Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 23 March 2021

Subject: **Review of the Capital Strategy 2021/22**

Portfolio Holder: Governance
Councillor Mrs I Sanderson

Wards Affected: All Wards

1.0 Purpose and Background

1.1 The purpose of this report is to give the Committee an opportunity to:

- review the Council's Capital Strategy for the forthcoming financial year 2021/22;
- review the monitoring of 'separate bodies' that have been set up which is reported to cabinet on a quarterly basis as an Annex to the Capital Monitoring and Treasury Management report;
- review the Joint Venture Company – Central Northallerton Development Company Ltd – Accounts 2019/20

1.2 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, economic development/ regeneration and commercial investments are usually associated with capital expenditure in relation to an asset. It should be noted that Council suspended the Commercial Investment Strategy in September 2020 and that commercial activity will not occur during 2021/22 however it is mentioned to some degree in this capital strategy to provide a complete overview.

1.3 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.

1.4 Attached at Appendix 'A' is the "Capital Strategy 2021/22" report which was approved by Cabinet and Council in February 2021. This report contains the Council's Capital Strategy at Annex A.

1.5 In the Capital Strategy – Annex A – the following paragraphs include information that will be reported to cabinet and council quarterly when non-treasury capital investment occurs:

- Paragraph 8 details an 'An overview of how associated risk is managed' and the 'Measures to manage risk' are at 8.8.
- Paragraphs 9 to 112 detail and 'Implications for future financial sustainability'

1.6 Included in the Capital Strategy section 'Implications for the future financial sustainability' is the capital plan for non-treasury investment which provides investment for service delivery, economic development and regeneration projects, where capital expenditure is on:

(i) the enhancement or creation of assets for the future of the service e.g. the crematorium development

(ii) loans to third parties which benefit the local area for economic and housing advancement to support the district.

(iii) economic development and regeneration projects where the purpose is to regenerate the local area which may result in the generation of income. E.g. the Joint Venture Company – Central Northallerton development Company Ltd – where the former prison site attracts new business into the high street of Northallerton as well as developing the former HMP Prison site

1.7 The 'separate bodies' set up by the Council and the monitoring of them are reported to Cabinet and Council on a quarterly basis and the latest update, for information, from the Q3 Capital Monitoring and Treasury Management report Annex F is provided at Appendix B.

1.8 Attached at Appendix C, for Members' information, is the Central Northallerton Development Company Ltd.'s Accounts for 2020/21; these are the latest available.

2.0 Risk Management

2.1 There are no risks associated with approval of this report. The report will ensure that the Committee has the opportunity to scrutinise a key policy of the Council.

3.0 Recommendation

3.1 It is recommended that Members review the Council's Capital Strategy and make any appropriate recommendations to Cabinet.

Louise Branford-White
Director of Finance and Commercial (s151 officer)

Background papers: None
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Hambleton District Council

Report To: Cabinet

Date: 9 February 2021

Subject: **Capital Strategy 2021/22**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

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 2018/19 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.

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 (service, economic development / regeneration and commercial investments associated with capital expenditure);

- 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, economic development/ regeneration and commercial investments are usually associated with capital expenditure in relation to an asset. It should be noted that Council suspended the Commercial Investment Strategy in September 2020 and that commercial activity will not occur during 2021/22 however it is mentioned to some degree in this capital strategy to provide a complete overview.

1.6 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.

1.7 The non-treasury investments - due to the expenditure being for service delivery, economic development or regeneration projects - do not always give priority to security and liquidity over yield (like treasury investment do). For non-treasury investments, decisions on this 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 prior to the beginning of each financial year in February or in quarterly monitoring reports. Individual reports will identify risks and the impact on the financial sustainability of these schemes.

1.8 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.

1.9 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 for 2021/22. The Council has also considered the corporate governance arrangements under which the Council invests for non-treasury capital expenditure and this is included in Annex A at paragraph 7.0.

1.10 The Council's approach to non-treasury investment is that it is affordable, sustainable and prudent and provides value for money. 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.

1.11 The Chief Finance Officer – Director of Finance and Commercial (S151 Officer) - will report on the affordability and risk associated with the Capital Strategy when capital expenditure is to occur on non-treasury investments (service and

commercial) 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".

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 2021/22 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
4 Year Financial Strategy 2021/22 to 2024/25

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Annex A

Capital Strategy 2021/22

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 2018/19.

