understand the risk exposures being taken on.

Implications for future financial sustainability:

9.0 Financial Sustainability

9.1 The capital strategy, in conjunction with the 10 year capital programme, sets out the long term decisions on capital expenditure and capital investments and ensures that implications for future financial sustainability are transparent.

9.2 The current decisions on capital expenditure and capital investment are considered in the 10 year capital programme covering the financial years 2020/21 to 2029/30. The 10 year capital programme is set within the fiscal parameters of the financial strategy, a key feature of which is to ensure that at the end of the 10 year financial strategy sufficient reserve funds – grants, contribution and capital receipts – remain available. The 10 year financial strategy also includes the finance costs associated with the borrowing required to support the capital programme.

9.3 The 10 year capital programme and the 10 year financial strategy ensure that the Council's capital plans are affordable, sustainable and prudent.

9.4 The future capital plans of the Council out to 30 years are to ensure that capital expenditure continues to invest in

- service assets - to maintain the long term fabric and delivery of services in line with Council Plan objectives to the residents, businesses and communities of Hambleton and
- commercial assets - to support the delivery of services from income generating schemes.

9.5 In order for the Council to ensure future capital plans are financial sustainability the capital strategy indicators are classed into the following four areas and these will be monitored on a quarterly basis in the Capital Programme and Treasury Management reports to Cabinet and Council:

- Expected income, costs and resulting contribution
- Debt related to the activity and the associated interest costs

- Payback period (Minimum Revenue Provision (MRP) policy)
- Other Ratio analysis

10.0 **Expected income, costs and resulting contribution**

10.1 The capital plan for non-treasury investment is split between service capital expenditure and commercial capital expenditure.

- Service capital expenditure is on:
  - (i) the enhancement or creation of assets for the future of the service
  - (ii) loans to third parties which benefit the local area for economic and housing advancement to support the district.
  - (iii) the investment in the Joint Venture Company – Central Northallerton Development Company Ltd – where the purpose is to regenerate the local area and bring new businesses into the high street of Northallerton as well as developing the former HMP Prison site.

- Commercial capital expenditure is on:
  - (i) the commercial property portfolio
  - (ii) Other future income generating investments

10.2 Capital programme expected income, costs and resultant contribution - The ratio of finance costs to net revenue streams prudential indicator also included in the Treasury Management Strategy Statement details the expected Income, costs and resultant contribution; it identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream.

%	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Services	0.18%	3.17%	4.25%	6.89%	6.77%
Commercial activities/non-financial investments	0.00%	0.00%	7.75%	8.41%	8.28%
Total	0.18%	3.17%	12.00%	15.30%	15.05%

10.3 This shows the proportion of finance costs in relation to the Council's total net income position; where the finance costs are the interest on borrowing and the minimum revenue provision set aside to repay that borrowing and where the total net income position is the net funding position of the council – Council tax, business rates, grant funding and income generated. Income generated includes fees and charges as well as commercial income and income generated from the loan to the local housing association. The proportion of finance costs of borrowing in relation to the total net revenue stream (net income position) is deemed appropriate if it is within 20%; the table above clearly shows this is the case.

10.4 Loan to the third party expected income, costs and resultant contribution from the local housing association is detailed in the table below:

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Net Revenue Streams	1,159,595	1,474,760	1,474,760	1,474,760	1,474,760
Finance costs	19,691	223,020	223,020	223,020	223,020
Total	**1,139,904**	**1,251,740**	**1,251,740**	**1,251,740**	**1,251,740**

10.5 The table above details the expected income to be generated from the local housing association using current information available on the interest to be received, and interest rates available to calculate the costs of borrowing.

10.6 Commercial investment expected income, costs and resultant contribution – is included in the budget 2020/21 for the estimate of the £30m Commercial Property Portfolio Investments. It takes into account financing costs – interest rates and Minimum Revenue Provision - assumes a yield of 4.5% of the portfolio where the net yield takes into account all purchaser's and management costs. The position of the Commercial Property Portfolio will be clarified during 2020/21 as the Investment Manager, in accordance with the Investment Strategy, has 18 months to identify appropriate opportunities when they become available and the Council successfully bids for these.

10.7 The type of acquisitions that the Council would consider, are likely to have 5 yearly rent reviews linked to the Retail Price Index (RPI). The timing of rent reviews, the staggered purchase of properties and varying yields will result in the income profile being identified for the Council during 2020/21 and be finalised in 2021/22. All purchases will be in accordance with the Investment Strategy as approved by Cabinet and Council in September 2019.

11.0 Debt related to the activity and the associated interest costs

11.1 Debt related to non-treasury investment activity and the associated interest costs – is illustrated using the table from the Treasury Management Strategy Statement which details the capital expenditure, financing costs, net financing need for the year and the related percentage of total net financing need:

Commercial activities / non-financial investments £m	**2018/19 Actual**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Capital Expenditure	-	15,000,000	15,000,000	-	-
Financing costs	-	-	-	-	-
Net financing need for the year	-	15,000,000	15,000,000	0	0
Commercial activities percentage of total net financing need	**0%**	**83.10%**	**50.08%**	**0%**	**0%**

11.2 The table above highlights:

- Net financing need for the year - In 2019/20 and 2021/22 it highlights the need for borrowing to occur to support the acquisition of property for the £30 million commercial property investment portfolio.
- Finance costs - are charged in relation to the minimum revenue provision policy (see paragraph 12.0).
- Commercial activities net financing need as a percentage of total net financing need – in 2019/20 this is 83.10% which highlights that there is no significant borrowing on the Service Capital Expenditure plans of the Council This is positive as it means that capital receipts and other funding sources are continue to fund the rest of the Council's capital programme.

12.0 Payback period (Minimum Revenue Provision (MRP) Policy Statement)

12.1 The payback period is the length of time over which it is acceptable to the Council to repay debt. Debt occurs from the borrowing taken to support the Council's expenditure on capital projects in the capital programme. Under Local Government Act 2003 guidance is issued on the payback period of borrowing which is called the Minimum Revenue Provision where it is a requirement for Full Council to approve a Minimum Revenue Provision (MRP) Statement in advance of each year. Recently in light of non-treasury activity - commercial investments – this guidance has been updated from 1 April 2018. .

12.2 The Minimum Revenue Provision Statement is included in the Treasury Management Strategy Statement but also in this capital strategy due to its relevance and is detailed below.

12.3 It is a statutory requirement that the Council reports on the Minimum Revenue Position and explains this policy. The Minimum Revenue Provision Policy describes that the Council is required to pay off an element of the accumulated General Fund capital spend each year, the Capital Financing Requirement (CFR) through a revenue charge known as the Minimum Revenue Provision (MRP). The Council is also allowed to undertake additional voluntary payments if required. This is known as the Voluntary Revenue Provision (VRP).

12.4 This Council in 2020/21 will have a Capital Financing Requirement of £86,073,196 to support the total capital programme and this is the potential amount of borrowing that may be required in 2020/21.

12.5 Ministry of Housing, Communities and Local Government (MHCLG) regulations have been issued which require the Full Council to approve a Minimum Revenue Provision (MRP) Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following Minimum Revenue Provision Statement which includes four different approaches for:

1. Capital expenditure on supported and unsupported borrowing
2. Commercial Investment Property portfolio
3. Loan to Third parties
4. Voluntary Revenue Provision

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

- **Based on Capital Financing Requirement** (CFR) – Minimum Revenue Provision (MRP) will be based on the Capital Financing Requirement. This

option provides for an approximate 4% reduction in the borrowing need (Capital Financing Requirement) each year.

12.7 From 1 April 2008 for all unsupported borrowing (including Private Finance Initiative and finance leases) the Minimum Revenue Provision policy will be*:*

- **Asset Life Method** – Minimum Revenue Provision will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life. There are two main methods that will be considered to achieve this either the equal instalment method or the Annuity method. The estimated life of the asset would usually not exceed the useful life of 50 years but consideration will be given to exceed this in the following two scenarios:
  - an appropriately qualified professional advisor's opinion is that an asset will deliver service functionality for more than 50 years then the use the life suggested by its professional advisor will be used
  - for a lease or PFI asset, where the length of the lease/PFI contract exceeds 50 years, the length of the lease/PFI contract will be used

12.8 In using the Asset Life Method for the prudent provision for the Minimum Revenue Provision the following can be noted:

- There are **two methods of calculation** and the Council reserves the right to select the most appropriate method, depending on the type of project:
  - **Equal instalment** which normally generates a series of equal annual amounts over the estimated life of the asset, where there are equal instalments of interest and principle charged
  - **annuity method** which has the advantage of linking Minimum Revenue Provision to the flow of benefits from an asset where the benefits are expected to increase in later years. It is attractive in connection with projects promoting regeneration or schemes where revenues will increase over time.

- **Freehold land** cannot properly have a life attributed to it, so it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.

- **Timing of the Minimum Revenue Provision** - Provision for debt will normally commence in the financial year following the one in which the expenditure is incurred, however in the case of the provision of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This "MRP holiday" would be perhaps 2 or 3 years in the case of major projects, or possibly longer for some complex infrastructure schemes; this could make projects more affordable

12.9 In addition, where repayments are included in annual Private Finance Initiative schemes or finance leases then this will be applied as the Minimum Revenue Provision (MRP).

12.10 For capital expenditure that will be incurred specifically in relation to the commercial Property Investment portfolio a different approach will be taken to the minimum revenue provision. The capital expenditure occurs through the company structure where a loan is provided directly to the third party subsidiary company – Hambleton

property Ltd - from the Council and Equity is provided to the Holding Company Ltd which then provides this equity to the subsidiary. Therefore, no MRP is charged on the loan to the third party in the Council's account as when the third party – Hambleton Property Ltd – sells the Investment Property a capital receipts will be realised and this funding will be used to repay the loan to the Council, so decreasing the Capital Financing requirement. No loan repayment is required in relation to the company structure from the third party Subsidiary to the Council.

12.11 In addition in line with accounting standard IFRS 9, an annual impairment review will occur of the third party subsidiary Investment property to ensure that HDC will be repaid the loan amount in full, if this looks like this will not occur then an expert valuer will review the position and if the valuer confirms that the market shows a short term position and that in the future it is expected that the Investment Property will again increase in value then no minimum revenue provision will be charged. If however the expert valuer believes that the value of the Investment Property has fallen then a Voluntary Revenue Provision will be charged so that the Council is making a prudent provision. If in the event when the subsidiary sells the Investment property and the loan is fully repaid then the Voluntary Revenue Provision can be reversed if this is not required. If Minimum Revenue Provision had been charged (instead of VRP) then this would not have been able to be reversed.

12.12 For the Equity portion, the Minimum Revenue Provision policy is to ensure it is charged over the life of the contract with the third party subsidiary company for the Investment Property – so Minimum Revenue Provision on the acquisition of share capital is over 20 years. In addition the Minimum Revenue Provision charged in relation to the Equity will not be on the full Equity because when the third party subsidiary sells the Investment Property, the value should be equal or greater than the value when the Investment property was purchased; the MRP on the equity will be charged on the expenses that occur when the property is purchased (the costs greater than the purchase value) and also will take into account the expected expenditure that will occur on the sale of the property and any other associated costs. The Council is therefore being prudent within the Minimum Revenue Provision Policy as described. This will be reviewed on an annual basis.

12.13 It is important to note that with regards to the loan from the Council to the third party subsidiary company that a charge (legal agreement) will be taken by the Council on the Property that the third party subsidiary purchases so that the Council has the first charge over the property and therefore as long as the value of the property in future is equal or greater than the purchase value then no Minimum Revenue provision or loan repayment from the subsidiary is required. Voluntary Revenue Provision could be charged as described in the Policy above if it appears the value of the property will fall.

12.14 The Capital Financing Requirement for the loan to the local Housing Association at the beginning of 2020/21 is £35,000,000. The agreement with the local Housing Association states they will make bullet repayments to the Council at years 5, 10, 15, 20 and 25. The bullet repayments made throughout the life of the loan will be set aside by the Council when received to ensure that prudent provision is made for regular repayment. These regular bullet points will be earmarked and used as the Minimum Revenue Provision that the Council needs to make on a regular basis to reduce the Capital Financing Requirement. Therefore, for the £35,000,000 loaned to the local Housing Association by the first time the MRP charge will be made to the revenue account to reduce the level of Capital Financing Requirement will be 2020/21 and at regular intervals thereafter. It should be noted that if no borrowing has been taken to support the capital financing requirement and instead the Council's surplus funds have been used then no MRP charge will be made.

12.15 Finally Voluntary Revenue Provision is where the Council believes it is prudent to set aside an increased amount to repay the Capital Financing Requirement during the year. Any charges made over the statutory Minimum Revenue Provision i.e. voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, the cumulative overpayment made each year must be disclosed. Up until the 31 March 2019 the total Voluntary Revenue Provision overpayments were £0m. This Council has never overpaid minimum revenue provision so this does not apply; however it is noted here for future reference if ever needed.

13.0 Other Ratio Analysis

13.1 Proportionality and Reserves Position - A particular aspect of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance is proportionality, in effect gearing. Proportionality is a difficult concept and is related to the level of investment asset activity, the risks and how much an individual authority can afford to lose. The General Fund Balance or other usable unallocated available reserves provide a base of the total amount that can be put at risk. Below are worst case scenario examples to show the capital and revenue exposure to the Council and the associated potential loss compared to the reserves of the Council and the budget position.

