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HAMBLETON DISTRICT COUNCIL

AGENDA

Committee Administrator: Democratic Services Officer (01609 767015)

Monday, 18 March 2019

Dear Councillor

NOTICE OF MEETING

Meeting	**AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**
Date	**Tuesday, 26 March 2019**
Time	**9.30 am**
Venue	**Main Committee Room, Civic Centre, Stone Cross, Northallerton**

Yours sincerely

J. Ives.

Dr Justin Ives
Chief Executive

To:

Councillors
N A Knapton (Chairman)
R A Baker
Mrs C S Cookman
G W Dadd

Councillors
D B Elders
R W Hudson
P R Wilkinson

Other Members of the Council for information

AGENDA

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HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 March 2019

From: Director of Law and Governance (Monitoring Officer)

Subject: **REGULATION OF INVESTIGATORY POWERS ACT – REVIEW OF ACTIVITY**

All Wards

1.0 PURPOSE AND BACKGROUND:

1.1 The Council, like many public authorities, is governed by the Regulation of Investigatory Powers Act 2000 (RIPA). This Act ensures that public authorities comply with their obligations under the Human Rights Act when undertaking investigations which may interfere with the rights of individuals. The Act introduces safeguards on activities such as surveillance undertaken by public bodies.

1.2 The Audit, Governance and Standards Committee has been given responsibility for RIPA matters. This involves the Committee in reviewing the Council's Policy Statement from time to time and receiving quarterly reports on any activities which have been authorised under RIPA.

2.0 RIPA ACTIVITIES:

2.1 Although RIPA covers a number of activities undertaken by investigatory bodies (e.g., phone tapping by the Security Services and Police) its principle use in respect of Local Authorities relates to:-

- covert surveillance, and
- covert human intelligence sources.

2.2 Covert surveillance covers the monitoring, observing or listening to persons, their movements, conversations or other activities and communications. It may be conducted with or without the assistance of a surveillance device and includes the recording of any information obtained. RIPA is most relevant to the Council's activities in effecting enforcement procedures such as the investigation and prosecution of offences. This would not normally include the initial investigation of contraventions such as planning enforcement or noise investigations, but would normally involve the later stages where criminal activity was a possibility. Although this could technically include breaches of Planning Enforcement Notices, breaches of Environmental Health Notices, fraud, etc., the Council's use of the powers has been very limited in recent years. For example, the Council has not used authorisations under the Act in the last three years.

2.3 From 1 November 2012 the Council is only able to use RIPA for directed surveillance for potential criminal activity with a possible penalty of at least six months imprisonment. This means that the Council can no longer use the procedure for low-level offences such as littering, dog control and fly-tipping. For serious offences the Council needs approval from a magistrate before it can use directed surveillance.

2.4 Another use of the Act is for the Police to authorise use of the Council's CCTV system for specific operations (general use of CCTV is not covered by the Act because this is not covert surveillance). The Police authorise themselves to use the Council's CCTV system for covert surveillance on approximately two occasions per year.

2.5 Covert human intelligence sources relate to the use of a third party to gather information. For example, this could be an informer or someone used to undertake test purchases. This is not an activity that the Council engages in at all. The Council also needs the approval of a magistrate to carry out this activity.

2.6 The only area in which the Council very occasionally involves itself where RIPA might be relevant is covert surveillance. It is necessary for the Council therefore to follow the legislation and the requirements of Government Codes of Practice. Most of the requirements of the Code are dealt with at an Officer level. However, Members are expected to approve a Policy on RIPA and to have some involvement in the monitoring of how the Council implements RIPA requirements.

3.0 MONITORING OF RIPA ACTIVITY:

3.1 Codes of Practice on RIPA recommend that quarterly reports are made to Members on RIPA activity. Consideration of such reports has been delegated to the Audit, Governance and Standards Committee. This report therefore constitutes one of those reports and is intended to cover the period 23 January to 26 March 2019. There was no activity undertaken by the Council which had RIPA implications and therefore it is recommended that the Committee note the position.

4.0 RECOMMENDATION:

4.1 It is recommended that it be noted that no RIPA activity has been undertaken by the Council during the period 23 January to 26 March 2019.

GARY NELSON
DIRECTOR OF LAW AND GOVERNANCE (MONITORING OFFICER)

Background papers: HDC RIPA Register of Authorisations

Author ref: GN

Contact: Gary Nelson
Director of Law and Governance (Monitoring Officer)
Direct Line No: (01609) 767012

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 March 2019

From: Director of Finance (s151 Officer)

Subject: **THIRD INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT 2018/19**

All Wards

1.0 PURPOSE AND BACKGROUND:

1.1 The provision of Internal Audit is a statutory requirement (Accounts & Audit Regulations 2015). The council has formalised its arrangements for internal audit within the Audit Charter. Internal Audit work is undertaken by Veritau who carries out work in accordance with the Public Sector Internal Audit Standards (PSIAS).

1.2 The Audit and Governance Committee approved the internal audit and counter fraud plans for 2018/19 at its meeting held on the 27 March 2018. The purpose of this report is to inform Members of the progress made to date in delivering internal audit and counter fraud work.

2.0 THE REPORT

2.1 In the period between 1 April 2018 and 22 February 2019 Veritau has completed six planned internal audit reviews to final stage. Two reports on Community Infra-structure Levy and Revenues, Benefits and Recovery integration have been issued. One report on Digitalisation is at draft report stage. All audits in the plan have been started. We are on target to complete all audits and issue all draft reports by the end of April 2019. One minor update to the plan has also been agreed with the Director of Finance (s151 officer). Further information on internal audit progress is included in annex 1.

2.2 It is important that agreed actions are fully implemented by managers, following an internal audit review. The internal audit team carries out follow-up work throughout the year of previously agreed actions and escalates any issues that have not been addressed, to senior managers. Where necessary, the issues will also be brought to the attention of this committee. There are currently no matters to bring to the attention of members.

2.3 Counter fraud work has been undertaken in accordance with the approved plan. The team have achieved £15.9k savings against a target of £16k in the year to date. Annex 2 provides a summary of the work undertaken so far in 2018/19 and outcomes to date.

3.0 LINK TO COUNCIL PRIORITIES

3.1 The work of internal audit supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping support the council to become a more effective organisation.

4.0 RISK ASSESSMENT

4.1 There are no risks associated with this report.

5.0 FINANCIAL IMPLICATIONS:

5.1 There are no financial implications associated with this report.

6.0 LEGAL IMPLICATIONS:

6.1 There are no legal implications associated with the recommendations in the report.

7.0 EQUALITIES AND DIVERSITY ISSUES:

7.1 There are no equalities or diversity issues associated with the report.

8.0 RECOMMENDATIONS:

8.1 It is recommended that members note the work undertaken by internal audit and the counter fraud team in the year to date.

LOUISE BRANFORD WHITE
DIRECTOR OF FINANCE S151 OFFICER

Background papers: None

Author ref: SC/JD

Contacts: Stuart Cutts; Audit Manager; Veritau North Yorkshire
Stuart.Cutts@veritau.co.uk

Jonathan Dodsworth; Counter Fraud Manager;
Veritau North Yorkshire
Jonathan.Dodsworth@veritau.co.uk

Annex 1

Hambleton District Council

Internal Audit Progress Report 2018/19

Period to 22 February 2019

Audit Manager: Stuart Cutts
Deputy Head of Internal Audit: Richard Smith
Head of Internal Audit: Max Thomas

Circulation List: Members of the Audit, Governance and Standards Committee
Director of Finance (s151 officer)

Date: 26 March 2019

Veritau
Assurance Services for the Public Sector

Background

1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Head of Internal Audit is required to report, to 'those charged with governance' progress against the internal audit plan agreed by the Committee and to identify any emerging issues which need to be brought to the attention of the Committee.

2 Members of this Committee approved the Internal Audit Plan for 2018/19 at their meeting on the 27 March 2018. This report summarises the progress made to date in delivering the agreed programme of work.

3 This is the third Internal Audit progress report to be received by the Audit, Governance and Standards Committee in 2018/19. This report updates the Committee on the work completed between 1 April 2018 and 22 February 2019.

Internal Audit work completed

4 In the period between 1 April 2018 and 22 February 2019 we have completed six pieces of work. Two reports on Community Infrastructure Levy and Revenues, Benefits and Recovery integration have been finalised since the last committee. One report on Digitalisation is currently at draft status.

5 All audits in the plan have been started, with the exception of risk management (see paragraphs 8 and 9 below). We are on target to have completed all of the other audits and issued draft reports by the end of April 2019. We will work with officers to seek to ensure all reports are finalised by the end of May 2019. Further information is included in **Appendix A**.

6 Information on the findings from the two 2018/19 audits finalised since the last progress report is included in **Appendix B**.

Audit Opinions

7 For most reports we provide an overall opinion on the adequacy and effectiveness of the controls under review. The opinion given is based on an assessment of the risks associated with any weaknesses in controls identified. We also apply a priority to all actions agreed with management. Details of the definitions used are included in **Appendix C**.

Changes to the 2018/19 internal audit plan

8 Following the last Audit, Governance and Standards Committee we have agreed some minor revisions to the 2018/19 plan with the Director of Finance (s151 Officer). Overall there is no change to the total number of audit days.

9 The council is currently reviewing its Risk Management arrangements. This work will not be fully completed and introduced until after March 2019. The audit of risk management planned for 2018/19, to review the new arrangements, will now be included in the 2019/20 Internal Audit plan. We have used the 10 days originally planned for the audit of risk management, to provide support to the work on Revenues, Benefits and Recovery integration, Payroll, the planning audits and some additional support and advice on the development of the updated approach to Risk Management.

Wider Internal Audit work

10 In addition to undertaking assurance reviews, Veritau officers are involved in a number of other areas relevant to corporate matters:

- **Support to the Audit, Governance and Standards Committee**; this is mainly ongoing through our attendance at meetings of the Committee and the provision of advice to Members.

- **Ongoing support to management and officers;** we meet regularly with management to provide advice on a range of specific business and internal control issues. These relationships help to provide real time feedback on areas of importance to the Council.

- **Financial assessments;** this work involves supporting the assurance process by using financial reports obtained from Experian (Credit Rating Agency) to assess the financial standing of potential contractors.