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; and
- 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 non-treasury 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 service, economic development / regeneration and 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); and
- Other ratio analysis.

2.2 The non-treasury investments (see definition below) - due to the expenditure being for valid service delivery, economic development / regeneration - 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 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, economic development / regeneration 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. For 2021/22 and future years the Council has decided not to pursue commercial investments at this time and the Commercial Investment Strategy was suspended at Council in September 2020.

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. The definition and explanation about the risks of non-treasury investment – service delivery, economic development / regeneration - and implications of financial sustainability are included in this report. Information on commercial investments has not been included for risks and financial sustainability due to the Council suspending the Commercial Investment Strategy in September 2020.

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, regeneration projects, ICT schemes, development of Council's assets etc.

3.10 **Commercial investments (Non-Treasury Management Investment)** - These are investments that would be 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.

This Council has decided not to pursue commercia investments for the foreseeable future but information is included in the capital strategy for completeness.

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;

4.3 Asset Management Strategy – it is worth highlighting the Asset Management Strategy 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 in due course.

4.5 Performance Management of Capital schemes – In order to ensure that capital expenditure (non-treasury investment – service and economic development / regeneration projects) projects are in line with the Council's overall objectives, individual service aims and capital scheme goals should be developed with clear measurable outcomes. 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 considered at Project Management Board to ensure alignment with the Council Plan priority projects. For 2021/22 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 at least 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. It should also be noted that some schemes 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 economic development schemes or regeneration scheme in the district which may generate income 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 is assessed at Project Management Board where the 10 year capital programme is presented for review prior to the annual Capital Programme being 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 the Government's Procurement Policy Note 08/20 – Introduction of Find a Tender Action Note – in relation to the UK leaving the European Union on 31 December 2020 for all new procurements. The Policy Note states "At the end of the Transition Period, amendments to the Regulations in relation to the withdrawal of the UK from the EU will come into force. This means that, whilst the framework and principles underlying the public procurement regime (the procurement procedures, financial thresholds, etc.) will not substantially change, contracting authorities will be required to publish public procurement notices for new procurements to the new UK e-notification service, Find a Tender."

5.8 Guidance on this can be sought from the Procurement team. All 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.

5.9 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.

510 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.

5.11 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.

5.12 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

5.13 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 economic development / regeneration projects. 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. 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. Currently projects of above £50,000 are reported to Project Management Board with Directors taking responsibility for the lower value projects in their area where the Board focuses 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 economic development an regeneration projects.

6.4 Investment Board – An Investment Board exists for a robust decision-making process for making time restricted decisions on service capital expenditure below £5m which 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 (S151 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) and 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 Investment Strategy detailed the process for the purchase of properties and governance arrangements.

6.7 Further development has resulted in the Commercial Investment Strategy being suspended by Cabinet and Council in September 2020. The Council had no commercial investments when the strategy was suspended which was due to the

- increase in Public Works Loan Board interest rates on borrowing in October 2019 resulting in the income to be generated from commercial investments being marginal;
- consultation paper from HM Treasury on 'Public Works Loan Board: future lending terms' in March 2020 where the Government has now confirmed in December 2020 that the Public Works Loan Board will not lend to a local authority if they plan to buy investment assets primarily for yield anywhere in their capital plans with the aim solely to generate an income stream and
- current Covid-19 environment where receipt of rental income is uncertain.

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 for service investment, economic development and regeneration projects. The Council notes 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.

7.2 CIPFA's Prudential Code and the Statutory guidance on Local Government investments allows the Council to borrow if its capital plans are affordable, sustainable and prudent. The Code states that the 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. CIPFA Prudential Code paragraph 45, 62 (and E16), allows borrowing in advance of need against the Capital Financing Requirement (CFR) for the current and next two financial years.

7.3 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 has suspended its Commercial Investment strategy in September 2020, has not undertaken any commercial activity and the Financial Strategy reflects that without commercially generated income the financial position remains sustainable.

7.4 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 for non-treasury investments is that the capital expenditure for services delivery, economic development and regeneration projects in the district will all 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. This ensures that capital programme is affordable, sustainable and prudent.

7.5 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.

7.6 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 Committee and annual an update on risk is provided to Audit Governance and Standards Committee who have the overall responsibility for risk.

8.7 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.