13.2 If the Commercial Property Investment portfolio invests £30m as approved by Cabinet and Council in September 2019:

- and £8.0m or 20% of this capital is lost then in accordance with the financial strategy over the next 10 year forecast there are sufficient resources to support this. The lowest forecast of reserves is £8.2m in 2026/27.
- the total finance costs in relation to the net budget (for the whole capital programme) are 12% in 2020/21, 15.3% in 2021/22 and 15.05% in 2022/21. It is worth noting that the commercial Property Portfolio finance costs in relation to net budget is 7.75% 2020/21, 8.41% 2021/22, 8.28% in 2022/23. A proportion of 20% finance cost to net budget is deemed prudent.

13.3 The intent of proportionality within the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance seems to point to what degree the example activity above is reasonable against the available resources. It is a balance of risk and what is deemed to be excessive risk. For this Council with estimated reserves of between £8.2m and £10.0m at the end of the 10 year strategy, expected losses may be politically unpleasant, but could be contained within the available resources.

13.4 Asset Cover for Debt (loan to value cover) - Indebtedness (Capital Financing requirement- CFR) and external debt in relation to commercial assets, compared against the asset valuations may provide some support, for example £10m of debt with assets valued at £12m may suggest asset cover with acceptable risk; assets valued at £8m may suggest disproportionate risk. A higher debt/indebtedness of commercial activity compared with its valuation, may prompt consideration within the Minimum Revenue Provision and additional Voluntary Revenue Provision being required.

13.5 At this Council when the commercial investment at £30m proceeds, the Capital Financing requirement is £30m and if it is financed using borrowing then the extremal

debt would be £30m. The Minimum Revenue Provision Policy describes the amount of funding to be set aside in relation to this debt when considering the commercial property portfolio is invested via separate bodies. The Minimum Revenue Provision to be set aside is described in paragraphs 12.10 to 12.13 above. When the assets have been purchased the Council will be able to monitor the debt position of this commercial activity against the value. This will enable the Council to judge whether further minimum revenue provision is needed.

13.6 Valuations against cost – In accordance with the guidance it is necessary to report to Members on valuations against cost. In line with the detail provided above for Asset Cover for debt, when the capital expenditure has been invested in the commercial activity the information will be available to report valuations against cost and at this time further explanation will be provided in the quarterly capital and treasury management monitoring reports.

13.7 Service Capital Financing Requirement (CFR) against Service CFR and Commercial CFR - may also provide an indicator of the proportion of the Council's commercial investment activities compared to the whole of the Council's capital expenditure. So for example, a service CFR £6m against a combined service CFR and commercial investment CFR of £12m indicates that the proportion of the commercial investment is half of the overall CFR. This can be a useful measure as it raises awareness to the amount of capital expenditure invested in commercial investment activity. This commercial investment activity is required to generate income to support the delivery of council services on an ongoing basis. When the capital expenditure has been invested in the commercial activity the information will be available to provide and update in the quarterly capital and treasury management monitoring reports.

13.8 At the Council the table below shows the proportion of the Council's non treasury investment - commercial activities - in relation to the total capital financing requirement which is 26.68% in 2019/20 and 17.34% in 2020/21:

Proportion of commercial CFR against the Total CFR	**2018/19** **Actual**	**2019/20** **Estimate**	**2020/21** **Estimate**	**2021/22** **Estimate**	**2022/23** **Estimate**
Capital Financing Requirement (CFR)	**26,395,196**	**38,169,604**	**56,220,421**	**86,073,196**	**85,915,896**
CFR - Services	**11,774,408**	**3,050,817**	**14,929,455**	**(52,000)**	**(53,600)**
CFR – Commercial activities	**0**	**15,000,000**	**14,923,320**	**(105,300)**	**(108,450)**
Total CFR	**38,169,604**	**56,220,421**	**86,073,196**	**85,915,896**	**85,753,846**
Proportion	**0.00%**	**26.68%**	**17.34%**	**0%**	**0%**

14.0 Other Considerations

14.1 Partnerships and Relationships with other Organisations - wherever possible and subject to the usual risk assessments, services should look to continue to work on a partnership basis and continually look for areas where joint projects can be implemented.

14.2 Fraud, Error and Corruption - financial losses could occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the Council's policies and procedures. At the core of the Council is 'our values' and these instil through the organisation principles and appropriate behaviour. This is supported by the Employee Code of Conduct and detailed policies such as Anti-Fraud and Corruption, Anti Money Laundering, Whistle Blowing and Declaration of Interests.

ANNEX A

Capital Expenditure Plans and the Budget Setting Process

The following capital budget setting processes are designed to ensure the Council Capital Expenditure plans follow this process:

i. Key Criteria for capital expenditure
ii. Identifying the need for Capital Expenditure/Investment
iii. Deciding which Schemes are to be put forward
iv. Prioritisation of Schemes put forward
v. Member Approval Process
vi. Options Appraisals, Feasibility Studies and Project Management process
vii. Monitoring of the Capital Programme Expenditure

Key Criteria

For any particular budget setting year, the process starts in the Spring of the preceding year with sessions held with the operational Asset Management Working Group to discuss the key criteria by which scheme proposals will be considered. These may include:

- *How does the scheme contribute to the Councils Plan and Targets?*
- *Is this scheme a statutory requirement?*
- *Does the scheme generate any on-going revenue savings?*
- *What are the costs and revenue implications*
- Does the scheme contribute to an improved service provision/ reduction in risks?

Identifying the need for Capital Expenditure/Investment

The need for a capital scheme may be identified by a Service through one or more of the following processes.

- Services annually prepare Service Plans for the improvement of their areas (ensuring that their objectives meet the overall aims and objectives of the Council); these can identify any capital investment needed to meet future service demands. This is a good method to identifying and planning for service's capital requirements;
- Condition Surveys prepared by Design & Maintenance in consultation with Premises Mangers and notified through Asset Management Working Group.
- Economic Development Strategy identifies needs in the local area and reports to the Project Management Board making future capital schemes known;
- Reviews and external Inspections may also identify areas that need capital Investment from Design & Maintenance and Premises Managers
- The need to respond to Government initiatives and new laws and regulations;
- The need to generate a revenue income to contribute to the funding of services.

These capital plans are raised and discussed at Asset Management Working Group and Project Management Board.

Chief Officers and Portfolio Holders must identify their key capital priorities for the relevant service planning period by the end of summer each year.

Deciding which Schemes are to be put forward

Once the list of key capital priorities has been identified, in preparing capital project proposals consideration should been given to the key criteria identified earlier in the year. Additionally, consideration should been given to:

<u>Prudence:</u>

- Recognition of the capacity in the organisation to deliver such a programme;
- Recognition of the knowledge and skills available and whether these are commensurate with the appetite for risk;

- Recognition of the future vision of the authority;
- The approach to commercial activities including ensuring effective due diligence, expert advice and scrutiny, defining the risk appetite and considerations of proportionality in respect of overall resources;
- The approach to treasury management and the management of risk as set out in the Treasury Management Strategy.

Affordability:

- Revenue impact of the proposals on the 10 year financial strategy;
- The borrowing position of the Council, projections of external debt and the use of internal borrowing to support capital expenditure;
- The authorised limit and operational boundary for the following year;
- Whether schemes are profiled to the appropriate financial year.

Sustainability:

- A long-term view of capital expenditure plans, where long term is defined by the financing strategy and 10 year capital programme and consideration is given to risks faced with reference to the life of the project/assets;
- Provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy;
- An overview of asset management planning including maintenance requirements and planned disposals.
- All bids are produced in line with the appropriate timetable with consideration for the financial information contained within the bid.
- Project Management Board is briefed and understand the service need and the budget consequences, both revenue and capital, of completing the scheme.
- Possible sources of funding are considered for each of the proposed capital
- Schemes - each project will be considered in terms of revenue funding to cover the operational running costs of the asset and any borrowing repayment costs, and also how the asset will be funded in terms of capital expenditure.
- The proportionality of the proposals as a whole will then be considered in respect of overall resources and longer term sustainability and risk. The Director of Finance (Section 151 Officer) will take an overall view on the prudence, affordability and sustainability of the overall borrowing level if all bids are accepted.
- Project management board will then consider the bids from a corporate priority perspective.

Prioritisation of Schemes put forward

A formalised corporate system for prioritising capital projects has been adopted by the Council. This has resulted in:

- Identifying essential capital investment where needed for the 10 year capital programme;
- Utilising feasibility studies where needed;
- The ability to enter items into the capital programme in a managed way through firstly the annual Capital budget process and secondly when the capital programme is reviewed on a quarterly basis to Cabinet and council;
- Being mindful of the current level of the programme in relation to capacity to deliver, the relevant financing of schemes and any other running costs.

Member Approval Process

- In late summer, service managers and premises managers will list high level requests for capital projects for their Service to Project Management Board. Consideration will be given and funding allocated. More detailed Project Initiation Documents will be drawn up and finalised in late autumn.
- The overall capital programme is then reported to Cabinet which in turn make their recommendations to Council; this occurs in February before the beginning of each financial year.
- If the capital programme were to be scrutinised then Scrutiny committee can request this to occur and state the aspect that they require further information.
- Members approve the overall borrowing limit – Authorise Borrowing Limit - at the budget meeting in February each year as part of the Treasury Management Report. The taking of loans then becomes an operational decision for the Chief Finance Officer who will decide on the basis of the level of reserves and money market position whether borrowing should be met internally from the Capital Reserve/Capital Receipts or whether to enter into external borrowing.
- Once the Council has approved the capital programme, then expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding.
- Whether capital projects are funded from grant, contributions, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.
- Following approval by Council, the capital programme expenditure is then monitored on a quarterly basis to Cabinet and council.

Options Appraisal, Feasibility Studies and Project Management Process

- As part of the process of producing a list of potential schemes for the capital programme service managers and premises managers should complete option appraisals to determine the most cost effective and best service delivery options.
- The option appraisals will include the amount of capital expenditure required, the associated ongoing revenue implications and if there are any savings that result or income generating opportunities.
- Some projects may require a feasibility study. As part of any feasibility study an assessment of the maintenance costs per annum averaged over the whole life of the asset should be calculated. As a minimum this will be based on the RICS (Royal Institute of Chartered Surveyors) recommended benchmark figure prevailing at the time.

For major, complex and strategic projects, as part of setting the capital programme for new schemes and additions, the Council's project management documentation process is followed:

Stage One – Project Initiation

- the initial scheme is submitted to Management Team or Project Management Board which identifies the purpose, the proposed position, financial implications, and issues for consideration.

Stage Two – Project Development

- At this stage is the preparation of the Project Initiation Document occurs and is signed off for the direction of travel, noting the project risks and the initial projection of investment required to realise the project;
- The risk register, regular meetings, communications plans, design of the project etc will all be formed

Stage Three – Project Implementation

- The project commences, the procurement process is followed, the main contractors are appointed and the project is underway.
- The progress of the project is monitored on a regular basis in line with the requirements of the scheme

Stage Four – Project Review

- A final evaluation would be undertaken considering whether the project has met its initial objectives and reviewing all lessons learned.
- Further resources to progress any of schemes will need to be approved separately by Cabinet and/or at quarterly reporting to Cabinet and / or as part of the annual review of the capital programme and would be subject to the relevant resources being available

Monitoring of the Capital Programme Expenditure

Once the Capital programme has been set it is monitored on a quarterly basis through Project Management Board which is then reported to Cabinet and full Council.

ANNEX B

Capital Financing / Funding

External Funding

- Services must seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government. However, services must underwrite any cost overruns on externally funded schemes. If services bid for external funding for schemes and say at tender or during construction or procurement, costs exceed the available funding, then services must fund any shortfall from their existing resources (either revenue or capital) or raise the matter at Programme Management Board.
- Prior to submitting bids for grant funding, an assessment of the risk of a contract price increase, associated with market conditions or abnormal building plan demands attached to some grants, must be completed to estimate the likelihood of additional funding being needed. This is carried out between the service manager or premises manager and Design & Maintenance.
- In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing service budgets or raise the matter at Programme Management Board prior to submitting any bid for funding.

Capital Receipts

- A capital receipt is an amount of money received from the sale of an asset. They cannot be spent on revenue items.
- Programme Management Board, along with the Director of Finance and Commercial (S151 Officer), will review all of the Council's property annually against the aims and objectives the Council Plan and Asset Management Strategy.
- The general policy is that any capital receipts are pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from loans, as permitted by the regulations.

Revenue and Reserve Funding

- Services may use their revenue budgets to fund capital expenditure. In addition specific reserves – economic development fund or the computer fund - which are internal funds set up to finance capital expenditure as an alternative to external borrowing can be used
- The Director of the service and the Director of Finance and Commercial (S151 Officer) along with Project Management Board will take an overview and decide the most appropriate way of funding capital expenditure

Prudential/Unsupported Borrowing

- Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.
- Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. The costs of borrowing must be affordable and the borrowing repayment and interest charges on the loan must be included in the Council revenue budget; it must also be factored into the medium term financial strategy accordingly.
- The Director of Finance and Commercial (S151 Officer) will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested.