- **Follow up of previous audit recommendations;** it is important agreed actions are regularly and formally followed up. This helps to provide assurance to management and Members that control weaknesses have been properly addressed. We have followed up agreed actions either as part of our ongoing audit work, or by separate review. We currently have no matters to report as a result of our follow up work.

- **Risk Management;** Veritau advise on the Council's risk management processes.

- **Investigations;** We perform special or ad-hoc reviews or investigations into specific issues.

Stuart Cutts
Audit Manager
Veritau Ltd

26 March 2019

Table of 2018/19 audit assignments to 22 February 2019 — Appendix A

Audit	Status	Assurance Level	Audit Committee
Director of Finance (s151 Officer)			
Revenues and Benefits			
Benefits	In Progress (20% completed)		
Corporate Finance			
Payroll	In Progress (70% completed)		
Creditors	In Progress (60% completed)		
Income and Receipting	In Progress (80% completed)		
General Ledger	In Progress (30% completed)		
Treasury Management	In Progress (40% completed)		
Performance and Information Technology			
Risk Management	To be completed as part of 2019/20 Audit Plan.		
Performance Management Framework	In Progress (20% completed)		
Digitalisation	Draft Report		
Transparency Code	**Final Report**	**High Assurance**	**October 2018**
Director of Law and Governance			
Sickness Absence	**Final Report**	**Reasonable Assurance**	**January 2019**
Contract Management	In Progress (20% completed)		
Director of Leisure and Communities			
Depot policies and security	In Progress (90% completed)		
Depot Training	**Final Report**	**Limited Assurance**	**October 2018**
Leisure Services 24/7 access	**Final Report**	**High Assurance**	**October 2018**
Business Continuity and Disaster Recovery	In Progress (80% completed)		
Director of Economy and Planning			
Planning – systems development	In Progress (80% completed)		
Planning Enforcement	In Progress (90% completed)		
Community Infrastructure Levy	**Final Report**	**Substantial Assurance**	**March 2019**
Project Support			
Risk Management – development and support	Ongoing	-	
Payment Card Industry Data Security Standards	Ongoing	-	
Revenues, Benefits and Recovery Integration	**Final Report**	**No opinion**	**March 2019**
ICT- Network Infrastructure refresh	Ongoing	-	
Follow-Ups	Ongoing		

Summary of Key Issues from audits completed to 22 February 2019; not previously reported to Committee **Appendix B**

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Community Infrastructure Levy	Substantial Assurance	The Community Infrastructure Levy (CIL) came into force in April 2010. It allows local authorities in England and Wales to raise funds from developers undertaking new building projects in their area We reviewed the CIL to ensure that: • adequate policies and procedures were in place and being followed • CIL liability and demand notices were timely and correct • all income had been collected promptly • regular and accurate monitoring arrangements were in place.	February 2019	**Strengths:** Detailed policies and procedures are in place for the CIL. These have been reviewed since our last work in 2017. New self-build and liability guidance have been written and are available on the HDC website. Sample review of planning applications found all cases had been processed in accordance with HDC's policies and procedures. CIL liability and demand notices were also found to be timely and correct. Sample review of income collection and payment of amounts to Parish Councils found no matters arising. **Areas for Improvement:** The progress of CIL applications and any payments made is monitored using a manual spreadsheet. The spreadsheet system is complicated, time-consuming and difficult to maintain. (NB: The IDOX Uniform planning system holds some of the information included in the spreadsheet but the IDOX CIL related software 'Uniform tracker' is now no longer supported by the software supplier.) The amount recorded as received on the CIL spreadsheet is not being reconciled to the finance system. There is also no regular reconciliation of payments made to Parish Councils between the finance system and CIL planning records.	By March 2019 the spreadsheet will be simplified in line with the suggestions included in the audit report. Planning Management will identify if an alternative appropriate electronic CIL monitoring system is available. If one is they will identify costs and implement as part of the Development Management improvement programme. All of this will be undertaken over the next year. On the reconciliations Planning will work jointly with Finance and Customer Services to identify a way which can access and record data on one mutual system. It is envisaged this area will be addressed by the end of April 2019.
Revenues, Benefits and Recovery Integration	No opinion	The Revenues and Benefits service at Hambleton District Council has three teams; Revenues, Benefits and Recovery.	January 2019	Work reviewed the key tasks of each team including the updating of Council Tax and Housing Benefits accounts and billing, and the collection and debt recovery processes for Council Tax and Housing Benefits overpayments.	The next step is for the project plan for Revenue and Benefits Integration to be fully considered and finalised by Management. This is planned to be completed by the end of March 2019.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		Each team has their own Team Leader and works independently from each other. The council are considering integrating all three teams. The purpose of the project support work was to: • review, document and assess the key functions within Revenues, Benefits and Recovery. • support the Council's future decision making on the nature of the systems, processes and controls in any integrated service. As this work was project support it was not appropriate for us to provide an overall audit opinion.		Each process was reviewed from an internal control, efficiency and risk viewpoint. This work highlighted potential areas of inefficiency. For example we noted: • The transfer of manual information between the teams and systems created delays in processing recovery of some overpayments. • The use of officers who are skilled and specialised who complete a number of generic administrative duties in the Council Tax and Benefits teams In respect of internal control then schemes of authorisation and separation of duties are key areas to have clearly defined in any new 'ways of working'. It is important the Council applies appropriate risk management and project management when introducing the project of integration to the Revenues, Benefits and Recovery teams.	Management will apply the Council's project management framework in introducing any changes to working arrangements on Revenues, Benefits and Recovery. It is expected that integration and new ways of working will be introduced by 31 December 2019.

Appendix C

Audit Opinions and Priorities for Actions

Audit Opinions	
Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on 5 grades of opinion, as set out below.	
Opinion	**Assessment of internal control**
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

Annex 2

Hambleton District Council

Counter Fraud Progress Report 2018/19

Counter Fraud Manager: Jonathan Dodsworth
Deputy Head of Internal Audit: Richard Smith
Head of Internal Audit: Max Thomas

Circulation List: Members of the Audit, Governance & Standards Committee
Director of Finance (s151 officer)

Date: 26 March 2019

Veritau
Assurance Services for the Public Sector

Background

1 Fraud is significant risk to the public sector. Annual losses are estimated to exceed £40 billion in the United Kingdom.

2 Councils are encouraged to prevent, detect and deter fraud in order to safeguard public finances.

3 Veritau are engaged to deliver a corporate fraud service for Hambleton District Council. A corporate fraud service aims to prevent, detect and deter fraud and related criminality affecting an organisation. Veritau deliver counter fraud services to the majority of councils in the North Yorkshire area as well as local housing associations and other public sector bodies.

Counter Fraud Performance 2018/19

4 Up to 15 February 2019, the fraud team achieved £15.9k in savings for the council as a result of investigative work. There are currently 24 ongoing investigations. A summary of counter fraud activity is included in the tables below.

COUNTER FRAUD ACTIVITY 2018/19

The tables below shows the total number of fraud referrals received and summarises the outcomes of investigations completed during the year to date.

	2018/19 (As at 15/02/19)	**2018/19 (Target: Full Year)**	**2017/18 (Full Year)**
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked).	36%	30%	50%
Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation.	£15,915	£16,000	£11,625

Caseload figures for the period are:

	2018/19 (As at 15/02/19)	**2017/18 (Full Year)**
Referrals received	52	28
Referrals rejected	15	6
Number of cases under investigation	24	22[1]
Number of investigations completed	26	22

[1] As at 31/3/18

Summary of counter fraud activity:

Activity	Work completed or in progress
Data matching	The 2018/19 National Fraud Initiative is underway. A range of council data was gathered and sent to the Cabinet Office by council colleagues in October. An initial 682 matches were released at the beginning of February with more expected over the next two months. The matches are currently being reviewed by council staff. Any suspected fraud arising from the matches will be investigated by the Counter Fraud team. The council participated in an NFI Business Rates pilot alongside regional partners this year. The exercise highlighted a number of businesses to visit as well as data errors within the business rates database.
Fraud detection and investigation	The service continues to use criminal investigation techniques and standards to respond to any fraud perpetrated against the council. Activity to date includes the following: • **Council Tax Support fraud** – In 2018/19 the team has received 27 referrals for possible CTS fraud. Four people have been issued warnings relating to fraud in this area. There are currently 13 cases under investigation. £9,842 of savings has been identified through CTS fraud investigation in the current financial year. • **Council Tax/Non Domestic Rates fraud** – 25 referrals for council tax fraud have been received to date. There are currently 11 cases under investigation. £6,472 of loss due to fraud and error has been identified through Council Tax fraud investigation in the current financial year. In 2018/19 four people have been warned over their conduct relating to Council Tax fraud. • **Internal fraud** – No internal fraud referrals have been received this year.

Activity	Work completed or in progress
Fraud Management	In 2018/19 a range of activity has been undertaken to support the Council's counter fraud framework. • In May, the council's counter fraud transparency data was updated to include data on counter fraud performance in 2017/18 meeting the council's obligation under the Local Government Transparency Code 2015. • The council participated in the annual CIPFA Counter Fraud and Corruption Tracker (CFaCT) survey in June 2018. The information contributed to a recently released CIPFA report which aims to provide a national picture of fraud, bribery and corruption in the public sector and the actions being taken to prevent it. • Area specific fraud awareness training has been delivered to the Council Tax and Benefit Teams this year. In addition, three general fraud awareness sessions were delivered to council staff from across the organisation in October. • As part of International Fraud Week in November, the counter fraud team raised awareness of fraud with staff via intranet articles published throughout that week. • In February meetings were held with the Department for Work and Pensions (DWP) to discuss possible joint working arrangements due to commence in the Yorkshire and Humber region in May 2019. • In March a leaflet was included in the annual council tax and business rates billing. The leaflet detailed different types of fraud that could affect the council and encouraged the public to report their suspicions of fraud via the fraud hotline. • The counter fraud team alerts council departments to emerging local and national threats through a monthly bulletin and specific alerts over the course of the year.