8.8 Measures to manage risk - The following measures to manage the risks associated with non-treasury investment are listed below and the Director of Finance and Commercial (S151 Officer) will report on the affordability of these risks associated with the capital strategy in the Capital Monitoring and Treasury Management reports:

(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 investment finance costs to be set at as a proportion of the budget.

(ii) Reserves Position - The financing cost is deemed to be affordable as reflected in the four-year financial strategy 2021/22 and the Council's balance on reserves being maintained:

- the Council's 4-Year Financial Strategy 2021/22 to 2024/25 shows that at the end of 4 years the reserve position remains at £5.05m.

(iii) Financial strategy review - It is important to note that some of the Council's economic development projects or regeneration projects generate income and if there was a shortfall in net income this would reduce the funding that supports the budget. The Council's reserves are allocated over 4 years in the Financial Strategy;

- the 4-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 - non-treasury investments are made in a variety of assets, in different sectors and across the district to reduce the risks of all capital expenditure being invested in one project.

- the capital programme is monitored to ensure diversity of projects and locations

(v) Income shortfall - The risk profile of assets vary greatly and this is reflected in the yield (the income received) of an asset. The leisure centres yield income along with car parks, the Treadmills site and in 2021/22 the crematorium. These non-treasury investments are for the purpose of delivering services to the resident and communities so it crucial to invest in these assets where a balance is struck between a return but more importantly low risk of income shortfall:

- All assets that generate income will be sought to be occupied under full repairing and insuring terms.
- all assets will be risk assessed and monitored on a quarterly basis in revenue monitoring report at Cabinet and Council

- the Financial strategy will over 4 years ensure that the Council remains affordable and sustainable

(vi) Specialist Advice – service delivery, economic development or regeneration projects may require specialist support. The advisor may assist in the development and / or implementation of a scheme where:
- the proper procurement process has been adhered to
- the adviser is held to account through the risk register action plans
- strict monitoring occurs to be able to hold the advisor to account
- updates will be provided to cabinet and Council as appropriate

(viii) Decision Making and the Investment Board - A robust process for making time restricted decisions on service capital expenditure below £5m has be devised when Cabinet and Council cannot be convened. This ensures that appropriate oversight, quality assurance and risk management is in place. This was approved by Cabinet and Council in September 2019.
- Investment Board meets to make time restricted decisions on service capital expenditure below £5m

8.9 Due Diligence - For all non-treasury capital 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.

8.10 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.

8.11 The Director of Finance and Commercial (S151 Officer) will report explicitly on the affordability and management of these risks when appropriate, 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 2021/22 to 2030/31. 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 4 year Financial Strategy reserve funds – grants, contribution and capital receipts – remain available to support the capital programme. The 4-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 4-year Financial Strategy ensure that the Council's capital plans are affordable, sustainable and prudent.

9.4 Future capital plans out to 30 years are a consideration however due to the uncertainty of Local Authority funding support from Government as detailed in the Financial Strategy, the 10-year capital programme ensures 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

- economic development and regeneration schemes - to deliver services in line with Council Plan objectives to the residents, businesses and communities of Hambleton whilst providing income

9.5 The Council's Commercial Investment strategy was suspended by the Council in September 2020 and therefore is not included in the financial sustainability section of this capital Strategy.

9.6 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); and
- Other Ratio analysis.

10.0 **Expected income, costs and resulting contribution**

10.1 The capital plan for non-treasury investment is for service delivery, economic development and regeneration projects, where capital expenditure is on:

(i) 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) economic development and regeneration project investments where the purpose is to regenerate the local area and bring new businesses into the district which may result in the generation of income.

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.

%	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Services	0.18%	4.34%	7.41%	9.15%	10.78%
Commercial activities/non-financial investments	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.18%	4.34%	7.41%	9.15%	10.78%

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 income from economic development / regeneration projects 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 below:

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Net Revenue Streams	1,474,760	1,458,650	1,306,460	1,306,460	1,306,460

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. The costs of borrowing, in relation to the investment in the local housing association, are included in paragraph 10.2 above as part of the whole of the capital programme which is expressed as a percentage of the net revenue streams of the Council. Borrowing and related finance costs, in accordance with the CIPFA Prudential Code, are not allocated to individual schemes rather borrowing occurs for the entire capital programme.