The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

- The view of the Director of Finance and Commercial (S151 Officer) will be fed into the corporate bidding process so that, should the borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing using the corporate prioritisation system.
- The Director of Finance and Commercial (S151 Officer) will also determine whether the borrowing should be from internal resources such as reserves or whether to enter into external borrowing.

Invest to Save Schemes

- Occasionally projects arise for which services require assistance with meeting the set up costs of projects which may bring long term service delivery improvements and/or cost savings. The initial set up costs may be of a revenue or capital nature. Assistance for these schemes must be considered on an individual basis by the Project Management Board then the Cabinet (at quarterly reporting time) with consideration to the Council's overall priorities and resources.
- For 'invest to save' schemes assistance may be given for initial set up costs, but it is expected that in the longer term these schemes will produce savings and/or additional income that will as a minimum fund any additional operational or borrowing costs. If the additional savings/income does not cover the additional costs incurred, then the service will be required to fund the gap from their existing budgets (i.e. they will underwrite the savings/income).

Leasing

- The Director of Finance and Commercial (S151 Officer) may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Director of Finance and Commercial (S151 Officer) must be certain that leasing provides the best value for money method of funding the scheme.
- Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

ANNEX C

An overview of risks associated with treasury investment

Credit Risk
This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot pay us our investment returns or complete the agreed contract. Accordingly, the Council will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

Liquidity Risk
This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will 0ccur as early as possible.

Interest Rate Risk
This is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Exchange Rate Risk
This is the risk that exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Where relevant, exchange rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

Inflation Risk
This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2020

Subject: **REVENUE BUDGET 2020/21**

All Wards

Portfolio Holder for Finance and Economic Development: Councillor P R Wilkinson

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1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of the report is to present at a strategic level the revenue budget proposals for the next financial year 2020/21.

1.2 The summary estimates in this report are shown at Annex A and present the 2018/19 Actual; 2019/20 Original Budget; 2019/20 Latest Approved and 2020/21 Estimate Budget. Commentary on the budget proposal is also contained in Annex A. Theme budgets are shown at Annex B.

2.0 BUDGET 2020/21:

2.1 The original estimate for 2020/21 shows a net budget of £9,269,670. This is £183,800 higher than the budget set in 2019/20 which was £9,085,870.

2.2 The increase in the budget mainly relates to an increase in salaries across the organisation, where it is estimated that the 'national employer' offer across all local authorities will increase by 2.5% in 2020/21. Other increases to the 2020/21 expenditure budget have occurred in line with inflation and the overall net budget increase is estimated at 2%. These other increases are not apparent in the overall net budget rise from 2019/20 because these costs are negated by estimated increases in planning fees and income to be generated from projects as detailed in the Council Plan. The review of the plans to generate other sources of income, for the future sustainability of the financial strategy, is ongoing.

2.3 Considering the financial climate in which the Council is operating with continued cost pressures facing local government and the tight funding position, from an overall reduction of Government grants in the last five years, this budget position is affordable.

2.4 The increase in the overall net budget is necessary for the Council to continue to provide efficient and effective services for the community. Financial austerity claimed by the Government to be over in September 2019 in the Chancellors statement has seen the grant funding from the Government's Settlement Funding Assessment to Local Authorities (a combination of the level of revenue support grant and rural service delivery grant received along with the expected business rates to be achieved) increased overall by 1.6%. This is the first increase in the Settlement Funding Assessment in over a decade. Over the last five years however, since the start of the four year funding assessment in 2016/17, the cut in the Settlement Funding Assessment has been 30.1% in cash terms, with the increase in 2020/21 changing the direction of travel but not replacing the massive cuts that have occurred in local government funding.

2.5 Council has been able to maintain the budget around the same level for the last five years due to the income it has generated from the loan to the local housing association and the charging for green waste services. In addition, in 2020/21 the estimation of income to be generated from the development of the Treadmills site in Northallerton and the investment to be made in the Commercial Investment Portfolio allows the Council to sustain and improve the delivery of service.

3.0 FINANCIAL STRATEGY:

3.1 The revenue budget estimate for 2020/21 is within the financial constraints of the Financial Strategy included previously on this Cabinet agenda.

3.2 The ten year Financial Strategy makes a number of assumptions around the falling level of grant support to be received by the Council, the level of business rates to be achieved, the level of Council Tax to be collected and the amount of income that needs to be generated. These assumptions and the revenue budget result in a balanced position for 2020/21.

4.0 RISK ASSESSMENT:

4.1 The key financial risks and associated implications for the Revenue Budget 2020/21 are detailed below, a score of high, medium or low has been given to the likelihood of each risk occurring and the impact of risk on the Financial Strategy should it occur:-

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative action	Net Prob	Net Imp	Net Total
The funding settlement beyond 2020/21 is unknown due to clarity awaited from Government on the Business Rates Reform Scheme	Loss of funding	3	5	15	Continually search for other income generating options	3	5	15
Under the Business Rate Retention scheme failure to meet the target for business rate collection set by Government represents a cost to the Council. Also, under this scheme the Government has transferred the risk of business rate no payment to the Council	Loss of income	3	5	15	Monitor business growth and reduction through collection rates. Act as an enabler with partners on economic development initiatives	3	5	15
The continued forecast low Bank Base Rate of 0.75% for 2020/21 impacts on the Council's ability to generate investment income from balances	Loss of income	4	3	12	Look for other investment opportunities	4	3	12
The Council is unable to generate income on an ongoing basis	Loss of Income	3	5	15	The Council is proactive in looking at new alternative income streams	3	5	15

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative action	Net Prob	Net Imp	Net Total
Third Party Housing Association does not continue to require funding after current loan maturity dates reached	Loss of Income	4	3	12	Further discuss with the Housing Association in regards to their future funding requirement.	4	3	12

5.0 FINANCIAL IMPLICATIONS:

5.1 The financial implications are dealt with in the body of the report.

6.0 LEGAL IMPLICATIONS:

6.1 It is a legal requirement under the Local Government Finance Act 1992 to set a balanced budget and monitor the financial position throughout the year.

7.0 EQUALITY/DIVERSITY ISSUES:

7.1 There are no specific equality implications to this report.

8.0 RECOMMENDATIONS:

8.1 It is recommended that Cabinet approves and recommends to Council the revenue budget for 2020/21 at £9,269,670.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE AND COMMERCIAL (S151 OFFICER)

Background papers: Budget Setting papers 2020/21
Financial Strategy 2020/21

Author ref: SC

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ANNEX A

REVENUE BUDGET – ESTIMATES 2020/21

1.0 ESTIMATES 2020/21

1.1 The table below details the revenue budget for 2020/21 at a strategic level.

	2018/19 Actual £	2019/20 Original £	2019/20 Latest £	2020/21 Estimate £
Economy & Planning	1,422,113	1,664,120	1,679,890	1,969,330
Environment	3,708,803	3,987,600	3,784,660	4,051,070
Finance & Commercial	(19,345)	91,260	260,780	23,330
Law & Governance	1,125,722	1,358,090	1,330,270	1,351,240
Leisure & Communities	1,502,685	1,856,880	1,895,170	1,726,100
Internal Drainage Boards	120,678	127,920	135,100	148,600
Net Budget	**7,860,656**	**9,085,870**	**9,085,870**	**9,269,670**

1.2 The budget has been prepared in accordance with the Council's priorities reflected in the Council Plan.

1.3 A detailed schedule of service's budgets that constitute the total budget in each Department is shown at Annex B.

2.0 FINANCIAL STRATEGY:

2.1 The Council's latest Financial Strategy has been included previously on this Cabinet agenda. The revenue budget for 2020/21 is within the financial constraints set by the Financial Strategy.

2.2 A number of assumptions which underpin the Financial Strategy have been applied in setting the 2020/21 revenue budget, these include:-

- All fees & Charges have been reviewed for 2020/21, with an overall increase of 5.91%. This takes into consideration the nature of the services, the impact on commercial viability and local economic circumstances;

- A provision of 2.5% has been included for the nationally pay award.

- Contracts and Service Level Agreements have been increased by the appropriate rate of Consumer Price Index where applicable. Energy and vehicle fuel prices continue to be volatile, although advantage has been taken of favourable rates in relation to gas and electric and contracts locked into. Prudent provision has been included for changes in vehicle fuel for 2020/21.

- The Business Rate Retention Scheme has been estimated at a decrease of 4.9% in 2020/21 compared to 2019/20 due to the change in the scheme from the 75% North and West Yorkshire business rates pilot to the 50% North and West Yorkshire Pool as set out by Government. Further information is available in the Financial Strategy 2020/21 to 2029/30 Report on this agenda. The scheme enables the Council to keep a proportion of the business rates collected locally which provides an incentive for all Councils to grow their local economy.

- A Council Tax increase of £5 on a Band D equivalent property has been determined; Council tax did not rise for five years up to 2016/17 as a result of Central Government offering a Council Tax Freeze Grant; however due to the estimated future reduction in local government funding and the uncertainty of the business rate retention reform this is no longer viable.

- The Income generating revenue funding stream introduced from 2020/21 where by the Council needs to look towards alternative revenue generating opportunities to be able to continue to deliver current services; this includes the development of the Treadmills site in Northallerton and the Commercial Property Investment portfolio.

- Government grants will reduce where by revenue support grant and rural services delivery grant will cease to exist after the end of 2020/21. It has been assumed that over the life of the 10 year strategy the new homes bonus grant will finish in 2023/24 in line with the comments in the Chancellor's Autumn statement in September 2019 that the scheme has not promoted growth in house building as it had hoped.

- The revenue budget assumes that the Bank of England base rate will remain low at 0.75% throughout 2020/21 with the possibility of rising in Q2 2021 to 1%. However, it is likely that the base rate will remain low for the foreseeable future as the Monetary Policy Committee is unlikely to dampen growth prospects, (i.e. by raising Bank Rate), during the negotiations with the EU around trade. This will impact on the ability of the Council to generate any significant investment income from balances.

2.3 Within the Financial Strategy it has been estimated that the Council loses 35.9% of its funding (revenue support grant, rural service delivery grant, new home bonus) from the Government's four year funding settlement since 2016/17. In 2020/21 there is a loss of 2.57%.

2.4 All these factors have been taken into account to balance the revenue budget and limit the Council's reliance on the use of reserves. The assumptions in the Financial Strategy on the level of income generated by all these streams are made on a prudent basis.

3.0 RESERVES AND BALANCES:

3.1 As the revenue budget has been set within the constraints of the Financial Strategy, the assumed level of revenue reserves and balances at 31 March 2020 remain consistent with the Financial Strategy.

3.2 A summary of anticipated revenue reserves and balances at 31 March 2021 is set out below:-

Reserves	**Balance £**
Council Tax-payers	6,789,266
Repairs and Renewals Fund	758,799
Computer Fund	794,900
Grants Fund	43,134
One Off Fund	1,388,953
Economic Development Fund	1,137,847
General Fund Working Balance	2,000,000
TOTAL	**12,912,899**

3.3 This reserve position is reliant on the income streams detailed in paragraph 2.3.

4.0 FINANCIAL OUTLOOK:

4.1 Although the revenue budget 2020/21 and Financial Strategy represent a robust position, the Council is not immune to the continued significant economic and financial challenges facing the whole of the public sector in the UK.

4.2 The Local Government Finance Settlement 2020/21 announced on 19 December 2019 was broadly in line with what was expected. Overall Core Spending Power nationally is expected to increase by 6.3% in 2020/21, the highest increase in over a decade. Core Spending Power nationally has been increasing in cash terms since 2017/18, reflecting the lower cuts in Settlement Funding Assessment and the increases in council tax (particularly adult social care precept). This is the first real-terms increase in Core Spending Power nationally since 2010.

4.3 The Core Spending Power is the overall impact on local authorities of changes in funding and locally-raised council tax. It reflects the impact of changes on local authority budgets. For this District Council the Core Spending Power includes:

- Settlement Funding Assessment – revenue support grant, rural services delivery grant and business rate;
- New homes bonus;
- Council Tax

4.4 The Core Spending Power for the Council in 2020/21 has increased by 0.71% from 2019/20 due to the increase in Council tax and the increase in the number of properties in the district. The settlement Funding Assessment (revenue support grant, rural services grant and business rates) along with new homes bonus grant from Government has decreased by 2.57%.

4.4 The announcement in December 2019 on rural services delivery grant and new homes bonus for the one year 2020/21 finance settlement significantly benefits this Council for this further year as the amount received is the same as 2019/20. No changes were made to the new homes bonus calculation where the Government continued to provide financial grant for those local authorities supporting housing growth, although the Government has confirmed that this grant is likely to no longer exist after 2023/24.

4.5 The ongoing reductions in Government grant support increases the Council's reliance on other funding streams such as:

- The proposed business rates retention reform system; this is still in consultation with the Government and is not expected to significantly change the current financial position of the Council where business rates will still be redistributed across local government and increased burdens will be transferred from central government to ensure the overall position is fiscally neutral. Information on the proposed future business rates scheme along with the fair funding review (the Review of Relative Needs and Resources of Councils and the potential change in the way funding is allocated) is expected during 2020/21 for implementation in 2021/22.
- Increasing Council Tax by £5 on a Band D equivalent property; an alternative option in 2019/20 was to increase Council Tax by 2%, but due to this Council charging the third lowest council tax in the UK the financial strategy is based on a £5 rise.