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HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 March 2019

From: Director of Finance (s151 officer)

Subject: **VERITAU INTERNAL AUDIT, COUNTER FRAUD AND INFORMATION GOVERNANCE PLANS 2019/20**

All Wards

1.0 PURPOSE AND BACKGROUND:

1.1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS). In accordance with those standards and the Council's Audit Charter, internal audit is required to prepare an audit plan on at least an annual basis. As stated within paragraph 7.6 of the Audit Charter this Committee has responsibility to approve the audit plan.

1.2 In addition to Internal Audit, Veritau provides the Council with specialist Counter Fraud and Information Governance services. For transparency and information purposes we have included these services alongside the audit plan within this report. These reports do not need Committee approval but are presented for the Committee's information.

1.3 The purpose of this report is to present the proposed Internal Audit, Counter Fraud and Information Governance plans for 2019/20.

2.0 THE REPORT

2.1 Once a year the ongoing audit planning process is formalised with the production of the Annual Internal Audit plan. The plan is based on a risk assessment which helps to ensure that limited audit resources are prioritised towards those areas which are considered to be the most appropriate and/or which contribute the most to the achievement of the Council's priorities and objectives.

2.2 The audit plan includes an estimate of the time individual elements will take. The estimate of time seeks to reflect the depth of risks and work required and was agreed between internal audit and officers during the planning process. Discussions during the planning process plus previous knowledge and experience help inform these estimates. Further information on the internal audit planning process was provided to this Committee in June 2016. A copy of the internal audit plan for 2019/20 is attached in Annex 1. Progress against the plan will be reported to Committee on a quarterly basis

2.3 The plan for Counter Fraud is included in Annex 2. Progress against the Counter Fraud Plan will also be reported to Committee on a quarterly basis. The plan for Information Governance work is included in Annex 3.

2.4 The content of the plans has been subject to consultation with relevant Directors and other senior officers as necessary.

2.5 The Internal Audit plan includes 285 days, the Counter Fraud plan 120 days and Information Governance 145 days.

3.0 LINK TO COUNCIL PRIORITIES

3.1 The work of internal audit, counter fraud and information governance supports the Council's overall aims and priorities by promoting probity, integrity and honesty and by helping support the council to become a more effective organisation.

4.0 RISK ASSESSMENT:

4.1 There are no risks associated with the recommendations in the report.

5.0 FINANCIAL IMPLICATIONS:

5.1 There are no financial implications associated with the recommendations in the report.

6.0 LEGAL IMPLICATIONS:

6.1 There are no legal implications associated with the recommendations in the report.

7.0 EQUALITIES AND DIVERSITY ISSUES:

7.1 There are no equalities or diversity issues associated with the report.

8.0 RECOMMENDATIONS:

8.1 It is recommended that the Internal Audit Plan 2018/19 be approved and that the Counter Fraud and Information Governance plans be noted.

LOUISE BRANFORD WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None

Author ref: SC

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Annex 1

Hambleton District Council

Internal Audit Plan 2019/20

Audit Manager: Stuart Cutts
Head of Internal Audit: Max Thomas

Circulation List: Members of the Audit, Governance & Standards Committee
Chief Executive
Executive Director & Deputy Chief Executive
Management Team

Date: March 2019

Veritau
Assurance Services for the Public Sector

Introduction

1 This document sets out the planned 2019/20 programme of work for internal audit, provided by Veritau for Hambleton District Council.

2 The work of internal audit is governed by the Public Sector Internal Audit Standards. In accordance with those standards and the Council's Audit Charter, internal audit is required to prepare an audit plan on at least an annual basis. The standards require that internal audit independently forms a view on the risks facing the council and work to be included in the audit plan.

3 The Head of Internal Audit is required to produce an annual internal audit opinion to the Council based on an objective assessment of the effectiveness of the framework of Risk Management, Governance and Internal control. Our planned audit work includes coverage of all three areas to develop a wider understanding of the assurance framework of the Council and provide a fully informed body of work to provide that opinion.

4 The internal audit plan has been prepared on the basis of a risk assessment. This is intended to ensure that limited audit resources are prioritised towards those systems which are considered to be the most risky and/or which contribute the most to the achievement of the District Council's priorities and objectives. The content of the internal audit plan has been subject to consultation with directors and other senior officers.

5 The internal audit plan is submitted for formal approval by the Audit, Governance and Standards Committee who are also responsible for monitoring progress against the plan. Changes to the plan may be made during the year, for example to accommodate audit of emerging risk areas. Any changes will be agreed with the Director of Finance (s151 officer) and will be notified to this committee. Proposed work is also discussed with the Council's external auditors to ensure there is no duplication of effort. We will provide regular updates on the scope and findings of our work to the Audit, Governance and Standards Committee throughout 2019/20.

6 The plan is based on a total number of 285 days for 2019/20 which is the same as in 2018/19.

2019/20 Internal Audit Plan

7 The plan has been structured in sections under the responsibilities of each Director of the Council plus the time allocated on project suport, client support, advice and follow up.

Internal Audit Plan 2019/20

Director of Finance (s151 officer)

Revenues and Benefits

Audit	Scope	Days
Benefits	To review the key risks and controls involved in awarding and paying Housing Benefits and the performance and efficiency of systems and processes post Benefits and Revenues integration. Work will include benefit overpayments recovery.	15
Revenues	To review the key risks and controls involved in collecting Council Tax and Business Rates, and the performance and efficiency of systems and processes post Benefits and Revenues integration.	15
		30

Corporate Finance

Audit	Scope	Days
Payroll	A review of the payroll system and key risk areas of employee expenditure.	15
Creditors	To review the key risks and controls surrounding the payment of creditor invoices.	10
Sundry Debtors	A review of the key controls around raising invoices and collecting income, including debt recovery.	10
Income: Fees, Charges and Collection	A review of the processes for determining fees and charges and the consistency of arrangements in different parts of the Council. Work will also follow up any issues around income collection identified in previous audit work and the arrangements at customer service offices.	15
		50

Performance and Information Technology

Audit	Scope	Days
Risk Management	A review of the effectiveness of the application of the Council's updated approach to Risk Management. We will review use of the new risk register including the identification and management of risk.	10
Project Management	To review the progress made in updating guidance and rolling out the new framework for the management of projects.	10
ICT	A review of key ICT risks and controls. The specific area will be agreed with officers during the year.	15
Digitalisation	A follow up review to appraise progress made and the effectiveness of arrangements to improve the use of technology and digitalisation throughout the Council.	5
		40

120

Director of Economy and Planning

Audit	Scope	Days
Disabled Facilities Grants	A review of the Council's systems, processes and overall arrangements in respect of the management of Disabled Facilities Grants.	17
Section 106 Agreements	A review of the systems and processes in place for applying and enforcing s106 agreements.	10
Homelessness	A review of arrangements for preventing and tackling homelessness. This will include reviewing compliance with the requirements of the Homeless Reduction Act 2017.	15
Economic Development	A review of the Councils economic development strategies and arrangements to ensure they are up-to-date and meet the aims and objectives of the Council.	15
		57

Director of Leisure and Environment

Audit	Scope	Days
Repairs and Maintenance at Leisure Centres	A review of the effectiveness of contract management for repairs and maintenance expenditure at the Leisure Centres.	15
Flexible Working	A review of compliance with council policy on home and flexible working, within the Leisure and Communities service.	10
Community Safety and Safer Hambleton Hub	A review of the systems and processes in place to deliver the Council's statutory obligations in respect of Community Safety and the Safer Hambleton Hub.	10
		35

Director of Law and Governance

Audit	Scope	Days
New starters	A detailed review of the application of policies and procedures for new starters. Work will include review of new starters' checks and the application of Council policy in respect of induction and probationary periods.	20
		20

Improvement

Projects

Audit	Scope	Days
Assurance Mapping	This was a specific recommendation from Veritau's external Public Sector Internal Audit Standards (PSIAS) assessment in 2018. We will consider and develop review of other sources of assurance to ensure that duplication of work is minimised and audit resources are used effectively.	8
		8

Client Support, Advice and Follow up

Area	Days
Committee Preparation and Attendance	12
Audit Planning and Client Liaison	8
Follow up of previous years findings	8
Miscellaneous Advice	8
Financial Appraisals	5
Other (e.g. External Audit Liaison, Member and Officer Training)	4
	45
	285

Annex 2

Hambleton District Council

Counter Fraud Plan 2019/20

Counter Fraud Manager: Jonathan Dodsworth
Deputy Head of Internal Audit: Richard Smith
Head of Internal Audit: Max Thomas

Circulation List: Member of the Audit, Governance & Standards Committee
Chief Executive
Executive Director & Deputy Chief Executive
Management Team

Date: March 2019

Veritau
Assurance Services for the Public Sector

Introduction

1 Veritau undertakes counter fraud work on behalf of Hambleton District Council. This document summarises the agreed areas of counter fraud work for 2019/20.

2 The Counter Fraud Plan is based on an estimate of the amount of resource required to provide the range of counter fraud activities required by the council. A total of 120 days of counter fraud work has been agreed for 2019/20.

2019/20 Counter Fraud Plan

3 A summary of planned areas of work is set out in the table below.

Fraud Area	Scope
Counter Fraud General	Monitoring changes to regulations and guidance, review of counter fraud risks, and support to the council with maintenance of the counter fraud framework. This will include completion of the annual counter fraud risk assessment and review of the counter fraud policy and strategy.
Proactive Work	This includes: • raising awareness of counter fraud issues and procedures for reporting suspected fraud - for example through training and provision of updates on fraud related issues • targeted proactive counter fraud work - for example through local and regional data matching exercises • support and advice on cases which may be appropriate for investigation and advice on appropriate measures to deter and prevent fraud.
Reactive Investigations	Investigation of suspected fraud affecting the council. This includes feedback on any changes needed to procedures to prevent fraud recurring.
National Fraud Initiative (NFI)	Investigation and reporting of matches identified through the National Fraud Initiative.