10.6 Economic development and regeneration projects expected income, costs and resultant contribution – the former prison site in Northallerton is being regenerated into Treadmills where half the site is operational and income is generated to the council as a result of this economic development from the Lidl and Iceland; unit 1 is being marketed to be leased. The other half of the Treadmills site is under construction where a cinema, restaurants and a centre for digital innovation is developing. In addition, the crematorium construction has commenced and is due to open in the Autumn 2021.

10.7 The costs of these economic development / regeneration projects are included in paragraph 10.2 above as part of the whole of the capital programme finance costs which is expressed as a percentage of the net revenue streams of the Council; Borrowing and related finance costs, in accordance with the CIPFA Prudential Code, are not allocated to individual schemes. Income will be generated, as a result of this service delivery need, from these projects and the Council is mindful of the associated risks in connection with these sites if the rental income cannot be realised. This income contribution does support the budget and sensitivity analysis occurs to monitor the impact of the required savings to be made if the revenue is not received.

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 information from the Treasury Management Strategy Statement which details the capital expenditure, financing costs, capital financing requirement (the borrowing need of the Council to support capital expenditure) and the estimated level of debt:

£m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Total capital expenditure	**7,402,914**	**19,745,917**	**26,059,362**	**3,398,892**	**1,338,458**
Finance costs (minimum revenue provision)	-	-	-	(216,210)	(337,120)
Movement in the Capital Financing Requirement	3,567,183	10,257,321	15,366,954	1,273,020	162,880
Estimated gross debt at 31 March	**7,700,000**	**33,700,000**	**54,700,000**	**55,500,000**	**55,500,000**

11.2 The table above highlights:

- Total Capital Expenditure – the amount needed to support the capital programme to deliver service, economic development and regeneration schemes.
- Finance costs - are charged in relation to the minimum revenue provision policy (see paragraph 12.0) where the charge occurs the year following the asset becoming operational.
- Movement in the Capital Financing Requirement – the amount that the Council needs to borrow each year
- Estimated gross debt at 31 March – the forecast level of debt held by the Council

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 2021/22 will have a Capital Financing Requirement of £67,361,062 to support the total capital programme and this is the potential amount of borrowing that may be required in 2021/22.

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 o 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 on the 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, Minimum Revenue Provision 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 "Minimum Revenue Provision 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 It should be noted that in 2021/22 there is no Minimum Revenue Provision policy for the Commercial Investment Strategy as no non -treasury investments of this type will be made as illustrated in the prudential indicators in this report.

12.11 The Capital Financing Requirement for the loan to the local Housing Association at the beginning of 2021/22 is £34,000,000. 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.

12.12 Therefore, it can be noted in 2020/21 £1,000,000 was repaid from the local Housing Association which reduced the level of the Capital Financing Requirement and this will continue when the Council investment is repaid from the local Housing Association 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 Minimum Revenue Provision charge will be made.

12.13 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 2020 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 concept that 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 shows 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 The ratio of finance costs to net revenue stream for the total capital programme is detailed at paragraph 10.2 where this shows the proportion of finance costs in relation to the Council's total net income position. The ratios are 7.41% in 2021/22, 9.15% in 2022/23 and 10.78% in 2023/24. The Council assess that a proportion of 20% finance cost to net budget is deemed prudent and a level of risk it is willing to accept as detailed in paragraph 8.8.

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 £5.05m at the end of the 4-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 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 capital programme 2021/22 at £26.1m proceeds, the Capital Financing requirement is £15.4m and if it is financed using borrowing then the extremal debt would be £15.4m. The Minimum Revenue Provision Policy describes the amount of funding to be set aside in relation to this debt as described in paragraphs 12.7,12.8 and 12.13 above. When the capital programme assets are completed, the Council monitors the debt position against the asset value; this occurs every year on a 5-year rolling programme. 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 for any commercial activity. This Council

suspended its Commercial Investment Strategy in September 2020 and therefore there will not be commercial activity in 2021/22.

13.7 Capital Financing Requirement (CFR) – The table below shows that the Council's need to borrow is for service delivery, economic development and regeneration schemes. The Commercial Investment Strategy was suspended by Council in September 2020 and no commercial activity is expected to be undertaken:

Proportion of commercial CFR against the Total CFR	**2019/20** **Actual**	**2020/21** **Estimate**	**2021/22** **Estimate**	**2022/23** **Estimate**	**2023/24** **Estimate**
Capital Financing Requirement (CFR) B/fwd	**38,169,604**	**41,736,787**	**51,994,108**	**67,361,062**	**68,634,082**
CFR - Services	3,567,183	10,257,321	15,366,954	1,273,020	162,880
CFR – Commercial activities	-	-	-	-	-
Total CFR	**41,736,787**	**51,994,108**	**67,361,062**	**68,634,082**	**68,796,962**
Proportion	**0%**	**0%**	**0%**	**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 be given to:

Prudence:

- 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 4-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 4 - year financial 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

and Commercial (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.