- Reviewing Fees and Charges across Council services;

- Investment income and loan interest; delivered from investing the Council's surplus funds through treasury management activities or by through the Capital Programme where investment can be made in their parties. In these instances 'due diligence' and risk management are key.

- Revenue income generated from commercial and partnering opportunities.

4.6 In addition to the reduction in grant funding and reliance on other funding streams it is also necessary to consider the volatility of inflation, changes in energy prices, reduced investment interest rates, the economic environment and the implications of BREXIT.

4.7 The shortfall in Government funding and increase in costs presents a challenging financial outlook for the Council. The Council continues to review plans to generate income and ensure services are provided in a cost effective way enabling the Council to continue to preserve its front-line services for the community at the present time.

4.8 Due to the Council's revenue reserve balances it is in a better financial position than most to deal with these financial challenges. It should be noted that as a result of the Local Government Finance Settlement over the 10 year financial strategy the revenue reserve balances continue to fall significantly. Therefore, to maintain the current reserve position it is vital that other income generating opportunities are identified and efforts must be made in setting future budgets to, where possible, preserve these reserve levels and protect the Council's financial position.

4.9 In light of the reliance on the ability of the Council to generate funding, a new revenue stream has been established in the financial strategy starting in 2020/21 to realise income where this funding will support the ongoing financial viability of the Council.

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Annex B

ESTIMATES SUMMARY
2020/21
Summary of Expenditure/(Income)

2018/19 Actuals	Details	2019/20 Original	2019/20 Latest	2020/21 Estimate
£		£		£
1,422,113	Economy & Planning	1,664,120	1,679,890	1,969,330
3,708,803	Environment	3,987,600	3,784,660	4,051,070
(19,345)	Finance & Commercial	91,260	260,780	23,330
1,125,722	Law & Governance	1,358,090	1,330,270	1,351,240
1,502,685	Leisure & Communities	1,856,880	1,895,170	1,726,100
7,739,978		8,957,950	8,950,770	9,121,070
120,678	Internal Drainage Boards	127,920	135,100	148,600
7,860,656	**TOTAL**	9,085,870	9,085,870	9,269,670

Annex B

Economy & Planning

SUMMARY

2018/19 Actuals	Page Ref	Details	2019/20 Original	2019/20 Latest	2020/21 Estimate
£			£	£	£
25,302	EP01	Community Development (HDC)	34,120	34,120	47,660
(225,342)	EP02	Workspace Management	(235,870)	(290,200)	(234,150)
26,978	EP03	Business Grants	28,320	28,320	28,550
10,420	EP04	Environmental Grants & Initiatives	16,590	16,590	15,980
303,726	EP05	Business & Economy	350,890	415,110	474,770
38,607	EP06	Grants & Subscriptions	38,560	28,560	28,600
(4,529)	EP07	Information Management	-	(620)	-
257,580	EP08	Development Management	361,240	357,030	352,300
312,334	EP09	Planning Policy	281,720	285,850	298,690
6,174	EP010	Registered Social Landlords	6,400	6,400	10,340
21,274	EP11	Land Charges	(500)	(500)	49,180
(21,152)	EP12	Housing Services	-	(33,040)	(3,750)
59,913	EP13	Housing Strategy	92,230	92,350	83,190
94,691	EP14	Housing Standards	91,530	91,530	108,150
248,720	EP15	Homelessness	300,030	300,030	313,390
148,451	EP16	Private Sector Housing Renewal	149,610	149,610	140,130
58,653	EP17	Housing Advice	51,180	51,180	51,690
69,831	EP18	Building Control Partnership	98,070	88,070	108,620
(9,518)	EP19	Communications	-	59,500	-
-	EP20	Treadmills	-	-	95,990
1,422,113		**NET EXPENDITURE**	1,664,120	1,679,890	1,969,330

Annex B

Environment

SUMMARY

2018/19 Actuals	Page Ref	Details	2019/20 Original	2019/20 Latest	2020/21 Estimate
£			£	£	£
56,577	E01	Emergency Planning	53,500	56,240	63,780
(36,453)	E02	Operational Services	-	5,150	-
820,446	E03	Street Cleansing	881,850	875,750	866,060
1,664,097	E04	Waste Collection	1,827,840	1,742,620	1,903,750
500,476	E05	Recycling	427,630	334,400	430,980
(36,803)	E06	Environmental Health	-	(12,210)	-
171,463	E07	Food Safety	230,700	228,300	226,950
30,320	E08	Pest Control	44,510	40,790	37,530
127,293	E09	Public Health	135,220	134,050	104,420
91,708	E10	Environmental Health Licensing	46,410	39,590	64,500
231,230	E11	Pollution Reduction	257,530	255,010	249,730
88,449	E12	Health & Safety at Work	82,410	84,970	103,370
3,708,803		**NET EXPENDITURE**	3,987,600	3,784,660	4,051,070

Annex B

Finance & Commercial

SUMMARY

2018/19 Actuals	Page Ref	Details	2019/20 Original	2019/20 Latest	2020/21 Estimate
£			£	£	£
(17,811)	F01	Customer Services	-	(60,580)	-
10	F02	Public Transport	1,540	1,540	10
(3,717)	F04	Payroll	-	2,550	-
(10,020)	F05	Business Support	-	7,590	-
(1,193,195)	F06	Interest & Investment Income	(1,233,900)	(1,223,420)	(1,284,110)
622,193	F07	Corporate Management	585,540	585,540	623,280
58,522	F08	Non Distributed Costs	65,710	65,330	65,880
(57,175)	F09	Corporate Management & Support	-	(26,430)	-
(29,000)	F10	Resources	(115,000)	10,710	(115,000)
399,342	F11	Housing Benefits	395,330	544,290	470,290
327,149	F12	Local Tax Collection	392,040	407,970	370,390
(34,000)	F13	Revenues & Benefits Services	-	(38,640)	-
(6,236)	F14	Reprographics	-	(8,350)	-
(37,548)	F15	ICT Services	-	(6,710)	-
(37,859)	F16	Commercialisation	-	(610)	(107,410)
(19,345)		**NET EXPENDITURE**	91,260	260,780	23,330

Annex B

Law & Governance

SUMMARY

2018/19 Actuals	Page Ref	Details	2019/20 Original	2019/20 Latest	2020/21 Estimate
£			£	£	£
982,840	LG01	Democratic Services	1,130,630	1,139,770	1,123,270
(2,843)	LG02	Committee Services	-	(470)	-
206,869	LG03	Elections	209,700	208,500	216,100
(40,053)	LG04	Personnel	-	6,770	-
(13,237)	LG05	Legal Services	-	(40,470)	-
(7,854)	LG06	Licensing	17,760	16,170	11,870
1,125,722		**NET EXPENDITURE**	1,358,090	1,330,270	1,351,240

Annex B

Leisure & Communities

SUMMARY

2018/19 Actuals	Page Ref	Details	2019/20 Original	2019/20 Latest	2020/21 Estimate
£			£	£	£
50,245	LC01	CCTV	54,800	58,540	65,170
70,552	LC02	Community Safety (HDC)	74,750	84,730	79,920
21,770	LC03	Community Safety (Partnership)	23,760	23,420	20,630
15,845	LC04	Arts Development	24,590	24,590	23,670
15,052	LC05	Lifestyles	11,430	11,430	14,260
12,293	LC06	Hambleton Forum	6,620	6,920	7,660
216,991	LC07	Sports Development & Community Recreation	224,750	224,730	180,590
183,673	LC08	Northallerton Leisure Centre	285,540	171,950	176,980
383,840	LC09	Stokesley Leisure Centre	356,690	407,190	420,270
307,810	LC10	Bedale Leisure Centre	292,380	321,020	324,610
255,616	LC11	Thirsk Swimming Pool	214,090	227,320	245,670
13,990	LC12	Thirsk All Weather Pitch	11,030	10,260	17,160
30,088	LC13	Galtres Centre	30,840	30,840	31,760
38,457	LC14	Open Spaces	57,990	60,270	59,670
40,089	LC15	Leisure Services	36,530	54,520	74,270
(24,132)	LC16	Facilities Unit	-	1,150	-
(16,062)	LC17	Design & Maintenance	208,760	175,990	219,760
97,300	LC18	Administrative Buildings	75,860	78,650	44,770
6,746	LC19	Defences against Flooding	4,630	4,630	4,900
16,776	LC20	Cemeteries & Closed Churchyards	12,560	12,560	12,870
(451,234)	LC21	Off Street Parking	(394,990)	(330,500)	(532,180)
276,173	LC22	Footway Lighting	283,220	277,370	283,540
(69,520)	LC23	Market Undertakings	(57,830)	(53,640)	(55,880)
2,788	LC24	Depots	8,650	1,040	(4,120)
2,109	LC25	Visitor Centres	2,730	2,770	2,890
5,430	LC26	World of James Herriot	7,500	7,420	7,260
1,502,685		**NET EXPENDITURE**	1,856,880	1,895,170	1,726,100

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2020

Subject: **COUNCIL TAX 2020/21**

All Wards

Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

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1.0 PURPOSE AND BACKGROUND:

1.1 This report considers the level of Council Tax for 2020/21 and the policy on reserves. It also provides Members with details of the Council's other sources of funding - grant received from Government in the Local Government finance settlement, business rates and the requirement for the Council to generate income from a variety of projects. For 2020/21, there are no new business rates pilots and therefore the North and West Yorkshire 75% pilot pool which was for one year in 2019/20 will finish 31 March 2020. As a result, the Government regulations governing business rates retention will revert back to the 50% business rates pool scheme where the application submitted by North and West Yorkshire Pool on 25 October 2019 was successful. The business rates model to be adopted ensures that authorities are no worse off in this North and West Yorkshire Pool, than they would be in a pre-2019/20 pilot pool.

1.2 The current Financial Strategy assumes that the Council will increase Council Tax by £5 on a Band D equivalent property in 2020/21 to £114.48. Council tax did not rise for five years up to 2016/17 however, since the start of the four year funding assessment in 2016/17, the cut in the Settlement Funding Assessment (a combination of the level of revenue support grant and rural service delivery grant received along with the expected business rates to be achieved) has been 30.1% in cash terms. The increase in 2020/21 estimated at 1.6% has changed the direction of travel but has not replaced the massive cuts that have occurred in local government funding which therefore makes any further council tax freezes no longer viable.

1.3 Detailed budget proposals have been considered previously on this Cabinet agenda. The Revenue Budget for 2020/21 is £9,269,670; an increase of £183,800 from 2019/20 where the increase in the budget mainly relates to an increase in salaries across the organisation. It is estimated that the 'national employer' offer across all local authorities will increase by 2.5% in 2020/21. Other increases to the 2020/21 expenditure budget have occurred in line with inflation and the overall net budget increase is estimated at 2%. These other increases are not apparent in the overall net budget rise from 2019/20 because these costs are negated by estimated increases in planning fees and income to be generated from projects as detailed in the Council Plan. The review of the plans to generate other sources of income, for the future sustainability of the financial strategy, is ongoing.

1.4 The Council Tax, the implications of the Local Government finance settlement, the Business Rate Retention scheme, the generation of income from new revenue streams and the budget for 2020/21 are discussed further in Annex A.

1.5 The Council has a specific statutory duty to consult with the Business Community regarding expenditure plans for the coming financial year. A budget consultation was undertaken between September and December 2019 where aims to balance the various needs of the Council and all its stakeholders, to produce a soundly based financial plan for the future, were reviewed. A presentation on the budget occurred at the beginning of December where businesses from across the District were invited to comment. The budget consultation process 2020/21 is set against the background of the Council's Financial

Strategy, which, in turn, uses information from the Government's Local Government finance settlement, the business rates retention scheme and locally generated income. The results of the consultation exercises have been considered as part of the budget process and are attached in Annex B.

1.6 A policy on the Balances and Reserves of the Council is set out in Annex C for Members' approval.

2.0 RISK ASSESSMENT:

2.1 There are no major risks associated with the recommendations in this report.

3.0 RECOMMENDATIONS:

3.1 That Cabinet recommends to Council:-

(1) That it be noted that on 15 January 2020 Hambleton District Council calculated the Council Tax Base for 2020/21:-

(a) for the whole Council area as 37,256.42 [Item T in the formula in Section 31B of the Local Government Finance Act 1992, as amended (the "Act")]; and

(b) for dwellings in those parts of its area to which a Parish precept relates as in the attached Annex A(1).

(2) That the Council has calculated the Council Tax requirement for the Council's own purposes for 2020/21 (excluding Parish precepts) as £4,265,115

(3) That the following amounts be calculated for the year 2020/21 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992:-

(a) **District/Parish Gross Expenditure**

£ 48,006,456.82 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act taking into account all precepts issued to it by Parish Councils

(b) **District/Parish Gross Income (including Government Grants, use of Reserves and Collection Fund Surpluses etc)**

£ 42,187,844.99 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act

(c) **District/Parish Net Expenditure**

£ 5,818,611.83 being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the Council in accordance with Section 31A(4) of the Act, as its Council Tax requirement for the year (Item R in the formula in Section 31B of the Act)

(d) **Basic Amount of Tax (including average Parish Precepts)**

£ 156.1774 being the amount at 3(c) above (Item R) all divided by Item T (1(a) above), calculated by the Council in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year (including Parish precepts)

(e) **Parish Precepts**

£ 1,553,496.87 being the aggregate of all special items (Parish precepts) referred to in Section 34(1) of the Act (as per Annex 'A')

(f) **Basic Amount of Tax (Unparished Areas)**

£114.4800 being the amount at 3(d) above less the result given by dividing the amount at 4(e) above by Item T (1(a) above), calculated by the Council in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates

(4) **Major Precepting Authorities** That it be noted that the North Yorkshire County Council, the North Yorkshire Fire and Rescue Authority and the Police and Crime Commissioner North Yorkshire will issue precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwellings in the Council's area and this will be as indicated in the table below and at Annex A(1).