Annex 3

Hambleton District Council

Information Governance Plan 2019/20

Information Governance Manager: Rebecca Bradley
Head of Internal Audit: Max Thomas

Circulation List: Member of the Audit, Governance & Standards Committee
Chief Executive
Executive Director & Deputy Chief Executive
Management Team

Date: March 2019

Veritau
Assurance Services for the Public Sector

Introduction

1 Veritau undertakes information governance work on behalf of Hambleton District Council. Veritau is also the Council's appointed statutory Data Protection Officer which involves the carrying out of specific functions. The service helps to ensure the Council complies with all relevant legislation, including the General Data Protection Regulation (GDPR), Data Protection Act 2018 and Freedom of Information Act 2000. This document summarises the agreed areas of work for 2019/20.

2 The Information Governance Plan is based on an estimate of the amount of resource required to provide the range of activities required by the Council. A total of 145 days of information governance work has been agreed for 2019/20.

2019/20 Information Governance Summary

3 The following table provides an indicative allocation of time across each element of the service:

Area	Days	Scope
FOI and Subject Access Requests	112 Days	Coordination of responses to freedom of information requests, environmental information requests, subject access requests and other requests to exercise data protection rights.
Coordination of Information Security Investigations	8 Days	The investigation of serious information security incidents and the coordination of remedial activity.
Data Protection Officer Role	5 Days	Monitoring compliance with the Council's policy framework and data protection legislation (including undertaking a programme of audits) as Data Protection Officer. This also includes liaising with the UK Information Governance regulator: the Information Commissioner's Office (ICO) and with data subjects who have concerns with how their data is being processed.
Information Governance Strategy and Support	15 Days	Developing the Council's policy framework, advising on the implementation of new information governance processes and supporting service area projects with information governance consultations.
Provision of Advice and Training	5 Days	The provision of advice and guidance on all information governance related matters. Supporting service managers by providing

specific information governance training sessions to officers.

2019/20 Information Governance Strategic Objectives

4 The following strategy objectives will be delivered by Veritau in 2019/2020:

Development of Information Governance Policy Framework

5 The Council is required to demonstrate compliance with the six data protection principles by maintaining a framework of Information Governance Policies. This work commenced in 2018/2019 and is expected to be finalised in 2019/2020.

The following policy areas will be developed:

- Overarching Information Governance Strategy
- Information Access, Rights, and Transparency
- Personal Privacy
- Information Security Overview
- Information Security Incident Reporting

Information Asset Management

6 The Council is required to maintain 'Records of Processing'. The Council established an information asset register in 2018/2019 to comply with this requirement. Veritau will work with service managers to refine and expand this register in 2019/2020. This will give better oversight of processing activity in each service area.

7 As part of the work on developing the Council's information asset register a comprehensive list of other data controllers who may receive data from the Council has been compiled. Veritau will work with service managers to ensure that these data sharing arrangements are formalised through information sharing agreements as per the requirements of the North Yorkshire Information Sharing Protocol which the Council is a signatory to.

8 A process map detailing how this work will be undertaken can be found in Appendix 1 of this report.

Transparency

9 Veritau will work with service managers to ensure that necessary information is published in accordance with legislative requirements. This includes local government specific datasets, privacy notices, and consent forms.

2019/20 Information Governance Compliance Review

10 An information governance compliance review will be conducted in 2019/2020. This review will focus on specific requirements of the General Data Protection Regulation (GDPR) and Data Protection Act 2018 which came into force in the UK in May 2018.

11 A key element of the compliance review will be to cross check contracts declared on the corporate information asset register against the Council's contracts register. This will identify where data processing arrangements are in existence and to ensure that contracts have been suitably varied to include adequate GDPR contractual clauses.

12 The outcomes of the compliance review will be published in a report which will determine the information governance strategic objectives for 2020/2021.

2019/20 Information Governance Training Provision

13 The following information governance themes will be covered by specific Veritau delivered training in 2019/2020:

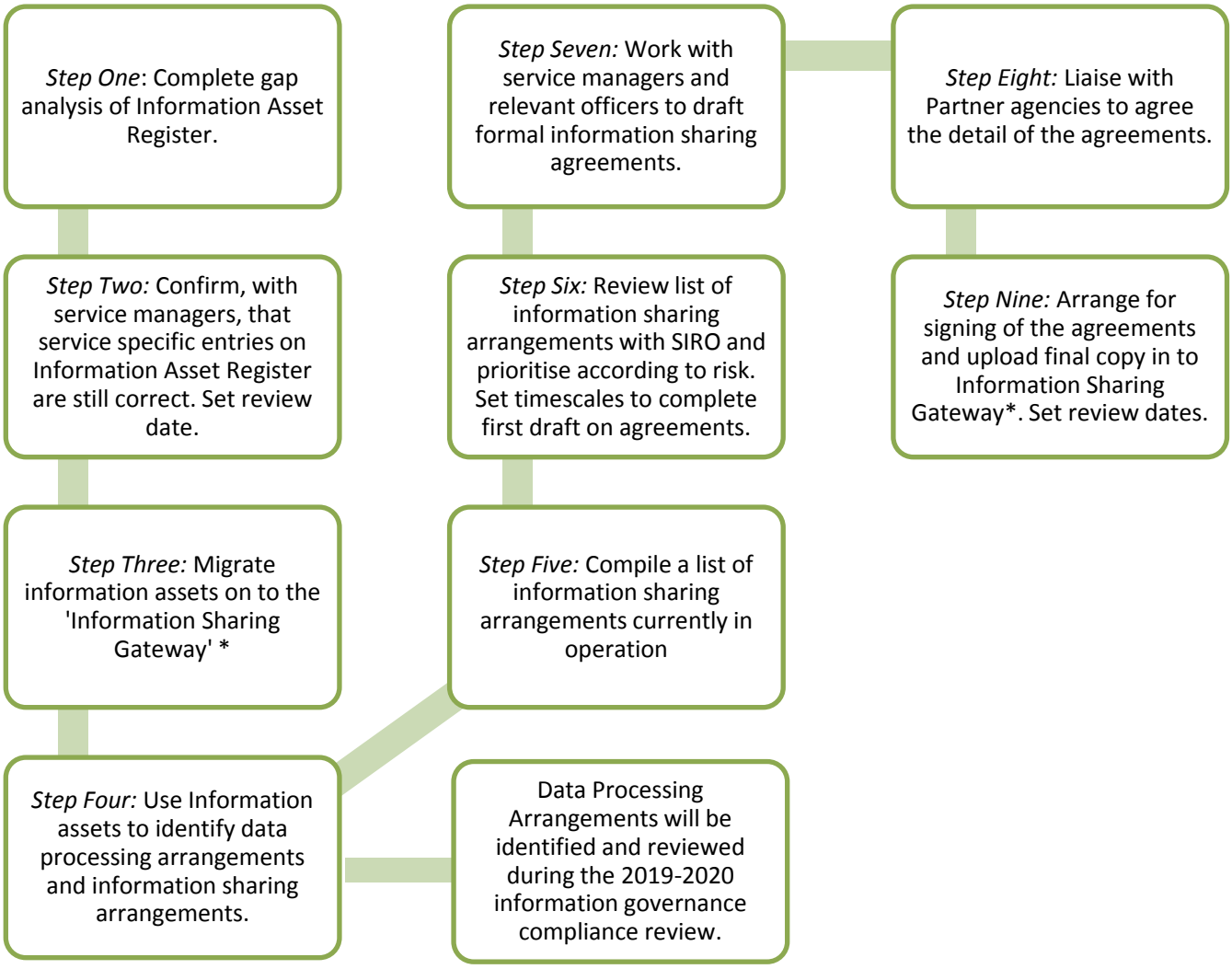
Records Management

14 Delegates will be introduced to Records Management concepts and tools including: the Records Lifecycle, benefits of Records Management, file plans, email management, retention and Information Asset Registers.

Data Protection Rights and Principles

15 Delegates will be introduced to the six data protection principles and the various rights that data subjects have with regards to their personal data. This session will focus on transparency and accountability.

Appendix 1: Process Map detailing development of Information Sharing Agreements across the Council.



* *The 'Information Sharing Gateway' i*s an online framework to support information sharing across a number of organisations. A number of organisations in North Yorkshire are working together to use the gateway to integrate their depositories of information sharing agreements and create a detailed information flow map across the County.

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HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 March 2019

From: Director of Finance (S151 Officer)

Subject: **STATUTORY AUDITOR – ANNUAL CERTIFICATION OF CLAIMS AND RETURNS 2017/18**

All Wards

1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of this report is to present to Members the statutory auditor's Certification of Claims and Returns Annual Report for 2017/18 which is attached at Annex 'A'.

1.2 The Report summarises the work which the Council's statutory auditors have undertaken in certifying the Council's major grant claims and returns in relation to the financial year 2017/18. In this year the housing benefit subsidy claim is the only item that required certification.

2.0 RISK ANALYSIS:

2.1 There are no risks associated with consideration of this report. However, if this report was not considered the Committee would not be fulfilling its terms of reference and would not have the opportunity of commenting on the statutory auditor's work in respect of the annual certification of claims and returns for 2017/18.

3.0 RECOMMENDATION:

3.1 It is recommended that Members receive the statutory auditor's Certification of Claims and Returns Annual Report 2017/18.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 Officer)

Background papers: None

Author ref: LBW

Contact: Louise Branford-White
Director of Finance (Section 151 Officer)
Direct Line No: 767024

Certification of claims and returns annual report 2017/18

Hambleton District Council

January 2019

EY
Building a better working world

January 2019

Members of the Audit, Governance and Standards Committee
Hambleton District Council
Civic Centre
Stone Cross
Northallerton
DL6 2UU

Dear Audit, Governance and Standards Committee Members

This report summarises the results of our work on Hambleton District Council's 2017/18 claims.

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies, and must complete returns providing financial information to government departments. In some cases, these grant-paying bodies and government departments require appropriately qualified reporting accountants to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to Public Sector Audit Appointments Ltd ("PSAA") by the Secretary of State for Communities and Local Government. For 2017/18, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this claim, we followed a methodology determined by the Department for Work and Pensions.

This report is intended solely for the information and use of the Audit, Governance and Standards Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you at the Audit, Governance and Standards Committee meeting on 26 March 2019.

Yours faithfully

Nicola Wright

For and on behalf of Ernst & Young LLP

Contents

01 Housing benefits subsidy claim

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£15,571,026
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2017/18	£12,177 (fee includes scale fee variation of £891, pending PSAA approval)
Fee – 2016/17	£11,891 (fee includes scale fee variation of £663)

Recommendations from 2016/17	Findings in 2017/18
No recommendations were made as part of the 2016/17 testing that was performed.	No specific findings to report. See the results of our testing below.