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Annex F

Third Party Companies Update at Quarter 3 2020/21

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 usually 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 detailed below.

2.3 In addition, two further companies limited by shares have been set up in line with the 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. The two companies are:

- Hambleton District Holdings
- Hambleton Property Limited

2.4 At Quarter 2, 30 September 2020 no investment had occurred and the Commercial Investment Strategy report approved at Council in September 2020 suspended the Commercial Investment Strategy.

2.5 One of the reasons for the suspension of the Commercial Investment Strategy was the awaited comments from the government on the consultation paper from HM Treasury on 'Public Works Loan Board: future lending terms' support. These comments have now been provided and these confirm that the future lending terms from the government will be that interest rates will remain low where Councils do not invest for a commercial purpose.

3.0 Central Northallerton Development Company Limited

3.1 **Annual Accounts 2019/20** – Central Northallerton Development Company Limited has produced final accounts for three years where the annual report and financial statements 31 March 2020 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 2020/21 as 31 December 2020 -** Attached at Appendix A is Central Northallerton Development Company Limited's financial position at Quarter 3 2020/21, which is supplied for transparency purposes. The following highlights information from the accounts:

- The accounts show a profit for the financial period from 1 April 2020 to 31 December 2020 of £1,717,252 due to the sale of Phase 1 to Hambleton District Council.

- The 'Turnover' includes the rent received from Crosby Road Car Park of £59,781 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. Furthermore £2,040,546 is from the sale of Phase 1 back to Hambleton District Council.

- The 'Investment Properties' detailed in the balance sheet mainly relate to the Crosby Road Car park, where there is also a small amount of 'Plant' at £2,172.

- The 'Inventories' figure £591,351, in the balance sheet mainly relates to the development of the south side of the Treadmills site where the historic buildings are located; the site is due to complete in Autumn 2021. The expenditure 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 site has opened with Lidl and Iceland in November 2020.

- The 'Creditors: amounts falling due after more than one year' in the balance sheet of £2,415,248 is the loan from Hambleton District Council in relation to the land transfer of the former prison site for the development of Treadmills Phase 1 and 2 along with Wykeland.

- The loss brought forward from previous years is £76,356, on completion of the south side of the Treadmills site the accounts are now in profit with the total profit standing at £1,640,896.

Appendix A

Statement of comprehensive income for the year ended 31 March 2021 - for the period ending 31 December 2020

	Notes	Period ended 31-Dec-20	Year ended 31-Mar-20
Turnover		2,196,433	98,304
Cost of Sales		0	0
Gross profit (loss)		2,196,433	98,304
Administrative expenses		(89,181)	(107,389)
Profit/(Loss) on ordinary activities before taxation		**2,107,252**	**(9,085)**
Tax on profit on ordinary activities		(390,000)	0
Profit/(Loss) for the financial year/period		**1,717,252**	**(9,085)**

Balance Sheet for the for the period ending 31 December 2020

	Notes	31-Dec-20	31-Mar-20
Fixed Assets			
Investment Properties		97,880	94,610
Plant		2,172	0
		100,053	**94,610**
Current Assets			
Inventories		591,351	2,304,205
Debtors		156,464	35,435
Cash at bank and in hand		3,771,461	780,694
		4,519,276	3,120,334
Creditors: amounts falling due in within one year		**(563,181)**	**(876,048)**
Net Current Assets/(Liabilities)		**3,956,095**	**2,244,286**
Total assets less current liabilities		**4,056,148**	**2,338,896**
Creditors: amounts falling due after more than one year		**(2,415,248)**	**(2,415,248)**
Net Assets/(Liabilities)		**1,640,900**	**(76,352)**
Capital and Reserves			
Called up share capital		4	4
Profit and loss account		1,640,896	(76,356)
Total shareholder' equity		**1,640,900**	**(76,352)**