(5) **Council Tax Bands for All Councils**

Figures for North Yorkshire County Council, North Yorkshire Fire and Rescue Authority and Police and Crime Commissioner North Yorkshire are yet to be determined and will be reported at Council on 25 February 2020.

That the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the aggregate amounts in the tables below as the amounts of Council Tax for 2020/21 for each part of its area and for each of the categories of the dwellings.

Hambleton District Council

Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
76.32	89.04	101.76	114.48	139.92	165.36	190.80	228.96

North Yorkshire County Council – excluding Adult Social Care

Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
-	-	-	-	-	-	-	-

North Yorkshire County Council – Adult Social Care

Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
-	-	-	-	-	-	-	-

North Yorkshire Fire and Rescue Authority

Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
-	-	-	-	-	-	-	-

Police and Crime Commissioner North Yorkshire

Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
-	-	-	-	-	-	-	-

(6) **Excessive Council Tax**
That the Council determines that the Council's basic amount of Council Tax for 2020/24 (at 3(f) above) is not excessive in accordance with the principles approved under Section 52ZB of the Local Government Finance Act 1992.

(7) The appropriate amount is transferred to the Council Taxpayers Reserve to support the decision at (3) above.

(8) The policy on Balances and Reserves at Annex C is approved.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE AND COMMERCIAL (s151 Officer)

Background papers: None

Author ref: LBW

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Director of Finance and Commercial (s151)
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ANNEX A

COUNCIL TAX 2020/21

1.0 INTRODUCTION AND BACKGROUND:

1.1 This paper considers the level of Council Tax for 2020/21 in the light of the Revenue Budget for 2020/21 and Financial Strategy, as well as the Government's funding settlement, the business rates retention scheme, income generating revenue streams and proposals for an increase in Council Tax of £5 on a Band D equivalent property.

2.0 REVENUE ESTIMATE AND FINANCIAL STRATEGY:

2.1 The approved revenue estimate for 2020/21 is a net total of £9,269,670 which is an increase of £183,800 on the 2019/20 budget at £9,085,870. The increase in the budget mainly relates to an increase in salaries across the organisation. It is estimated that the 'national employer' offer across all local authorities will increase by 2.5% in 2020/21. Other increases to the 2020/21 expenditure budget have occurred in line with inflation and the overall net budget increase is estimated at 2%. These other increases are not apparent in the overall net budget rise from 2019/20 because these costs are negated by estimated increases in planning fees and income to be generated from projects as detailed in the Council Plan. The review of the plans to generate other sources of income, for the future sustainability of the financial strategy, is ongoing.

2.2 The Financial Strategy demonstrates that the budget of £9,269,670 is affordable and allows the Council to set a balanced budget.

2.3 The affordability of this budget is estimated on assumptions made in the Financial Strategy around the level of grant funding detailed in the Government's funding settlement, the business rates retention scheme and the ability of the Council to generate income from new opportunities, along with the level of Council Tax and Business Rates forecast for 2020/21.

3.0 LOCAL GOVERNMENT FUNDING SETTLEMENT AND BUSINESS RATES:

3.1 Financial austerity claimed by the Government to be over in September 2019 in the Chancellors statement has seen the grant funding from the Government's Settlement Funding Assessment to Local Authorities (a combination of the level of revenue support grant and rural service delivery grant received along with the expected business rates to be achieved) increased overall by 1.6%. This is the first increase in the Settlement Funding Assessment in over a decade. Over the last five years however, since the start of the four year funding assessment in 2016/17, the cut in the Settlement Funding Assessment has been 30.1% in cash terms, with the increase in 2020/21 changing the direction of travel but not replacing the massive cuts that have occurred in local government funding.

3.2 The Local Government Finance Settlement 2020/21 announced on 19 December 2019 was broadly in line with what was expected. Overall Core Spending Power nationally is expected to increase by 6.3% in 2020/21, the highest increase in over a decade. Core Spending Power nationally has been increasing in cash terms since 2017/18, reflecting the lower cuts in Settlement Funding Assessment and the increases in council tax (particularly adult social care precept). This is the first real-terms increase in Core Spending Power nationally since 2010.

3.3 The Core Spending Power is the overall impact on local authorities of changes in funding and locally-raised council tax. It reflects the impact of changes on local authority budgets. For this District Council the Core Spending Power includes:

- Settlement Funding Assessment – revenue support grant, rural services delivery grant and business rate;
- New homes bonus;
- Council Tax

3.4 The Core Spending Power for the Council in 2020/21 has increased by 0.71% from 2019/20 due to the increase in Council tax and the increase in the number of properties in the district. The settlement Funding Assessment (revenue support grant, rural services grant and business rates) along with new homes bonus grant from Government has decreased by 2.57%.

3.5 The detail of the Local government Finance Settlement is set out below and in summary the Council would be guaranteed to receive £4,438,3335 of funding in 2019/20 from a combination of revenue support grant, rural services delivery grant, new homes bonus grant and retained business rates

3.6 With regards to Business rates, the Government did not provide a progress update within the Settlement on the Fair Funding Review (the Review of Relative Needs and Resources of Councils and the potential change in the way funding is allocated) or further business rates retention. With implementation scheduled for April 2021, it is crucial for local authority financial planning that the Government provides early exemplifications and consults on proposals for reform and provides certainty to councils as soon as possible, preferably by the time of the final 2020/21 local government finance settlement (December 2020).

3.7 The Government did announce that there are no new business rates pilots in 2020/21 and therefore the North and West Yorkshire 75% pilot pool which was for one year in 2019/20 will finish 31 March 2020. As a result, these pilot pools return to the rules governing 50% retention where this Council has been a member of the North Yorkshire 50% pool from 2013/14 to 2018/19 which included Scarborough, Ryedale, Richmondshire, Craven and North Yorkshire.

3.8 For 2020/21, there is a further one year position where it remains beneficial for the Council to continue to be a member of a business rate pool. The Government confirmed on 19 December 2019 that the application of the North and West Yorkshire Pool submitted on 25 October 2019 was successful and therefore the Council is included in this pool where the pool reverts back to 50%. This is a hybrid pool model with all the North and West Yorkshire authorities, excluding Selby, where the two predecessor Pools distribute the funding retained in their own areas, within their own region, using the methodologies they each applied in 2018/19. This model ensures that authorities are no worse off in this North and West Yorkshire Pool, than they would be in a pre-2019/20 pilot pool.

3.9 The table below shows the Funding Settlement and compares this to the funding to be received from the 50% Business Rate Retention Scheme pool. This highlights that the funding to be received from the 50% pool is increased from business rates growth which the Council, along with other local authorities in the pool, will be able to keep. This is explained further in the paragraphs below.

Detailed Government Funding Settlement and 50% Business Rate Retention Scheme

	Funding Settlement 2020/21 £	**50% Business Rate Retention Scheme Pilot 2020/21 £**
Hambleton District Council share of Business rates Target at 80%	11,164,034	11,529,028
Fixed tariff paid to the Government	-9,076,412	-9,076,412
Hambleton District Council Retained Business	2,087,622	2,452,616

Rates Target		
Revenue Support Grant	90,969	90,969
Rural Services Delivery Grant	628,843	628,843
New Homes Bonus	1,630,901	1,630,901
Total Funding Settlement	**4,438,335**	**4,803,329**

3.10 The 50% Business Rate Retention Scheme pool funding mechanism has with it inherent risk for Local Government, which the Council has accepted having been a member of the 50% pool scheme with other North Yorkshire councils between 2013/14 and 2018/19. The year 2019/20 saw North and West Yorkshire piloting business rates for the Government's 75% scheme which provided increased funding again, however this scheme ceases at the end of 31 March 2020 as the Government no longer offered this pilot. Principally the risk, in the 50% pool scheme, is if the Business Rate target set for the Council by Government is not met then the reduction in Business Rates will reduce the local share received, not the amounts paid to Central Government. Any loss of income will be met 80% by Hambleton District Council, 18% by North Yorkshire County Council and 2% by North Yorkshire Fire and Rescue Authority.

3.11 An aspect of the regulations in respect of the Business Rate Retention Scheme is that councils set the Business Rates base figure and reported it to government in the preceding year. The Government then uses this every year to set the Business Rates Collection Target for the Council as seen in the table above. The total Business Rates Base figure for 2020/21 is £28,822,571; these Business Rates are then contributed to the 50% Business Rate pool scheme, along with the other councils collected business rates. This is then distributed out on a calculated basis so all Council's in the pilot benefit.

3.12 The funding of the 2020/21 budget has been set using the actual Retained Business Rate target from the NNDR1 return, completed on 31 January 2020, rather than that presented in the table above because the NNDR 1 figure is a timelier and more accurate reflection of the amount the Council is likely to receive and is connected to the expected business rate growth from the pool; this is estimated at £3,668,073.

3.10 Under the 50% Business Rate Retention Scheme pool, Business Rate appeals lodged by organisations in Hambleton also have a direct impact on the Council. Therefore when estimating appeals this figure can have a favourable or adverse effect on the business rate income collated in a year; this is taken into account when estimating the amount of business arte funding to be received in any one year. In addition, for 2020/21 there is also a collection fund deficit of £4,259.

3.13 Increases in Business Rate levels are set each year by Central Government where the business rate multiplier is uprated using the September Consumer prices Index (CPI) rather than Retail Prices Index (RPI) from April 2018 onwards. Therefore the provisional rate poundage to be applied in 2020/21 has been announced as follows:-

- Non-Domestic Rate 51.2p
- Small Business Rate 49.9p

3.14 Finally, it should be noted that further changes to business rates were made in 2017/18 where on 1 April 2017 all businesses were revalued and at the same time the Valuation Office Agency changed the methodology in which appeals against business rate valuations were made. The transition for these measurers will be supported by the Government, however the introduction of the Check, Challenge and Appeal process from 1 April 2018 from businesses querying the rateable value of their business and the limited number of appeals currently being processed continues to have an effect of uncertainty on business rate estimates. For 2020/21, a combination of all these factors, in the previous paragraphs,

will result in the Council potentially getting lower business rate growth and income tan estimated; the position will be monitored.

4.0 INCOME GENERATING REVENUE STREAMS:

4.1 In 2020/21, due to the reduction of Government grants, the Council needs to look for other sources of funding to support the future revenue budget and the ongoing financial sustainability of the 10 year financial strategy. Therefore to continue to support services the financial strategy details from 2020/21 that external income will be generated. This includes the net income to be generated from the development of the Treadmills site in Northallerton and the Commercial Property Investment portfolio and this is within the 2020/21 budget. Further work is ongoing to generate to support Council services and plans are in place to ensure the Council's future level of reserves are maintained.

5.0 COUNCIL TAX:

Council Tax Base

5.1 Each year the Council is required to formally set the Council Tax Base and advise the appropriate precepting bodies. This must be done by 15 January each year.

5.2 The Council Tax Base for 2020/21 is set at 37,256.42

Council Tax Levels

5.3 If the assumptions made above are current then the 2020/21 Council Tax at Band D will be:-

2019/20 £		**2019/20 £**	**Assumption**
1,180.18	County Council (NYCC)	TBC	TBC increase
68.67	NYCC – Adult Social Care	TBC	TBC increase
232.82	Police & Crime Commissioner	TBC	TBC increase
69.20	Fire Authority	TBC	TBC increase
40.77	Parishes (average)	41.70	Parishes (average)
109.48	Hambleton	114.48	£5 increase
1,695.68			

6.0 IMPACT ON RESERVES:

6.1 The impact on the Council's Council Taxpayers Reserve from the revenue budget, funding settlement, business rates and Council Tax decision is set out in the table below:-

	£
Revenue Budget:	9,269,670
Financed by:-	
New Homes Bonus Grant	1,630,901
Revenue Support Grant	90,969
Rural Service Delivery Grant	628,843
Retained Business Rates	3,668,073
Collection Fund (Deficit) / Surplus	(17,441)
Council Tax	4,265,115
Contribution (to) /from Reserves	(996,790)
Balanced budget	**0**

6.2 It is estimated that the Council will make a contribution to reserves – specifically the Council Taxpayers reserve - of £996,790 to balance the 2020/21 budget and ensure the financial stainability of the Council's reserve for the foreseeable future.

7.0 RISK ASSESSMENT:

7.1 There are no major risks associated with this report.

8.0 LOCAL GOVERNMENT ACT 2003:

8.1 Section 25 of the Local Government Act 2003 requires the Council's S151 Officer (Chief Financial Officer) to report to Members on the robustness of the budget and the adequacy of reserves held by the Council.

8.2 The approved Revenue Budget 2020/21 has now been prepared by the Council's budget holders and has been subjected to challenge by the Finance staff and Chief Officers. The S151 Officer therefore concludes that the budgets included in this Council Tax setting process are robust and have been prepared in accordance with proper practices.