Local government administers the government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions ("DWP") towards the cost of benefits paid.

The certification guidance requires reporting accountants to follow a programme of work specified by DWP.

Detailed case testing is carried out on an initial sample of 20 cases per benefit type.

More extensive '40+' or extended testing is carried out if the initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years' claims.

We performed 40+ testing on a sample of Local Housing Allowance cases due to the prior year qualification in this area. No errors were found in this testing in the current year.

We found one error in our initial testing of Rent Allowances cases. This error related to the incorrect input of earned income, and we therefore extended our testing for a sample of earned income cases. This 40+ testing resulted in no further errors. The original error lead to an underpayment, therefore we reported the outcome in a qualification letter but no extrapolation was required.

There were no errors identified that resulted in an amendment to the claim form.

02 2017/18 certification fees

2017/18 certification fees

The PSAA determine a scale fee each year for the certification of the housing benefits subsidy claim. For 2017/18, these scale fees were published by PSAA and are available on their website (www.psaa.co.uk).

Claim or return	2017/18	2017/18	2016/17
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	*12,177	11,286	11,891

*The actual fee for 2017/18 includes a scale fee variation of £891. This fee was for the additional 40+ testing we completed on behalf of the Council.

03 Looking forward

Looking forward

2018/19 and beyond

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that from 2018/19 the Council has appointed us to act as reporting accountant in relation to the Housing Benefit assurance process.

We welcome this opportunity to continue undertaking this work for the Council, providing a seamless quality service, drawing on our vast array of experienced and knowledgeable public sector professionals, whilst realising the efficiencies that are achieved by undertaking both the audit and grant work.

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HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 March 2019

From: Director of Finance (S151 Officer)

Subject: **REVIEW OF ANNUAL TREASURY MANAGEMENT STRATEGY 2019/20**

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 Treasury Management Strategy for the forthcoming financial year 2019/20. The Treasury Management Strategy is influenced by the capital expenditure plans of the Council for 2019/20 and the next 10 years.

1.2 It is a requirement, in accordance with the CIPFA Treasury Management Code of Practice, that the Council's Annual Treasury Management Strategy should be subject to Member scrutiny and at this Council that scrutiny is fulfilled by the Audit, Governance and Standards Committee. This scrutiny role is within the Committee's terms of reference.

1.3 Attached at Appendix 'A' is the "2019/20 Capital Programme Budget, Treasury Management Strategy Statement and Prudential Indicators" report which was approved by Cabinet at its meeting on 12 February 2019. This report also contains 5 annexes which are labelled Annex A to Annex E.

1.4 Paragraphs 4.1 to 4.8 of the cabinet report provide a summary of the proposed Treasury Management Strategy for 2019/20 which is included here in italics for ease:

4.1 The Treasury Management Strategy sets out a framework for how the Council will manage its investments, cash flows and borrowings for 2019/20. The Treasury Management Strategy Statement including the Annual Investment Strategy, the Minimum Revenue Provision Policy Statement and Prudential and Treasury Management Indicators is attached at Annex C. Specifically the Treasury Management Strategy:

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

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

4.3 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code which requires all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

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

4.4 The Capital Strategy 2019/20 is reported elsewhere on this agenda and is separate from the Treasury Management Strategy Statement, where non-treasury investments will be reported through the capital strategy and treasury investments through this report. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by capital expenditure on an asset.

4.5 It should be noted that in the Treasury Management Strategy Statement which includes the Prudential Indicators, reference is made to commercial activities / non-financial investments which can also be called non-treasury investments. These are mainly incorporated in the Capital Strategy however reference is made in this report to provide a full understanding of how the capital expenditure decisions on non-treasury investments affects the Council's treasury managment activities. An example of this would be the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances of which both actions would affect treasury management.

4.6 The Treasury Management Strategy Statement for 2019/20 reflects the improved stability of the banking sector, as well as a more risk adverse approach to the system of credit ratings. The proposed Strategy is influenced by the capital expenditure plans for 2019/20 and the next 10 years. It can be summarised as follows:

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

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

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

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

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

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

***Individual Limits** – These limits will be set at 30% of total investments or £3m per counterparty whichever is the higher. There are three exceptions to this policy:*

(a) with counterparties that are backed by the Government – Royal Bank of Scotland and Natwest – (and therefore are more secure) there will be a 40% limit or £5m per counterparty whichever is the higher;

(b) with the Council's own bank – Lloyds – and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £5m per counterparty, whichever is the higher;

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

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

4.7 ***Authorised Limit for external debt** - It should be noted that the Authorised limit has increased from £41m in 2018/19 to £96m in 2019/20 and onwards due to the Council's commitment to commercialisation and especially the Commercial Investment Property portfolio agenda.*

4.8 The Scheme of Delegation is attached at Annex D and the role of the Director of Finance (S151 Officer) is attached at Annex E. This is in accordance with the revised Codes and details that the specific roles of the chief financial officer - Director of Finance (S151 Officer) at this Council - have been extended in respect of investment in non-treasury investments (non-financial assets) as well as the responsibility in relation to Treasury Management, that those charged with governance are responsible for Treasury Management activities within the organisation; it is recommended to be approved by Cabinet and Council

1.5 The Treasury Management Strategy Statement also refers to Member training, where Members with responsibility for scrutinising Treasury Management have the option to be provided with specific training. Training has been provided to Members in the last four year Council in October 2016, providing them with an overview of Treasury Management in a Local Authority. Members should consider training in 2019 at the start of the new four year Council 2019-2023, where training can be carried out by Council Officers and / or Link Asset Services - the Council's Treasury Management advisors.

2.0 RISK MANAGEMENT:

2.1 There are no risks associated with approval of this report. The report will ensure that the Committee fulfils its terms of reference and more importantly scrutinises a key policy of the Council.

2.2 The risk of not approving the report is that the Council has an inappropriate Treasury Management Strategy and that funds may be put at risk or returns on investments are reduced.

3.0 RECOMMENDATION:

3.1 It is recommended that Members:-

(a) review the Council's Treasury Management Strategy for 2019/20 and make any appropriate recommendations to Cabinet; and

(b) consider treasury management training during 2019/20.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None
Author ref: LBW
Contact: Louise Branford-White
Director of Finance (S151 Officer)
Direct Line No: (01609) 767024

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
12 February 2019

Subject: **2019/20 CAPITAL PROGRAMME BUDGET, TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS**

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

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1.0 PURPOSE AND BACKGROUND:

1.1 This report considers the 10 year Capital Programme covering the financial years 2019/20 to 2028/29, the 2019/20 Capital Programme and the Treasury Management Strategy Statement; including the Annual Investment Strategy and Minimum Revenue Provision Policy Statement.

1.2 The 10 year Capital Programme is set within the fiscal parameters of the Financial Strategy, a key feature of which is to ensure that at the end of the 10 year Strategy sufficient reserve funds – grants, contribution and capital receipts – remain available so that the Council's capital plans are affordable, sustainable and prudent. In addition to reserves being maintained the Council can also use borrowing to support the Capital programme. The Financial Strategy which supports the Capital Programme 2019/20 to 2028/29 is being approved at this February 2019 Cabinet.

1.3 It is a legal requirement under the Local Government Act 2003 and the CIPFA Prudential Code to ensure that the Capital Programme is affordable, sustainable and prudent over a 3 year period. The 10 year Capital Programme 2019/20 to 2028/29 clearly adheres to this requirement and it should be noted that the 10 year Programme is an estimate.

1.4 Prior to expenditure being incurred on any scheme a Value for Money project appraisal occurs for each project and the annual Capital Programme is approved at Council before the commencement of the new financial year. The 2019/20 Capital Programme is detailed in this report.

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

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

1.7 This report seeks approval for
(a) the 10 year Capital Programme 2019/20 to 2028/29
(b) the Capital Programme for the coming financial year 2019/20, which is informed by the 10 year Capital Programme
(c) the Treasury Management Strategy Statement 2019/20
(d) the Minimum Revenue Provision Policy Statement 2019/20
(e) the Prudential and Treasury Indicators 2019/20

2.0 10 YEAR CAPITAL PROGRAMME 2019/20 to 2028/29:

2.1 The 10 year Capital Programme 2019/20 to 2028/29 shows capital expenditure of £57,071,861 which is funded by reserves, contributions, capital receipts, borrowing and surplus funds of £61,087,232, which leaves a balance of funding of £4,015,371, £1,095,710 of this reserve funding balance is allocated for a revenue purpose to support repairs & renewals of the Council's assets, ICT development and development of the economy. This leaves £2,919,661 to be used on capital projects in future years. The Financial Strategy supports this 10 year Capital Programme which shows it is affordable, sustainable and prudent over the long term.

2.2 The 10 Year Capital Programme 2019/20 to 2028/29 is financed from 4 earmarked reserves as well as borrowing or reduction in surplus funds:

	£
Repairs and Renewals Fund	467,000
Computer Fund	1,912,469
Capital Receipts Reserve	10,748,670
Economic Development Fund	3,942,522
Borrowing / Surplus Funds	40,001,200
	57,071,861

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

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

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

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

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

2.7 **Economic Development Fund** – Annex A4 details the Economic Development Fund which was created in 2014/15 when £5,000,000 was allocated. The Investment Plan was approved at Cabinet on 2 December 2014. Funding remaining to be allocated at Quarter 3 2018/19 is £580,199.

2.8 **Borrowing / Surplus funds** – Borrowing or surplus funds can be used to support the Capital Programme in accordance with the Treasury Management Strategy Statement; this details the borrowing that can occur during 2019/20 in accordance with the capital programme. There is still the flexibility that surplus funds could contribute to the funding of capital expenditure and both these options will be considered in the light of the treasury management, economic and interest rate environment.