Statement of changes in equity for the year ended 31 March 2021 - for the period ending 31 December 2020

	Called up share capital £	Profit and (Loss) account £	Total shareholders' deficit £
Balance at 31 March 2020	**4**	**(76,356)**	**(76,352)**
Profit/(Loss)for the financial year to date	-	1,717,252	1,717,252
Balance at 31 December 2020	**4**	**1,640,896**	**1,640,900**

Appendix C

REGISTERED NUMBER: 09730539

CENTRAL NORTHALLERTON DEVELOPMENT COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

Central Northallerton Development Company Limited

Directors' Report and financial statements for the year ended 31 March 2020

Contents

Directors
D A Gibbons
Dr J Ives
J D Stubbs
P Wilkinson

Secretary
I C Franks

Independent Auditors
PricewaterhouseCoopers LLP
Central Square
29 Wellington Street
Leeds,
LS1 4DL

Bankers
HSBC Bank PLC
Merit House
Priory Park West
Saxon Way
Hessle
East Yorkshire
HU13 9PB

Registered Office
Wykeland House
47 Queen Street
Hull
HU1 1UU

Directors' Report
The Directors present their annual report and financial statements for the year ended 31 March 2020.

Principal activity, review of business and future prospects
The Company's principal activity is that of property development. On 20 October 2017 a development agreement was signed between Hambleton District Council and Wykeland Properties Limited to redevelop the 3.5 acre former Prison site in Northallerton. Agreements were signed with Lidl on 28 March 2018 and Iceland on 22 March 2019 for the construction and rental of two retail units on phase 1 of the development. Subsequently, the phase 1 land was sold to Hambleton District Council ("HDC") at its fair value. HDC is funding the development of the two stores and a further 1,330 sq ft unit which is yet to be let, which are due to be completed by September 2020. A further payment will be made by HDC on completion of the Phase 1 construction. Refurbishment of a number of listed buildings within the scheme has also commenced, this is being majority funded by a grant from North Yorkshire LEP and is expected to be completed by early 2021. Discussions are continuing regarding the lettings for the listed buildings and commercial units on the final phases of the development. The outcome of these discussions is not anticipated to have a material impact on the performance of the Company for a period of one year from the date of signing the financial statements.

Since the start of the Covid-19 pandemic in the first quarter of 2020, there has been widespread disruption in the UK. The pandemic continued to accelerate after the year end, however at the date of signing these financial statements the only effect has been a small disruption to the development of Phase 1. The construction of Phase 1 is progressing well, and it is still anticipated to complete on schedule. While it is not possible at the date of signing these financial statements to state the full financial effect of the Covid-19 pandemic on the Company's results, the impact is not anticipated to be material and has been considered by the Directors in making their going concern assessment.

Results and dividend
The loss for the year amounted to £9,085 (year ended 31 March 2019: £54,848). The Directors do not recommend the payment of a final dividend for the year ended 31 March 2020 (year ended 31 March 2019: £nil).

Directors
The directors of the Company who were in office during the year ended 31 March 2020 and up to the date of signing the financial statements were those listed on page 1

None of the Directors had any beneficial interest in the share capital of the Company.

Statement of directors' responsibilities in respect of the financial statements
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing the financial statements, the directors are required to:

Director's Report (continued)

Statement of directors' responsibilities in respect of the financial statements (continued)

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations
In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors
PricewaterhouseCoopers LLP were appointed as auditors to the Company during the year, and have indicated their willingness to continue in office.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

By Order of the Board

I C Franks
Secretary

3 June 2020

Independent auditors' report to the members of Central Northallerton Development Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, Central Northallerton Development Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2020; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

- We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where: the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Independent auditors' report to the members of Central Northallerton Development Company Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 2 and 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report to the members of Central Northallerton Development Company Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

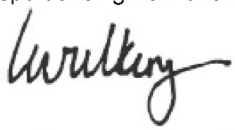
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: prepare financial statements in accordance with the small companies regime; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Lee Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
3 June 2020

Statement of comprehensive income for the year ended 31 March 2020

	Notes	**Year ended 31 March 2020** £	Year ended 31 March 2019 £
Turnover		**98,304**	1,661,249
Cost of sales		**-**	(1,676,706)
Gross profit / (loss)		**98,304**	(15,457)
Administrative expenses		**(107,389)**	(39,391)
Loss on ordinary activities before taxation		**(9,085)**	(54,848)
Tax on loss on ordinary activities	5	**-**	-
Loss for the financial year		**(9,085)**	(54,848)

All amounts relate to continuing operations.