8.3 The reserves of the Council are set out in Annex C to this report. The S151 Officer considers the level of reserves adequate to maintain the Council's current revenue expenditure and enable its longer term objectives as set out in the Financial Strategy. Annex C sets out the policy on Reserves and Balances and supports these comments. Annex C also makes recommendations on the level of Balances and Reserves.

HAMBLETON DISTRICT COUNCIL

CABINET 11 FEBRUARY 2020

Parish Precepts and Council Tax Amounts 2020/21

		Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
1) COUNTY COUNCIL PRECEPT	TBC								
		£	£	£	£	£	£	£	£
COUNCIL TAX BASE	37,256.42								
	£								
BAND D EQUIVALENT	TBC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2) COUNTY COUNCIL PRECEPT - ADULT SOCIAL CARE	TBC								
COUNCIL TAX BASE	37,256.42								
	£								
BAND D EQUIVALENT	TBC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2) FIRE AUTHORITY PRECEPT	TBC								
COUNCIL TAX BASE	37,256.42								
	£								
BAND D EQUIVALENT	TBC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3) POLICE & CRIME COMMISSIONER	TBC								
COUNCIL TAX BASE	37,256.42								
	£								
BAND D EQUIVALENT	TBC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4) HAMBLETON DISTRICT COUNCIL		Council Tax Base-							

		Band D		£
TOTAL PARISH PRECEPTS	1,553,496.87	37,256.42	Band D Amount for Parish (Average)	41.70
HAMBLETON DC PRECEPT	4,265,114.96	37,256.42	Band D Amount for Hambleton without Special Area Expenses (Parishes)	114.48
TOTAL HAMBLETON AREA	5,818,611.83	37,256.42	Band D Amount for Hambleton DC (Average)	156.18

5) OTHER INFORMATION	**Band A**	**Band B**	**Band C**	**Band D**	**Band E**	**Band F**	**Band G**	**Band H**
	£	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Average Hambleton DC Council Tax (ie excluding NYCC, Fire and Police & Crime Commissioner Precepts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Amount of Tax - Unparished Areas (ie HDC, NYCC, Fire and Police Precepts)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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ANNEX B

BUDGET CONSULTATION 2020/21 - SUMMARY

The Budget Consultation was carried out between 13th September 2019 and 25th October 2019 and was well-publicised to all residents and businesses across Hambleton District. In addition, a meeting was arranged on 4 December 2019 in accordance with the statutory requirement to enable all businesses to be able to comment during the budget consultation.

A total of 298 responses were received in relation to the 2020/21 budget. This was an increase of 119 (66.48%) compared to the previous year of 179 responses for 2019/20. The largest majority responded from the Northallerton area (31.9%) and the least from the Stokesley area (7.4%). The bulk of respondents were residents (91.2%), rather than businesses (3.9%) or other organisations (2.3%), and the 45-59 years age group attracted the majority of responses (39.3%).

The key comments from the consultation are detailed below.

Question 4

Question four lists fourteen service areas and respondents were asked to indicate their opinions of the services. The Waste Service, incorporating household waste collection and kerbside recycling rated well with over 80% being satisfied with the service, however the green waste collection has seen a significant reduction in satisfaction compared to the previous year. Street Cleanliness had a slight decrease compared to the previous year to a 48% satisfaction rate. Leisure Services received a rating of 39% of satisfaction with comments including improvements to cleanliness, updating of Stokesley and Thirsk facilities and pricing levels being high. Community Safety received a 28% satisfaction rating with a high number of responses commenting on the increasing levels of anti-social behaviours within the district.
Public Car Parking continues to receive the highest level of dissatisfaction with 42% which is an increase from 36.9% in 2019/20 with numerous comments in regards to the enforcement of the car parks and the charging. This is followed by Street Cleanliness at 37%, Community Safety 33% and Planning at 26%.

Question 5

Question five asked respondents to rank how the Council should try to balance the budget. The most popular response in this consultation was an increase in fees and charges. It was clear that the respondents were against providing fewer services. The Council continues to be committed to providing good services to its residents, has undertaken a review of fees and charges during the setting of the 2020/21 budget and due to the Council continuing to have the third lowest council tax in the country it is therefore to increase the Council Tax by £5 on a band D equivalent property in 2020/21.

Question 6

Question six asked respondents which services should have their funding increased. Community Safety was the most popular with 47% of respondents with a preference of increasing the funding in this area. Street Cleansing also proved to be a high priority as 40% of those responded thought the service should have increased funding. Benefits was the most common answer to have funding decreased 34% closely followed by Economic Development at 29% and Planning at 27%.

Question 7

Question seven showed that 66% of respondents were either very satisfied or satisfied with the way the council provides services. 15% were dissatisfied, whilst the remaining respondents either didn't reply or had no opinion. 83% of respondents were either very satisfied or satisfied with the local area as a place to live and 10% were either dissatisfied or very dissatisfied.

Question 8

Question eight also provided numerous suggestions on how the Council could increase income, reduce costs or make savings to support the budget. These were considered when setting the 2020/21 budget.

HAMBLETON DISTRICT COUNCIL

Budget Consultation 2020/21

13 September – 25 October 2019
6 paper and 292 online responses received = 298 total

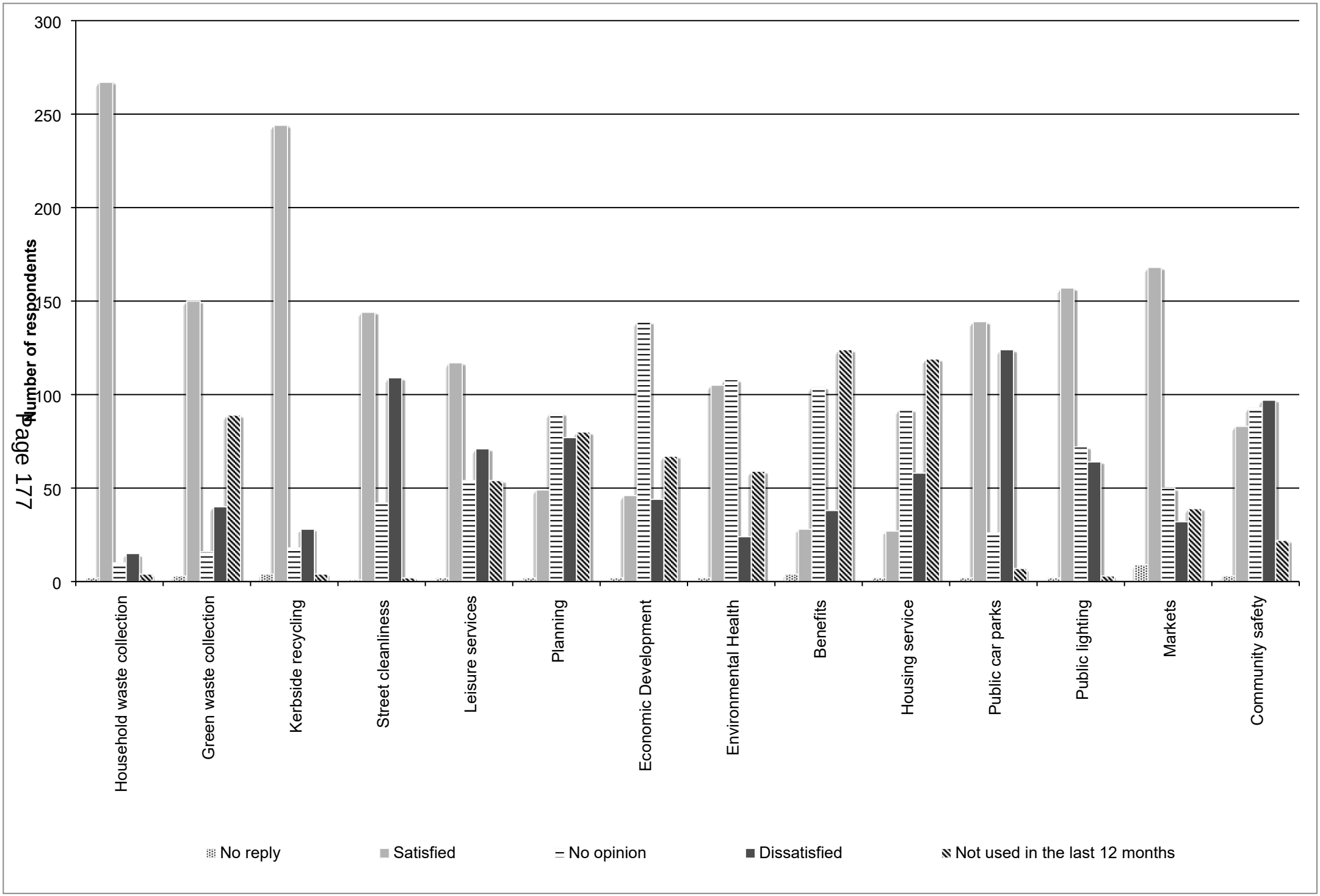
Q1	Which of the following towns do you live in or are closest to?	
	58 (19.4%)	Bedale
	48 (16.1%)	Easingwold
	95 (31.9%)	Northallerton
	22 (7.4%)	Stokesley
	73 (24.5%)	Thirsk
	0 (0.0%)	Prefer not to say
	2 (0.7%)	No reply

Q2	Are you responding as a ...?	
	11 (3.9%)	Business
	272 (91.2%)	Resident
	2 (0.7%)	Stakeholder group
	5 (1.6%)	Voluntary organisation
	4 (1.3%)	Prefer not to say
	4 (1.3%)	No reply

Q3	Which age group do you belong to?	
	0 (0.0%)	Under 18 years
	14 (4.7%)	19-24 years
	81 (27.2%)	25-44 years
	117 (39.3%)	45-59 years
	76 (25.5%)	60 years and over
	7 (2.3%)	Prefer not to say
	3 (1.0%)	No reply

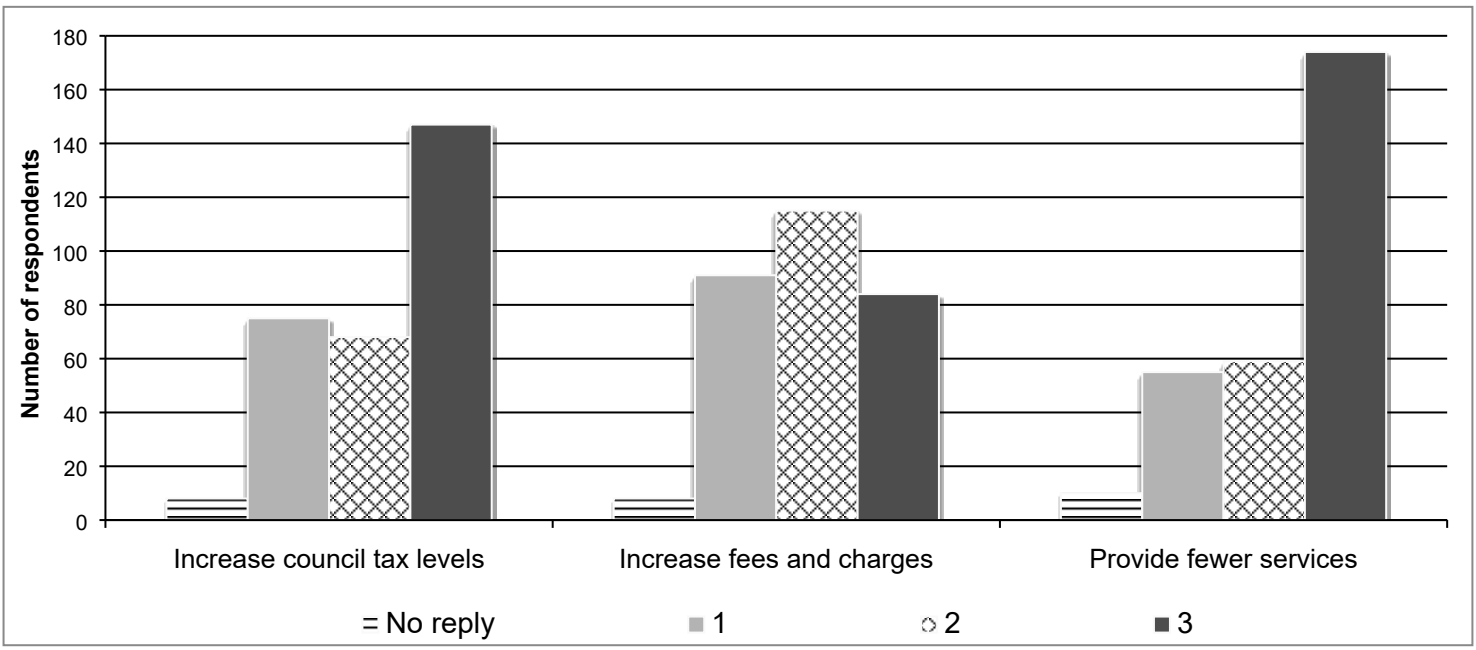
Q4	What is your opinion of the following council services over the last 12 months?					
		No reply	Satisfied	No opinion	Dissatisfied	Not used in the last 12 months
	Household waste collection *(black bin)*	2	267	10	15	4
	% response	1%	90%	3%	5%	1%
	Green waste collection *(green bin)*	3	150	16	40	89
	% response	1%	50%	6%	13%	30%
	Kerbside recycling *(blue bin and box)*	4	244	18	28	4
	% response	1%	82%	6%	10%	1%
	Street cleanliness *(including litter collection, graffiti removal, fly-tipping, dog warden)*	1	144	42	109	2
	% response	0%	48%	14%	37%	1%
	Leisure services *(including leisure centres, arts and culture, sports development, healthy lifestyles and CCTV)*	2	117	54	71	54
	% response	1%	39%	18%	24%	18%
	Planning *(including planning applications and planning policy)*	2	49	90	77	80
	% response	1%	16%	30%	26%	27%
	Economic Development *(support to businesses, management of council offices and land)*	2	46	139	44	67
	% response	1%	15%	47%	15%	22%
	Environmental Health *(including licensing, food hygiene inspections, nuisance complaints, private water supplies and pest control)*	2	105	108	24	59
	% response	1%	35%	36%	8%	20%
	Benefits *(housing benefits and council tax support)*	4	28	104	38	124
	% response	1%	9%	35%	13%	42%
	Housing service *(housing option advice, homelessness and provision of affordable housing)*	2	27	92	58	119
	% response	1%	9%	31%	19%	40%
	Public car parks *(pay and display, free car parks and disc parking)*	2	139	26	124	7
	% response	1%	47%	9%	41%	2%