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

3.0 2019/20 CAPITAL PROGRAMME BUDGET:

3.1 The Capital Programme 2019/20 totals £43,883,526 and is funded as follows:

	£
Repairs and Renewals Fund	80,000
Computer Fund	415,469
Capital Receipts Reserve	3,108,970
Economic Development Fund	277,887
Borrowing / Surplus Funds	40,001,200
	43,883,526

3.2 The Capital Programme 2019/20 is attached at Annex B. This details the capital expenditure cost and also the total cost to the Council, along with associated funding received from third parties in respect of the schemes.

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

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

3.4 A proposal form for each scheme giving evidence of how value for money has been obtained has been reviewed by the Corporate Project Management Board (PMB) which has replaced the Corporate Capital Monitoring Group and which is still chaired by the Deputy Chief Executive.

3.5 The 10 year Capital Programme and the 2019/20 Capital Programme will be used to inform the Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and the calculation of the Prudential Indicators as detailed in Paragraph 4.0 and subsequent paragraphs.

4.0 2019/20 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS:

4.1 The Treasury Management Strategy sets out a framework for how the Council will manage its investments, cash flows and borrowings for 2019/20. The Treasury Management Strategy Statement including the Annual Investment Strategy, the Minimum Revenue Provision Policy Statement and Prudential and Treasury Management Indicators is attached at Annex C. Specifically the Treasury Management Strategy:

- Sets out the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA (Chartered Institute of Public Finance and Accounts) Prudential Code 2018, the CIPFA Treasury Management Code of Practice 2017 and the Communities and Local Government Minimum Revenue Provision Guidance and also Investment Guidance;

- Identifies reporting arrangements and responsibilities;

- Clarifies the potential requirement to borrow;

- Clearly states that the Council's priorities for investment are the security of capital, whilst also considering liquidity and rate of return;

- Identifies the type and the limits for investments and counterparties with which those investments can be placed as well as the maximum duration of the investment;

- Calculates the Prudential and Treasury Management Indicators based on the Capital Programme funding requirements; including the Authorised Borrowing limit

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

4.3 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code which requires all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

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

4.4 The Capital Strategy 2019/20 is reported elsewhere on this agenda and is separate from the Treasury Management Strategy Statement, where non-treasury investments will be reported through the capital strategy and treasury investments through this report. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by capital expenditure on an asset.

4.5 It should be noted that in the Treasury Management Strategy Statement which includes the Prudential Indicators, reference is made to commercial activities / non-financial investments which can also be called non-treasury investments. These are mainly incorporated in the Capital Strategy however reference is made in this report to provide a full understanding of how the capital expenditure decisions on non-treasury investments affects the Council's treasury managment activities. An example of this would be the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances of which both actions would affect treasury management.

4.6 The Treasury Management Strategy Statement for 2019/20 reflects the improved stability of the banking sector, as well as a more risk adverse approach to the system of credit ratings. The proposed Strategy is influenced by the capital expenditure plans for 2019/20 and the next 10 years. It can be summarised as follows:

- The Council's Capital Financing Requirement and the potential need to borrow;
- The Minimum Revenue Provision policy is defined determining the minimum revenue payments that are required;
- The Council continues with its treasury investment priority as being the security of capital and also liquidity of its funds, whilst maximising returns commensurate with risk;
- Investment of surplus funds can be made to other Local Authorities, nationalised Banks, Banks which are part of the UK banking system support package, as well as other UK Banks and Building Societies, subject to the application of Link Asset Services' credit worthiness criteria;
- Investments of surplus funds can be made in foreign banks and institutions of AA-sovereign rated countries subject to Link Asset Services' credit worthiness criteria;
- Limits for all investments to be placed with specified and non-specified investments are:

  Individual Limits – These limits will be set at 30% of total investments or £3m per counterparty whichever is the higher. There are three exceptions to this policy:

  (a) with counterparties that are backed by the Government – Royal Bank of Scotland and Natwest – (and therefore are more secure) there will be a 40% limit or £5m per counterparty whichever is the higher;

  (b) with the Council's own bank – Lloyds – and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £5m per counterparty, whichever is the higher;

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

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

4.7 **Authorised Limit for external debt** - It should be noted that the Authorised limit has increased from £41m in 2018/19 to £96m in 2019/20 and onwards due to the Council's commitment to commercialisation and especially the Commercial Investment Property portfolio agenda.

4.8 The Scheme of Delegation is attached at Annex D and the role of the Director of Finance (S151 Officer) is attached at Annex E. This is in accordance with the revised Codes and details that the specific roles of the chief financial officer - Director of Finance (S151 Officer) at this Council - have been extended in respect of investment in non-treasury investments (non-financial assets) as well as the responsibility in relation to Treasury Management, that those charged with governance are responsible for Treasury Management activities within the organisation; it is recommended to be approved by Cabinet and Council.

5.0 LINK TO COUNCIL PRIORITIES:

5.1 This report links to the efficient use of Council resources, where the Capital Programme 2019/20 demonstrates value for money in the implementation of the individual capital schemes and the Treasury Management Strategy Statement ensure the Council maximises its return on investments. Both the Capital Programme and Treasury Management allow more resources to be freed up to invest in the Council's other priorities, values and imperatives.

6.0 RISK ASSESSMENT:

6.1 There are two main risks associated with setting the Capital Programme and the Treasury Management Strategy Statement 2019/20:

Risk	Implication	Prob	Imp	Total	Preventative action
Proposed capital schemes for 2019/20 are not assessed for risk prior to the commencement of the schemes	The Council is unable to control capital expenditure or redirect resources to priority areas	3	5	15	Capital Scheme Proposal Forms are prepared for each individual capital scheme, including the assessment of risk.
Treasury management function is a high risk area due to the volume and level of large investment money transactions.	The value of the investment could be lost, liquidity of the Council could be reduced and yield not maximised.	3	5	15	The Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required

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

7.0 FINANCIAL IMPLICATIONS:

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

8.0 LEGAL IMPLICATIONS:

8.1 The Council is legally required to set a balanced 3 year Capital Programme budget and Treasury Management Strategy Statement as set out in Local Government Act 2003. This Council has set a 10 Year Capital Plan to assist with medium term financial planning, budget and Council Tax setting for 2019/20 and future years. This report provides detail of the Capital Programme 2019/20 and also includes the requirements for the Treasury Management Strategy Statement.

8.2 Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code (revised 2017) and the CIPFA Treasury Management Code of Practice (revised 2017) and also the Local Authorities (Capital Finance and Accounting) (England**)** (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance

9.0 EQUALITY/DIVERSITY ISSUES:

9.1 Some capital schemes have specific implications for Equalities. The equalities implications of the individual schemes will be assessed by individual departments once the Capital Programme 2019/20 has been approved and the schemes are further developed. Any implications will be identified in the individual schemes project plans.

10.0 RECOMMENDATIONS:

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

1) the 10 year Capital Programme 2019/20 to 2028/28 at £57,071,861 be approved, as detailed in paragraph 2.2 and attached at Annex A;

2) the Capital Programme 2019/20 at £43,883,526 detailed in Annex B be approved for implementation;

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

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

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

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

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

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None

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Capital Programme 2019/20

10 YEAR CAPITAL PLAN 2019/20 TO 2028/29

ANNEX A1

REPAIRS AND RENEWALS FUND	Yr 0 18/19	Yr 1 19/20	Yr 2 20/21	Yr 3 21/22	Yr 4 22/23	Yr 5 23/24	Yr 6 24/25	Yr 7 25/26	Yr 8 26/27	Yr 9 27/28	Yr 10 28/29	Total
	£	£	£	£	£	£	£	£	£	£	£	£
INCOME												
Opening balance	(2,097,807)	(973,029)	(843,029)	(757,029)	(842,029)	(746,029)	(636,029)	(550,029)	(464,029)	(378,029)	(292,029)	
Add: Transfers to / (from) Taxpayers Reserve	1,000,000	0	0	(200,000)	0	0	0	0	0	0	0	
	(1,097,807)	(973,029)	(843,029)	(957,029)	(842,029)	(746,029)	(636,029)	(550,029)	(464,029)	(378,029)	(292,029)	(1,173,029)
EXPENDITURE												
Repairs and Renewals - Revenue	0	0	0	0	0	0	0	0	0	0	0	0
DFG Revenue	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	500,000
												0
Public lighting replacement	69,778	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	360,000
Civic Centre- Carpet Replacement	0	0	0	0	10,000	0	0	0	0	0	0	10,000
Civic Centre- Internal Painting	0	0	0	5,000	0	0	0	0	0	0	0	5,000
Northallerton Leisure Centre - Internal Painting	5,000	0	0	0	0	0	0	0	0	0	0	0
Gym equipment refresh	0	24,000	0	24,000	0	24,000	0	0	0	0	0	72,000
Northallerton Leisure Centre - Pool Tank Tiles	0	20,000	0	0	0	0	0	0	0	0	0	20,000
Total Repairs and Renewal Capital	**74,778**	**80,000**	**36,000**	**65,000**	**46,000**	**60,000**	**36,000**	**36,000**	**36,000**	**36,000**	**36,000**	**467,000**
TOTAL REPAIRS AND RENEWALS EXP	**124,778**	**130,000**	**86,000**	**115,000**	**96,000**	**110,000**	**86,000**	**86,000**	**86,000**	**86,000**	**86,000**	**967,000**
BALANCE ON REPAIRS & RENEWALS FUND	**(973,029)**	**(843,029)**	**(757,029)**	**(842,029)**	**(746,029)**	**(636,029)**	**(550,029)**	**(464,029)**	**(378,029)**	**(292,029)**	**(206,029)**	**(206,029)**