All the loss for the financial year is attributable to the owners of the business.

Balance Sheet at 31 March 2020

	Notes	2020 £	2019 £
Fixed Assets			
Investment Properties	6	**94,610**	-
		94,610	-
Current Assets			
Inventories	7	**2,304,205**	1,156,395
Debtors	8	**35,435**	1,993,409
Cash at bank and in hand		**780,694**	-
		3,120,334	3,149,804
Creditors: amounts falling due in within one year	9	**(876,048)**	(801,823)
Net Current assets		**2,244,286**	2,347,981
Total assets less current liabilities		**2,338,896**	2,347,981
Creditors: amounts falling due after more than one year	10	**(2,415,248)**	(2,415,248)
Net Liabilities		**(76,352)**	(67,267)
Capital and Reserves			
Called up share capital	11	4	4
Profit and loss account		(76,356)	(67,271)
Total shareholders' deficit		**(76,352)**	**(67,267)**

The financial statements have been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

The financial statements on pages 7 to 15 were approved by the Board of Directors on 3 June 2020 and signed on its behalf by:

D A Gibbons
Director

Central Northallerton Development Company Limited
Company Number: 09730539

Statement of changes in equity for the year ended 31 March 2020

	Called up Share capital	Profit and loss account	Total shareholders' deficit
	£	£	£
Balance at 1 April 2018	**4**	**(12,423)**	**(12,419)**
Loss for the financial year	-	(54,848)	(54,848)
Balance at 31 March 2019	**4**	**(67,271)**	**(67,267)**
Loss for the financial year	-	(9,085)	(9,085)
Balance at 31 March 2020	**4**	**(76,356)**	**(76,352)**

Notes to the Financial Statements for the year ended 31 March 2020

1 General Information

Central Northallerton Development Company Limited (the "Company") is engaged in property development. The Company is a private company limited by shares and is incorporated in England and Wales under company number 09730539. The address of its registered office is given on page 1.

2 Statement of Compliance

The financial statements of Central Northallerton Development Company Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, and under the provisions of the Small Companies and Groups (Accounts and Reports) Regulations 2008.

3 Accounting Policies

Basis of Preparation

The financial statements are prepared on the going concern basis and under the historical cost convention, as modified by the revaluation of investment properties. However, compliance with FRS 102 requires departure from the requirements of the Companies Act 2006 relating to depreciation, in order to show a true and fair view. An explanation of the departure is given in the principal accounting policies, which are set out below.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- valuation of investment properties
- valuation of inventories

The financial statements are presented in Sterling (£).

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report.

The Company's activities are financed through a shareholder loan and the Company had net liabilities at 31 March 2020. Having undertaken a review of the Company's forecasts and projections, having considered the possible effects of the COVID19 pandemic, and having received confirmation that the shareholders intend to support the Company for at least one year after these financial statements are signed, the Directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Notes to the Financial Statements for the year ended 31 March 2020 (continued)

3 Accounting Policies (continued)

Revenue recognition
Turnover comprises the invoice value of goods and services supplied by the Company within the UK exclusive of VAT and is accounted for on an accruals basis. All of the Company's turnover relates to the principal activity and arises within the United Kingdom.

Rental income is recognised in the statement of comprehensive income on a straight line basis over the term of the lease. Property sales are recognised on the legal completion of a transaction.

Borrowing costs
Borrowing costs which are directly attributable to the construction of an asset are capitalised as part of the cost of the asset until the construction is complete. All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Investment properties
Investment properties are carried at fair value. Revaluation surpluses and impairment losses are recognised in the profit and loss account. Deferred taxation is provided on gains at the rate expected to apply when the property is sold. No depreciation or amortisation is provided on Investment Properties. Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amounts which might otherwise have been shown are not considered to be material in the context of these financial statements. Repairs and maintenance costs are expensed as incurred. Following a planning application, land and buildings previously accounted for as investment properties were transferred to inventories at fair value during the year. The directors believe this now more fairly represents the intentions of the Company for these assets.