		No reply	Satisfied	No opinion	Dissatisfied	Not used in the last 12 months
	Public lighting *(marked with white squares and green numbers only)*	2	157	72	64	3
	% response	1%	53%	24%	21%	1%
	Markets *(Northallerton and Thirsk only)*	9	168	50	32	39
	% response	3%	56%	17%	11%	13%
	Community safety *(including anti-social behaviour, domestic abuse and alcohol awareness) not NY Police*	3	83	93	97	22
	% response	1%	28%	31%	33%	7%


300
250
200
150
100
50
0
Number of respondents
Household waste collection
Green waste collection
Kerbside recycling
Street cleanliness
Leisure services
Planning
Economic Development
Environmental Health
Benefits
Housing service
Public car parks
Public lighting
Markets
Community safety
No reply
Satisfied
No opinion
Dissatisfied
Not used in the last 12 months

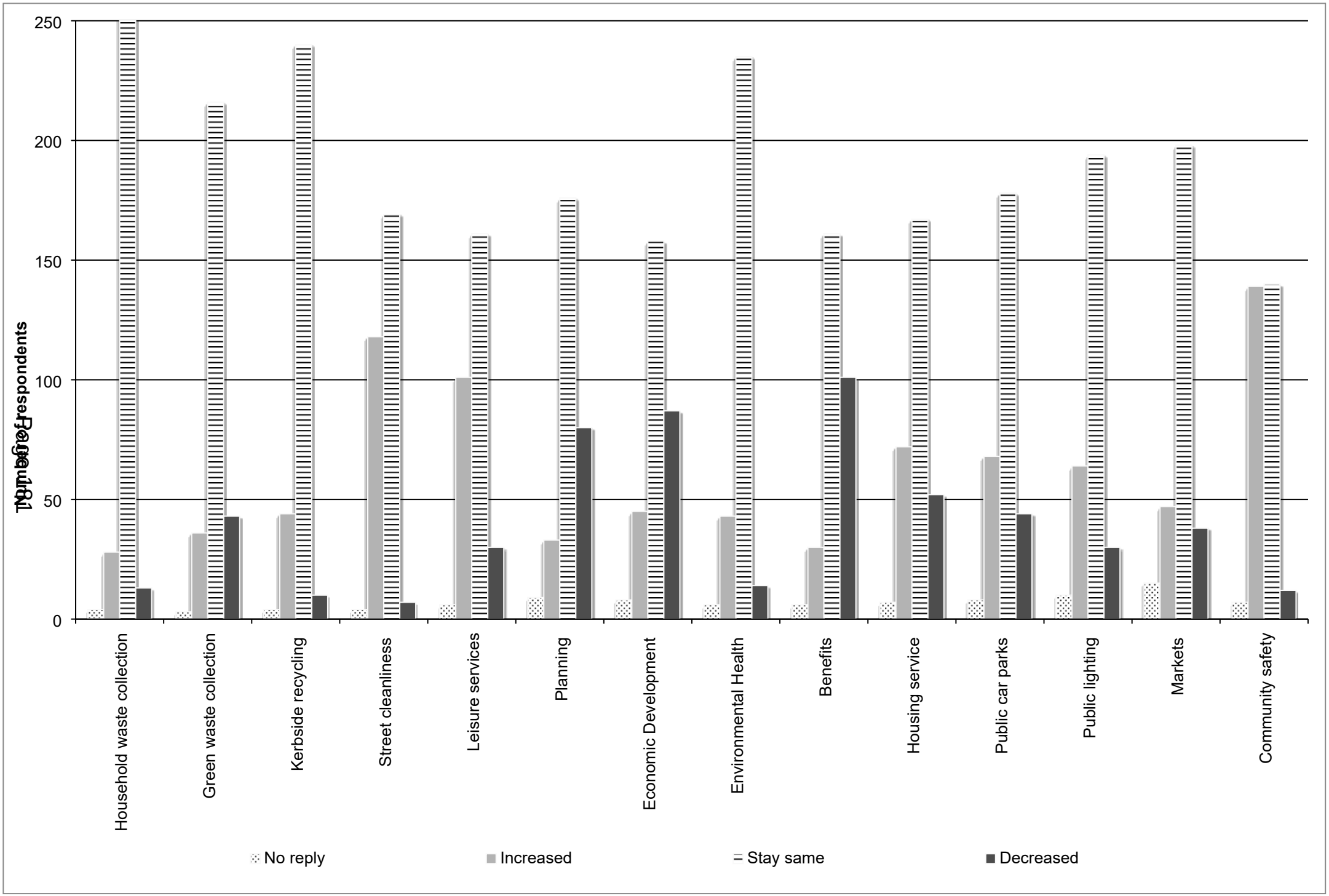
Q4	Please expand your answer if necessary: *(please note libraries are run by NYCC)*
	58 responses received

Q5	In order to balance the council's budget, rank the following in order of preference where 1 is the most preferred and 3 is the least:				
		No reply	1	2	3
	Increase council tax levels	8	75	68	147
	% response	3%	25%	23%	49%
	Increase fees and charges	8	91	115	84
	% response	3%	30%	39%	28%
	Provide fewer services	10	55	59	174
	% response	3%	19%	20%	58%



Q6	Of the following council services, do you think funding should increase, decrease or remain the same?				
		No reply	Increased	Stay same	Decreased
	Household waste collection *(black bin)*	4	28	253	13
	% response	1%	10%	85%	4%
	Green waste collection *(green bin)*	3	36	216	43
	% response	1%	12%	73%	14%
	Kerbside recycling *(blue bin and box)*	4	44	240	10
	% response	1%	15%	81%	3%
	Street cleanliness *(including litter collection, graffiti removal, fly-tipping and dog warden)*	4	118	169	7
	% response	1%	40%	57%	2%
	Leisure services *(including leisure centres, arts and culture, sports development, healthy lifestyles and CCTV)*	6	101	161	30
	% response	2%	34%	54%	10%
	Planning *(including planning applications and planning policy)*	9	33	176	80
	% response	3%	11%	59%	27%
	Economic Development *(support to businesses, management of council offices and land)*	8	45	158	87
	% response	3%	15%	53%	29%
	Environmental Health *(including licensing, food hygiene inspections, nuisance complaints, private water supplies and pest control)*	6	43	235	14
	% response	2%	14%	79%	5%
	Benefits *(housing benefits and council tax support)*	6	30	161	101
	% response	2%	10%	54%	34%
	Housing service *(housing option advice, homelessness and provision of affordable housing)*	7	72	167	52
	% response	2%	24%	56%	18%

		No reply	Increased	Stay same	Decreased
	Public car parks *(pay and display, free car parks and disc parking)*	8	68	178	44
	% response	2%	23%	60%	15%
	Public lighting *(marked with white squares and green numbers only)*	10	64	194	30
	% response	3%	22%	65%	10%
	Markets *(Northallerton and Thirsk only)*	15	47	198	38
	% response	5%	16%	66%	13%
	Community safety *(including anti-social behaviour, domestic abuse and alcohol awareness) not NY Police*	7	139	140	12
	% response	2%	47%	47%	4%


Number of respondents
250
200
150
100
50
0
Household waste collection
Green waste collection
Kerbside recycling
Street cleanliness
Leisure services
Planning
Economic Development
Environmental Health
Benefits
Housing service
Public car parks
Public lighting
Markets
Community safety
No reply
Increased
Stay same
Decreased

Q6	**Please expand your answer if necessary:** ***(please note libraries are run by NYCC)***
	39 responses received

Q7	**Overall, how satisfied or dissatisfied are you with ...?**						
		No reply	Very satisfied	Satisfied	No opinion	Dissatisfied	Very dissatisfied
	The way in which the council provides services	4	21	174	52	40	7
	% response	1%	7%	59%	18%	13%	2%
	Your local area as a place to live	3	74	173	17	27	4
	% response	1%	25%	58%	6%	9%	1%

Q8	**Do you have any other suggestions on how the council could increase income, reduce costs or make savings to support the budget?**
	103 responses received

ANNEX C

POLICY ON BALANCES AND RESERVES

1.0 BACKGROUND:

1.1 Section 25 of the Local Government Act 2003 requires the Council's S151 Officer (Chief Financial Officer – Director of Finance and Commercial) to report to Members on the robustness of the estimates and the adequacy of the reserves for which the budget provides.

1.2 The purpose of this Annex is to:-

- support the statement required to conform to Section 25
- confirm the use of the Council's balances and reserves, and
- re-affirm the Council's policy on the level of balances and reserves

1.3 The Council currently maintains a number of balances and reserves, each of which has a purpose approved by Members. Each of the balances and reserves will be considered in turn later in this Annex.

1.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) considers that a case for introducing a statutory minimum level of reserves, even in exceptional circumstances has not been made. The Institute believes that Local Authorities, on the advice of their Finance Directors, should make their own judgements on such matters taking into account all the relevant local circumstances. Such circumstances vary and there is a broad range within which authorities might reasonably operate depending on their particular circumstances.

1.5 There is no definitive guidance as to the minimum level of balances or reserves, either as an absolute amount or as a proportion of expenditure, since each Local Authority is independent, operates in a unique local environment and the decision is one of a number of inter-related decisions taken as part of its Financial Strategy. Section 32 of the Local Government Act 1992 requires billing authorities (such as Hambleton) to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. Budgets are based upon forecasts of pay and price inflation, changes in interest rates, and the demand for and levels of service to be provided. The purpose of balances and reserves is to provide for unexpected changes from these forecasts and to provide for the financing of some expenditure. Consequently the provision of an appropriate level of balances and reserves is a fundamental part of prudent financial management over the medium term.

2.0 BALANCES AND RESERVES:

2.1 Each of the Council's balances and reserves is considered below.

2.2 General Fund Working Balance

2.2.1 Setting the level of this general reserve is just one of several related decisions in the formulation of the medium-term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:-

Budget Assumptions

- treatment of inflation
- interest rates
- treatment of demand led pressures (e.g. take-up of housing benefits)
- levels of income
- financial risks inherent in significant funding partnerships
- the availability of other funds to deal with emergencies
- estimates of the level of and timing and capital receipts, S106 monies and general cashflows

Financial Standing and Management

- the overall financial standing of the authority
- the authority's track record in budget and financial management
- the capacity to manage in-year budget pressures
- the strength of financial information and reporting arrangements
- the authority's financial procedure rules and budgetary flexibility
- the adequacy of insurance arrangements to cover major unforeseen risks

Adequacy of inflation

2.2.2 Budgetary provision is made for inflation in respect of pay, prices and contract expenditure. The 2020/21 budget contains a sum of £334,310 for such inflation. An adverse variance of 1% in the assumptions made to these forms of expenditure could result in additional expenditure of £92,095.

Adequacy of interest rate assumptions

2.2.3 Interest rate assumptions are reported in the Treasury Management Strategy Statement. Interest rate assumptions are made for both borrowing and investments. The Council can borrow for its capital expenditure programme if required and also the Council's surplus funds are available for investment. It can also borrow for non-treasury investments – e.g. the Commercial Investment Portfolio. If the Council borrows to support capital expenditure on non-treasury investments then this moves away from guidance provided in the CIPFA Prudential Code and the Statutory Investment guidance. Deviation from the Code guidance is acceptable as long as the rationale behind this decision is explained. In addition, there is also a requirement to ensure borrowing is not in advance of need or that the borrowing is not taken for a period of time greater than 50 years; these decisions will be reported to Members at the earliest opportunity.