236,779

10 YEAR CAPITAL PLAN 2019/20 TO 2028/29

ANNEX A2

COMPUTER FUND	Yr 0 18/19	Yr 1 19/20	Yr 2 20/21	Yr 3 21/22	Yr 4 22/23	Yr 5 23/24	Yr 6 24/25	Yr 7 25/26	Yr 8 26/27	Yr 9 27/28	Yr 10 28/29	Total
	£	£	£	£	£	£	£	£	£	£	£	£
INCOME												
Opening balance	(1,188,349)	(791,815)	(1,336,346)	(1,136,346)	(934,346)	(1,737,346)	(1,475,346)	(1,254,346)	(2,054,346)	(1,844,346)	(1,634,346)	
Add: Transfers from Council Taxpayers Reserve	0	(1,000,000)	0	0	(1,000,000)		0	(1,000,000)				
	(1,188,349)	(1,791,815)	(1,336,346)	(1,136,346)	(1,934,346)	(1,737,346)	(1,475,346)	(2,254,346)	(2,054,346)	(1,844,346)	(1,634,346)	(3,791,815)
EXPENDITURE												
ICT REVENUE COSTS	34,000	40,000	40,000	40,000	45,000	45,000	45,000	50,000	50,000	50,000	50,000	455,000
ICT Improvements - CAPITAL	362,534	277,749	160,000	162,000	152,000	217,000	176,000	150,000	160,000	160,000	160,000	1,774,749
E-store Payment Portal	0	50,450	0	0	0	0	0	0	0	0	0	50,450
Civica Cash receipting - upgrade to v17.3/v18	0	7,500	0	0	0	0	0	0	0	0	0	7,500
Housing Benefits - Electronic Forms & CRM Portal	0	20,000	0	0	0	0	0	0	0	0	0	20,000
EHO - Management Information System (MIS)	0	52,770	0	0	0	0	0	0	0	0	0	52,770
CRM/Mitel Telephony Integration	0	7,000	0	0	0	0	0	0	0	0	0	7,000
TOTAL COMPUTER FUND EXPENDITURE	**396,534**	**455,469**	**200,000**	**202,000**	**197,000**	**262,000**	**221,000**	**200,000**	**210,000**	**210,000**	**210,000**	**2,367,469**
BALANCE ON COMPUTER FUND	**(791,815)**	**(1,336,346)**	**(1,136,346)**	**(934,346)**	**(1,737,346)**	**(1,475,346)**	**(1,254,346)**	**(2,054,346)**	**(1,844,346)**	**(1,634,346)**	**(1,424,346)**	**(1,424,346)**

10 YEAR CAPITAL PLAN 2019/20 TO 2028/29

ANNEX A3

CAPITAL RECIEPTS RESERVE	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	
	£	£	£	£	£	£	£	£	£	£	£	£
INCOME												
Opening Balance	(2,077,584)	(2,834,084)	(1,326,276)	(1,539,977)	(1,484,013)	(1,402,385)	(1,402,345)	(1,430,645)	(1,489,286)	(1,389,286)	(1,339,286)	
Add: Capital Receipts Estimated	(464,300)	(250,000)	(222,000)	0	0	0	0	0	0	0	0	
Add: Capital receipts - sale of bins	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	
Add: Estimated Grants (DFG)	(350,566)	(749,494)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)	
Add: Estimated Grants (s106)	(811,663)	(70,000)	0	0	0	0				0	0	
Add: Estimated Grants (ERDF)	(643,000)	0	0	0	0	0				0	0	
Add: Trsf from Council Tax payers Reserve	(794,292)	(322,300)	(277,700)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	
Add: Estimated Grant (Sports England)	0	0	0	0	0	0	0	0	0	0	0	
Add: External Funding Grants	(25,877)	0	0	0	0	0	0	0	0	0	0	
Add: External Funding: CCTV Camera from BID	(6,982)	0	0	0	0	0	0	0	0	0	0	
Add: BID contribution for Dalton Bridge	(631,172)	0	0	0	0	0	0	0	0	0	0	
Add: Capital Grants for LED Public Lightning	(188,000)	(112,000)	0	0	0	0	0	0	0	0	0	
Add: Revenue contributions for Kerbside bins (9006)	(66,286)	(66,618)	(66,951)	(67,286)	(67,622)	(67,960)	(68,300)	(68,641)	0	0	0	
Add: Revenue contributions for LED Public Lightning (9006)	(13,500)	(16,500)	(13,500)	(13,500)	(16,500)	0	0	0	0	0	0	
Add: Revenue contributions for DFG budget savings		0	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	
Add: Revenue contributions for LED Lighting Muga Pitch	0	(4,250)	(4,250)	(4,250)	(4,250)	0	0	0	0	0	0	
Add: Revenue contributions for LED Public Lightning 2018 (9006)	0	0	0	0	0	0	(60,000)	(40,000)	0	0	0	
Total Estimated Capital Receipts	**(6,083,222)**	**(4,435,246)**	**(2,370,677)**	**(2,385,013)**	**(2,332,385)**	**(2,230,345)**	**(2,290,645)**	**(2,299,286)**	**(2,249,286)**	**(2,149,286)**	**(2,099,286)**	**(12,037,956)**
EXPENDITURE												
Disabled Facilities Grants	388,910	799,494	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	4,849,494
Purchase of bins for refuse and recycling - New Waste Strategy	59,963	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	500,000
Purchase of bins for refuse and recycling - New Waste Strategy	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	100,000
Car Park Improvement Scheme	0	550,000	0	0	0	0	0	0	0	0	0	550,000
Car Park Restatements	10,000	50,000	0	85,000	0	0	50,000	0	50,000	0	0	235,000
Bedale North End Cobbles	0	0	0	0	120,000	0	0	0	0	0	0	120,000
Northallerton Depot - Access Road resurfacing	0	0	35,000	0	0	0	0	0	0	0	0	35,000
Car Parks - P&D Machines Replacements	0	0	0	0	0	0	0	0	0	0	0	0
Bedale Gateway Car Park	0	521,710	0	0	0	0	0	0	0	0	0	521,710
Adoptions - Electric Bollards - Thirsk & Northallerton	31,558	0	0	0	0	0	0	0	0	0	0	0
District Council Boundary Signs	2,000	6,969	0	0	0	0	0	0	0	0	0	6,969
St Marys Closed Churchyard - Boundary Wall repairs	10,000	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Window Replacements	0	0	0	0	0	10,000	0	0	0	0	0	10,000
Civic Centre - Double Glazed window replacement scheme	12,000	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - External Woodwork replacement scheme Dormers	18,735	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - External Woodwork replacement scheme Stairwells	10,000	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Disabled Access Doors & Ramps	2,702	0	0	0	0	0	0	0	0	0	0	0
Civic Centre - Card Access system	3,329	0	0	0	0	0	0	0	0	0	0	0
Bedale Cycle Scheme	0	387,205	0	0	0	0	0	0	0	0	0	387,205
Forum - Capital Repairs	25,448	0	0	0	0	0	0	0	0	0	0	0
Bedale Public Art	25,000	0	0	0	0	0	0	0	0	0	0	0
Workspaces - Health and safety aspects	10,026	0	0	0	0	0	0	0	0	0	0	0
Workspaces - Roller Shutter Doors	0	0	8,000	0	0	8,000	0	0	0	0	0	16,000
Workspace - Lift Works (LOLER)	0	6,000	0	0	0	0	0	0	0	0	0	6,000
Workspaces - Air Con Refurbishments	0	6,000	0	0	0	0	0	0	0	0	0	6,000
Dalton Bridge Voluntary Contribution Business	78,989	0	0	0	0	0	0	0	0	0	0	0
CCTV - Camera Replacement Programme	0	0	0	0	0	0	0	0	0	0	0	0
Northallerton Depot - HGV Full Roof Replacement	0	45,000	0	0	0	0	0	0	0	0	0	45,000
Northallerton Depot - Sustainability works for the Depot	0	15,000	0	0	0	0	0	0	0	0	0	15,000
Northallerton Depot Fire Alarm System	10,390	0	0	0	0	0	0	0	0	0	0	0
Northallerton Depot External Works	8,000	0	0	0	0	0	0	0	0	0	0	0
Waste and Street Scene - Telematics	0	12,050	0	0	0	0	0	0	0	0	0	12,050
WOJH - Chimney Repair	8,000	0	0	0	0	0	0	0	0	0	0	0
Additional Parking - HLC and Civic Centre	90,270	0	0	0	0	0	0	0	0	0	0	0
LED Lighting replacement scheme 2018	309,768	112,000	0	0	0	0	0	0	0	0	0	112,000
Air Conditioning replacement	13,555	0	0	0	0	0	0	0	0	0	0	0
Energy Efficiency - Buildings	6,400	3,600	0	0	0	0	0	0	0	0	0	3,600
Stokesely Depot - Welfare Facilities	75,000	20,000	0	0	0	0	0	0	0	0	0	20,000
Northallerton Depot - Sustainability works for Bridge End House	0	21,000	0	0	0	0	0	0	0	0	0	21,000
Workspaces - Lighting Renewal	5,955	0	0	0	0	0	0	0	0	0	0	0
Workspaces - Craft Yard repair to render	4,710	0	0	0	0	0	0	0	0	0	0	0
Workspaces - renewal scheme	6,870	0	0	0	0	0	0	0	0	0	0	0
Leisure - Thirsk SP & SLC Entrance Roof repair	5,080	0	0	0	0	0	0	0	0	0	0	0
Northallerton LC - Underground drainage	6,500	0	0	0	0	0	0	0	0	0	0	0
Northallerton LC - LED Lighting Muga pitch	16,575	0	0	0	0	0	0	0	0	0	0	0
Northallerton LC - Improvement Scheme	33,792	0	0	6,000	0	0	0	0	0	0	0	6,000
Stokesley LC - Trend Control Systems	6,800	0	0	0	0	0	0	0	0	0	0	0
Stokesley LC - re-design of reception area	0	33,900	0	0	0	0	0	0	0	0	0	33,900
Stokesley LC - Viewing area	1,112	0	0	0	0	0	0	0	0	0	0	0
Stokesley LC - External Air Handling Unit	4,878	0	0	0	0	0	0	0	0	0	0	0
Stokesley LC - Gas Boiler Refurbishment	30,000	0	0	0	0	0	0	0	0	0	0	0
Stokesley LC - AWP improvements	0	10,000	0	0	0	0	0	0	0	0	0	10,000
Bedale LC - Roof Tiles Repair	6,000	0	0	0	0	0	0	0	0	0	0	0
Bedale LC - Trend Control Systems	6,000	0	0	0	0	0	0	0	0	0	0	0
All Leisure Centres - Pool Plant equipment Replacement	21,867	27,333	0	0	0	0	0	0	0	0	0	27,333