Inventories
Stock comprises freehold land and buildings valued at the lower of cost and net realisable value (estimated selling price less applicable costs), together with recoverable costs incurred on development projects. At the end of each reporting year inventories are assessed for impairment. If an item is impaired, this is reduced to net realisable value and an impairment charge is recognised in the profit and loss account. Any grants received are deducted from the cost of the relevant asset.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term, highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown with borrowings in current liabilities.

Share capital

Ordinary shares are classified as equity.

4 Staff Costs, Directors' Emoluments and Auditors' remuneration

The Company did not have any employees during the year (2019: £nil), and no emoluments were payable to the directors (2019: £nil).

	2020	2019
	£	£
Auditors' remuneration – audit services	**4,000**	3,400

Notes to the Financial Statements for the year ended 31 March 2020 (continued)

5 Tax on loss on ordinary activities

The tax assessed on the loss on ordinary activities for the year is higher (2019: higher) than the standard rate of corporation tax in the UK. The differences are reconciled below:

	2020 £	2019 £
Loss before taxation	(9,085)	(54,848)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax of 19% (2019: 19%)	**1,726**	10,421
Unrelieved tax losses	(1,726)	(10,421)
Tax charge for the year	**-**	**-**

No provision has been made for a deferred taxation asset relating to trading losses that are currently carried forward. Trading losses carried forward at 31 March 2020 amount to £68,106 (31 March 2019: £67,271).

6 Investment properties

	Freehold land and buildings £
Cost:	
At 1 April 2019	-
Additions	94,610
At 31 March 2020	**94,610**
Accumulated depreciation:	
At 1 April 2019 and at 31 March 2020	-
Net book value:	
At 31 March 2020	**94,610**
At 31 March 2019	-

Notes to the Financial Statements for the year ended 31 March 2020 (continued)

7 Inventories

	2020 £	2019 £
Land and buildings for redevelopment	2,304,205	1,156,395

8 Debtors

	2020 £	2019 £
Trade debtors	17,160	1,993,409
Other taxation and social security	18,275	-
	35,435	**1,993,409**

9 Creditors: Amounts falling due within one year

	2020 £	2019 £
Bank overdraft	-	39
Trade creditors	848,470	42,218
Other taxation and social security	-	318,318
Amounts due to related parties (note 13)	-	437,248
Accruals	27,578	4,000
	876,048	**801,823**

Notes to the Financial Statements for the year ended 31 March 2020 (continued)

10 Creditors: Amounts falling due after more than one year

	2020 **£**	2019 £
Loans	**2,415,248**	2,415,248
	2,415,248	2,415,248
The loans are as follows:		
Hambleton District Council (note 13)	**2,415,248**	2,415,248
	2,415,248	**2,415,248**

There is no fixed date for the repayment of the loan. No security exists over the assets of the Company in respect of shareholder loan.

11 Called Up Share Capital

The share capital of the Company at 31 March 2019 and 31 March 2020 consisted of:

	Allotted and fully paid £
Ordinary shares of £1	4

12 Capital commitments

Amounts contracted for but not provided in the financial statements in respect of capital expenditure on Freehold land and buildings amounted to £1,254,994 (year ended 31 March 2019: £nil).

Notes to the Financial Statements for the year ended 31 March 2020 (continued)

13 Related Party Transactions

(a) The Company has the following loans outstanding to its shareholders:

	31 March 2020 £	31 March 2019 £
Hambleton District Council	2,415,248	2,415,248
Wykeland Properties Limited	-	437,248

There is no fixed date for the repayment of the loan.

(b) On 29 March 2019 the Company sold a portion of land to one its shareholders, Hambleton District Council, for its fair value of £1,500,000. This amount (and related VAT) was included in trade debtors in the financial statements at 31 March 2019, and was paid shortly after the year end.

(c) Hambleton District Council is funding the development of the Phase 1 of the site, having bought the land from the Company in March 2018. Hambleton District Council have paid the Company £2,201,880 during the year towards the cost of this development.

14 Ultimate Holding Company

At 31 March 2020 the Company had no Ultimate Controlling Party. The Company had two shareholders, Wykeland Properties Limited and Hambleton District Council, each of which owned 50% of the Company.

15 Post Balance Sheet Events

Since the start of the Covid-19 pandemic in the first quarter of 2020, there has been widespread disruption in the UK. The pandemic continued to accelerate after the year end, however at the date of signing these financial statements the only effect has been a small disruption to the development of Phase 1. The construction of Phase 1 is progressing well, and it is still anticipated to complete on schedule.