2.2.4 The Council intends to use its surplus funds to support the capital programme and Commercial Investment Portfolio however there will be a requirement to borrow during 2020/21. Interest rates are historically low and also volatile in the current market environment, however on 9 October 2019, The Public Works Loan Board (PWLB), increased their borrowing rates by 100bps and therefore the borrowing rates range are now expected between 2.4% and 3.5% during 2020/21 depending on the time period. The Council's surplus funds have reduced due to their use in the support for the capital programme in previous years and therefore income generated will be lower. The surplus funds invested are sensitive to changes in interest rates especially given the short-term nature (less than 1 year) of most of the investment activity and the need to retain some cash liquidity for day to day purposes. The interest rate market environment remains at a low level with Bank Rate at 0.75%. The 2020/21 budget assumes an average of 0.75% over the year. This is due to that the overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

Treatment of demand led pressures

2.2.5 Demand volatility can affect both expenditure (e.g. take up of Housing Benefits) and income (eg number of planning applications). Housing Benefit is a significant item of expenditure estimated at £12.18m in 2020/21. The Localised Council Tax Support Scheme presents a particular risk to the Council's reserves position, increases in Council Tax support claimants in year will be funded by the Council, subsidy at a reduced rate will not be received until the following year. If payments increase by 1% the cash flow implications would be in the order of £121,800.

Levels of income

2.2.6 The major income budgets in relation to fees & charges in 2020/21 are those relating to:-

	£
Leisure Services	3,163,470
Development Control	1,058,710
Parking Charges	825,510
Markets	171,400
Licensing	170,220
Land Charges	85,000
Environmental Services	140,590
Planning Services	79,500
Waste Collection	158,250
Recycling	894,920

Total income from fees and charges is budgeted to be £6,747,570 in 2020/21. The economy is clearly still experiencing difficulties at the moment and recovery continues to be volatile. A moderate fall in demand of say 3% would lead to a reduction in income of about £202,427.

External Partnerships

2.2.7 Members are aware that the Council acts as the 'Accountable Body' for a number of partnerships. With the potential for these to grow in number the financial exposure increases, however it is felt that a contingency to deal with this is not required as there is sufficient funds in reserves.

Responding to emergencies

2.2.8 Examples of emergencies in the past include flooding. As a Local Authority the Council can in certain cases gain financial protection from the Government's Bellwin Scheme, which was used most recently by the Council in the December 2015 floods; no funding was required for the 2019 floods. However, the Bellwin Schemes only reimburses 85% of eligible expenditure above a specified threshold. If further resources were required, it is felt that there are sufficient funds in reserves to cover these requirements.

Capital financing and general cashflows

2.2.9 The Council maintains a Capital Programme which is supported by external funding, on-going capital receipts, reserves and external borrowing. The timing of such receipts rarely matches the expenditure profile, often lagging by months.

2.2.10 Similarly the timing of the Council's income, principally from Council Tax and Business Rate income, does not always match the Council's outgoings (mainly salaries, capital and precept payments). This is particularly the case in February and March when income from Council Tax and Business Rates reduces significantly as the normal instalments cease.

2.2.11 Consequently, it is necessary to maintain an accurate cash flow forecast to invest surplus funds or take short borrowing to maximise the treasury management position of the Council. Long term borrowing will occur if the need arises in accordance with the capital programme.

2.2.12 In order to support the Council's revenue budget and ensure funds are available it would appear that a General Fund Working Balance of around £2,000,000 is required. A level of £2,000,000 equates to approximately 4.3% of the Council's gross annual budget requirement. This combined with the Council's internal financial controls should ensure the authority recognises financial 'issues' early and has the capacity to respond accordingly. ***It is recommended that the Council maintain a sum of £2,000,000 as its General Fund Working Balance***.

2.3 Council Taxpayers Reserve

2.3.1 The purpose of this reserve is currently "To support revenue spending on community projects and on enhancing service delivery". ***It is recommended that the purpose of the Council Taxpayers Reserve is maintained.***

2.3.2 The level of the reserve is considered as part of every review of the Financial Strategy, and needs to be sufficient to fulfil its purpose over the life of the Strategy. Clearly over time the level of the reserve will diminish. However, in order for the Council Taxpayer to receive the maximum benefit from the reserve, this should be in a structured and considered way in accordance with expectations of the level of Council Tax assumed in the Financial Strategy.

2.4 Repairs and Renewals Fund

2.4.1 The purpose of this reserve is "To provide revenue and capital support to assist funding of the repairs and renewals". ***It is recommended that the purpose of the Repairs and Renewals Fund is maintained***.

2.4.2 The reserve was established from what was the Capital Fund with monies added to it from the Council Tax Payers Reserve. ***The reserve will be maintained for the duration of the Financial Strategy.***

2.5 Computer Fund

2.5.1 The purpose of this reserve is "To provide revenue and capital support to assist funding of computer related purchases". ***It is recommended that the purpose of the Computer Fund is maintained.***

2.5.2 The reserve was established from monies transferred from the Council Tax Payers Reserve. ***It is recommended that the reserve will be maintained for the duration of the Financial Strategy.***

2.6 Community Safety Partnership Reserve

2.6.1 The purpose of this reserve is currently "To receive surpluses and deficits from the Community Safety Partnership Accounts". ***It is recommended that the purpose of the Community Safety Partnership Reserve is maintained.***

2.6.2 The reserve is kept as good accounting practice and is not expected to have a significant balance in it.

2.7 One Off Fund

2.7.1 The purpose of this reserve is "To improve or sustain service delivery". ***It is recommended that the purpose of the One-Off Fund is maintained***.

2.7.2 This reserve is maintained to provide funding for service improvements or unexpected events. It is recommended therefore that the minimum balance on this Reserve be kept at £200,000. This is considered adequate, and is sustainable within the current Financial Strategy.

2.8 Grants Fund

2.8.1 The purpose of this reserve is currently "To fund revenue grants to organisations on an annual basis". ***It is recommended that the purpose of the Grants Fund is maintained.***

2.8.2 The level of the fund was initially established to provide for three years funding, and will therefore have a reducing balance over the period. It is expected that the fund will run low in funds by 2021/22 and therefore a review will be needed before this time.

2.9 Economic Development Fund

2.9.1 The purpose of this reserve is "To fund initiatives that support and encourage economic growth and stability in Hambleton**".** ***It is recommended that the purpose of the Economic Development Fund is maintained.***

2.9.2 This fund was established in 2014/15 with a balance of £5,000,000. It was anticipated that this funding will last for 5 years however due to the development of schemes which benefits the community and additional funding to be received in future years, the reserve is projected to continue to 2029/30.

2.10 Make a Difference Fund

2.10.1 The purpose of this reserve is to invest in worthy local community projects which help improve life in neighbourhoods and support the work of the voluntary sector. ***It is recommended that the purpose of the Make a Difference Fund is maintained.***

2.11 Local Plan Reserve

2.11.1 The purpose of this reserve is "To assist in the funding of a continuous programme of Local Plan preparation and review". ***It is recommended that the purpose of the Local Plan Reserve is maintained.***

2.12 Community Housing Fund

2.12.1 The purpose of this reserve is "To use funding from the Department for Communities and Local Government to support community led housing initiatives in accordance with grant guidelines". ***It is recommended that the purpose of the Community Housing Fund is maintained.***

2.13 Income Generating Reserve

2.13.1 The Purpose of this reserve is "To financially support projects in initial stages of development which will generate revenue income to contribute to the future funding of the Council". ***It is recommended that the reserve will be maintained for the duration of the Financial Strategy.***

3.0 LEVEL OF BALANCES AND RESERVES:

3.1 The use of balances and reserves is a critical feature in the Council's approach to financial management. They enable Council Tax to be maintained at low levels, support the Capital Programme and deliver service improvements.

3.2 It is considered important therefore that the level of balances is monitored to ensure that adequate levels are maintained to fulfil their purpose. To a large extent this is done through the Financial Strategy and also targets have been established where each Reserve has a year-end balance which is within a 10% tolerance of the balance reflected in the Council's financial strategy. Performance against the target will continue to be reported to Members as part of the year end procedures.

3.3 Experience has shown, however, that due to the nature of receipts and payments into and out of the One Off Fund, it is not possible to accurately forecast the level of this reserve at the year end. A more appropriate target for this reserve would be to ensure that a minimum balance is retained.

3.4 ***It is recommended that the targets for Reserve balances are:***

a) A minimum balance for the One Off Fund of £200,000; and
b) For all major reserves, within a 10% tolerance on the year-end balance as reflected in the Financial Strategy.

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2020

Subject: **AMENDMENT TO HAMBLETON OFF-STREET PARKING ORDER**

All Wards
Portfolio Holder for Governance: Councillor Mrs I Sanderson

1.0 PURPOSE AND BACKGROUND:

1.1 Cabinet recommended for approval at its meeting on 3 July 2018 and Council approved at its meeting 17 July 2018 a capital allocation of £550,000 to implement the Car Park Improvement Scheme.

1.2 The Car Park Improvement Scheme includes various elements to improve the quality of service offered to our residents, businesses and visitors. The scheme is currently being implemented and is due for completion by July 2020.

1.3 The Hambleton District Council (Off-Street Parking Places) Consolidation Order 2013 is the current Parking Order that sets out the parking regulations that apply to the use of our off-street pay and display car parks.

1.4 For the changes to the Councils off-street car parks to be confirmed a Parking Amendment Order will be introduced which includes the following changes and clarifications to the current parking order:

a) Payment of a parking charge will be permitted by means of an online cashless parking system. This will support the introduction of payments via a cashless payment system application on a smartphone or mobile device.
b) In order to improve flexibility payment of a parking charge will be permitted by means of cash, debit/credit card and smartphone or mobile device at the ticket machines.
c) Vehicles will be required to display a parking ticket, permit, season ticket or have a current paid period of parking obtained via a cashless parking system application. This cashless option clarifies that a parking session purchased by means of a cashless payment system application is permissible as an alternative to a parking ticket obtained from a ticket machine or a permit or season ticket.
d) Allow the extension of a short stay parking session in the Applegarth and Forum short stay car parks Northallerton, Marage and Millgate car parks Thirsk and Showfield car park Stokesley. The extension to the short stay parking session can be until the end of the charging period. This change will allow visitors to dwell for longer than they anticipated completing their business and still comply with the parking regulations. In common with other town centre high street parking in the District the Market Place Thirsk will retain its two hour waiting limit.
e) A parking place means an area of land specified in the schedules of the parking order and described on a plan by means of a red line boundary. The revised plans in the parking order will not show the individual parking bays. The purpose of a parking place and parking bay will be indicated by means of a sign or surface marking. Removing the individual parking bays from the plans within the parking order will allow the Council to change the designation of parking bays without having to confirm that change with an amendment to the parking order. For example to introduce additional electric vehicle

charging bays or if there is a change in design guidance leading to an increase in the provision of designated disabled parking bays .

f) A vehicle may occupy more than one parking bay on payment of the appropriate parking charge due for each parking bay occupied. This clarifies that a vehicle with a trailer or a larger vehicle can use our car park providing that they pay for the number of parking bays they occupy.

g) Designated disabled parking bays with a maximum waiting period of three hours per charging period will be introduced. The waiting time applicable to a designated disabled parking bay will be indicated by means of a sign. These disabled parking bays (in the short stay car parks) will have a three hour waiting time limit in order to ensure that they are not occupied by a single user for a whole charging period, thereby allowing other motorists to also use the parking bay during the charging period.

2.0 LINK TO COUNCIL PRIORITIES:

2.1 The improvements to the Council's off-street pay and display car parks will support the Council's priority of driving economic vitality. Providing high quality off-street parking facilities is a key foundation to improving and supporting the vibrancy and vitality of our market towns and is intrinsically linked to the Vibrant Market Towns programme.

3.0 RISK ASSESSMENT:

3.1 There are no significant risks associated with approving the recommendations.

4.0 FINANCIAL IMPLICATIONS:

4.1 There is no revenue effect associated with the introduction of the Parking Order Amendment.

4.2 The capital expenditure to introduce the Parking Order Amendment is included in the capital expenditure of £550,000 allocated to the Car Park Improvement Scheme.

5.0 LEGAL IMPLICATIONS:

5.1 The Parking Amendment Order will need the consent of North Yorkshire County Council. North Yorkshire Police must also be consulted but do not need to consent. The Parking Amendment Order procedure involves public consultation. The Council is required to consider any representation made during this process.

6.0 EQUALITY/DIVERSITY ISSUES

6.1 Equality and Diversity Issues have been considered, the implementation of the scheme will introduce improvements to the parking offer for users of the blue badge disabled parking scheme.

7.0 HEALTH AND SAFETY ISSUES

7.1 Health and Safety issues have been considered and all works undertaken as part of the scheme will comply with the relevant health and safety arrangements.

7.2 Two elements of the scheme will enhance health and safety. Changes to car park layouts will improve safety for pedestrians and the introduction of new CCTV cameras at Showfield, Stokesley, Auction Mart, Bedale and an additional camera at Applegarth, Northallerton will also assist safety.

8.0 RECOMMENDATION:

8.1 That Cabinet approves and recommends to Council that:-

(1) the making of a Parking Amendment Order is authorised to proceed subject to consultation and includes the following changes:

(i) Payments can be made by a cashless payment system
(ii) Payments can be made at the ticket machines by cash, debit/credit card and mobile phone or mobile device
(iii) Parking session validated by payment made via the cashless payment system
(iv) Extension of short stay parking period
(v) Parking place to be identified on a plan by a red line boundary
(vi) Vehicles can occupy more than one parking bay subject to payment for bays used and
(vii) The introduction of time limited disabled parking bays

(2) any issues arising from the consultation process are delegated to the Director of Leisure and Communities to deal with.

STEVEN LISTER
DIRECTOR OF LEISURE AND COMMUNITIES

Background papers: The Hambleton District Council (Off-Street Parking Places) Consolidation Order 2013

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