All Leisure Centres - Circulation Pump Replacement	20,000	0	0	0	0	0	0	0	0	0	0	0
Stokesley LC - Activity Room	0	20,000	0	0	0	0	0	0	0	0	0	20,000
Thirsk & Sowerby - Sports Village	1,454,663	70,000	0	0	0	0	0	0	0	0	0	70,000
ICT - Gladstone GDPR compliance	5,490	0	0	0	0	0	0	0	0	0	0	0
All Leisure Centres - Energy Management	591	9,409	0	0	0	0	0	0	0	0	0	9,409
All Leisure Centres - Safe Car Parking	4,730	0	0	0	0	0	0	0	0	0	0	0
Community Investment Scheme	360,500	0	0	0	0	0	0	0	0	0	0	0
CCTV Camera at North End	6,982	0	0	0	0	0	0	0	0	0	0	0
Facilities Lighting Protection	0	21,000	0	0	0	0	0	0	0	0	0	21,000
Civic Centre Accommodation	0	50,000	0	0	0	0	0	0	0	0	0	50,000
Forum Atrium - Capital Repairs	0	10,000	0	0	0	0	0	0	0	0	0	10,000
Air Conditioning - legislation requirements	0	10,000	0	0	0	0	0	0	0	0	0	10,000
Civic Centre - Roof repairs	0	15,000	0	0	0	0	0	0	0	0	0	15,000
Northallerton Depot - Fleet Washers	0	11,600	0	0	0	0	0	0	0	0	0	11,600
Northallerton Depot - Health & Safety and Security improvements	0	15,000	0	0	0	0	0	0	0	0	0	15,000
Fly Tipping Project Equipment - Surveillance	0	21,000	0	0	0	0	0	0	0	0	0	21,000
Dash Camera Small Fleet	0	12,000	0	0	0	0	0	0	0	0	0	12,000
Workspace General scheme	0	22,700	0	0	0	0	0	0	0	0	0	22,700
Bedale LC - Water Pumps	0	10,000	0	0	0	0	0	0	0	0	0	10,000
Bedale LC - Gym Floor	0	6,000	0	0	0	0	0	0	0	0	0	6,000
All Leisure Centres - Pool Access	20,000	0	0	0	0	0	0	0	0	0	0	0
TSP and SLC - Shower areas	0	10,000	0	0	0	0	0	0	0	0	0	10,000
Stokesley LC - Underwater Detection System	0	60,000	0	0	0	0	0	0	0	0	0	60,000
All Leisure Centres (except NLC) - Gym Equipment	0	48,000	0	0	0	0	0	0	0	0	0	48,000
ADDITIONAL SCHEMES	0	0	277,700	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	2,677,700
TOTAL CAPITAL RECEIPTS EXPENDITURE	**3,249,138**	**3,108,970**	**830,700**	**901,000**	**930,000**	**828,000**	**860,000**	**810,000**	**860,000**	**810,000**	**810,000**	**10,748,670**
BALANCE ON Capital receipts reserve	**(2,834,084)**	**(1,326,276)**	**(1,539,977)**	**(1,484,013)**	**(1,402,385)**	**(1,402,345)**	**(1,430,645)**	**(1,489,286)**	**(1,389,286)**	**(1,339,286)**	**(1,289,286)**	**(1,289,286)**

10 YEAR CAPITAL PLAN 2019/20 TO 2028/29

ANNEX A4

ECONOMIC DEVELOPMENT FUND	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	
	£	£	£	£	£	£	£	£	£	£	£	£
INCOME												
Opening Balance	(1,465,095)	(1,083,232)	(664,635)	(280,199)	(280,199)	(665,476)	(915,476)	(515,476)	(265,476)	(615,476)	(265,476)	
Add: Transfers from Council Taxpayers Reserve	0		(100,000)	(500,000)	600,000	(750,000)			(750,000)			
Add: Estimated Capital Receipts from sale of prison site			0		(1,500,000)							
Add: Estimated income from third party contributions	0	0	0	0	0	0	0	0	0	0	0	
	(1,465,095)	(1,083,232)	(764,635)	(780,199)	(1,180,199)	(1,415,476)	(915,476)	(515,476)	(1,015,476)	(615,476)	(265,476)	(4,083,232)
EXPENDITURE												
Economic Development Revenue Expenditure	201,285	140,710	0	0								140,710
Economic Development Capital Expenditure	180,578	277,887	484,436	500,000	514,723	500,000	400,000	250,000	400,000	350,000	265,476	3,942,522
TOTAL ECONOMIC DEVELOPMENT FUND EXPENDITURE	**381,863**	**418,597**	**484,436**	**500,000**	**514,723**	**500,000**	**400,000**	**250,000**	**400,000**	**350,000**	**265,476**	**4,083,232**
BALANCE ON ECONOMIC DEVELOPMENT FUND	**(1,083,232)**	**(664,635)**	**(280,199)**	**(280,199)**	**(665,476)**	**(915,476)**	**(515,476)**	**(265,476)**	**(615,476)**	**(265,476)**	**0**	**0**

10 YEAR CAPITAL PLAN 2019/20 TO 2028/29

ANNEX A5

BORROWING / SURPLUS FUNDS	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	
INCOME	£	£	£	£	£	£	£	£	£	£	£	£
Add: Borrowing	(11,464,183)	(40,001,200)	0	0	0	0	0	0	0	0	0	(40,001,200)
EXPENDITURE												
Loan to Housing Association	8,800,000	0	0	0	0	0	0	0	0	0	0	**0**
BID Project	552,183	0	0	0	0	0	0	0	0	0	0	**0**
Ground Source Heat Pumps - Civic Centre and Leisure Centres	200,000	1,913,200	0	0	0	0	0	0	0	0	0	1,913,200
Commercial Investment Property portfolio	1,912,000	38,088,000										38,088,000
TOTAL BORROWING AND SURPLUS FUNDS	**11,464,183**	**40,001,200**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**40,001,200**
BALANCE ON SURPLUS FUNDS	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

10 YEAR CAPITAL PLAN 2019/20 TO 2028/29

ANNEX A6

TOTAL CAPITAL PROGRAMME	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	
	£	£	£	£	£	£	£	£	£	£	£	
REPAIRS AND RENEWALS FUND	74,778	80,000	36,000	65,000	46,000	60,000	36,000	36,000	36,000	36,000	36,000	467,000
COMPUTER FUND	362,534	415,469	160,000	162,000	152,000	217,000	176,000	150,000	160,000	160,000	160,000	1,912,469
CAPITAL RECIEPTS RESERVE	3,249,138	3,108,970	830,700	901,000	930,000	828,000	860,000	810,000	860,000	810,000	810,000	10,748,670
ECONOMIC DEVELOPMENT FUND	180,578	277,887	484,436	500,000	514,723	500,000	400,000	250,000	400,000	350,000	265,476	3,942,522
BORROWING SURPLUS FUNDS	11,464,183	40,001,200	0	0	0	0	0	0	0	0	0	40,001,200
BALANCE ON BORROWING / SURPLUS FUNDS	**15,331,211**	**43,883,526**	**1,511,136**	**1,628,000**	**1,642,723**	**1,605,000**	**1,472,000**	**1,246,000**	**1,456,000**	**1,356,000**	**1,271,476**	**57,071,861**

Cabinet Member/ Responsible Officer	Repairs & Renewals Fund	Capital Expenditure 2019/20 Only £	Third Party Contribution £	Cost to the Council £
Cllr Sanderson	**Economy & Planning**			
HK	Public lighting replacement	36,000	0	36,000
Cllr Fortune	**Leisure & Environment**			
PS	Gym Equipment Refresh	24,000		24,000
PS	Northallerton Leisure Centre - Pool Tank Tiles	20,000	0	20,000
	Repairs & Renewals Fund Capital Programme 2019/20	**80,000**	**0**	**80,000**

Cabinet Member/ Responsible Officer	Computer Fund	Capital Expenditure 2019/20 Only £	Third Party Contribution £	Cost to the Council £
Cllr Sanderson	**Finance**			
LBW	ICT Improvements	205,930	0	205,930
LBW	E-Store Payment Portal	50,450	0	50,450
LBW	Civica Cash Receipting - Upgrade to V17.3/V18	7,500	0	7,500
LBW	Housing Benefits - Electronic Forms & CRM Portal	20,000	0	20,000
LBW	CRM/Mitel Telephony Intergration	7,000	0	7,000
Cllr Watson	**Leisure & Environment**			
PS	EHO - Management Information System (MIS)	52,770	0	52,770
	Computer Fund Capital Programme 2019/20	**343,650**	**0**	**343,650**

Cabinet Member/ Responsible Officer	Capital Fund	Capital Expenditure 2019/20 Only £	Third Party Contribution £	Cost to the Council £
Cllr Fortune	**Leisure & Environment**			
PS	Bedale LC - Water Pumps	10,000	0	10,000
PS	Bedale LC - Gym Floor	6,000	0	6,000
PS	Thirsk LC & Stokesley LC - Shower Areas	10,000	0	10,000
PS	Stokesley LC - Underwater Detection System	60,000	0	60,000
PS	All Leisure Centres (except Northallerton) - Gym Equipment	48,000	0	48,000
Cllr Watson	**Leisure & Environment**			
PS	Purchase of bins and boxes for refuse and recycling	60,000	10,000	50,000
PS	Northallerton Depot - Fleet Washers	11,600	0	11,600
PS	Northallerton Depot - Health & Safety and Security Improvements	15,000	0	15,000
PS	Fly Tipping Project Equipment - Surveillance	21,000	0	21,000
PS	Dash Camera Small Fleet	12,000	0	12,000
Cllr Webster	**Economy & Planning**			
HK	Disabled Facilities Grant	450,000	400,000	50,000
Cllr Wilkinson	**Economy & Planning**			
HK	Workspace Risk Reduction Scheme	22,700	0	22,700
HK	Workspaces - Lift Works (LOLER)	6,000	0	6,000
HK	Workspaces - Air Con Refubishments	6,000	0	6,000
Cllr Sanderson	**Economy & Planning**			
HK	Facilities Lightening Protection	21,000	0	21,000
HK	Civic Centre - Accommodation	50,000	0	50,000
HK	Civic Centre - Roof Repairs	15,000	0	15,000
HK	Air Conditioning - Legislative Requirements	10,000	0	10,000
HK	Forum Atrium	10,000	0	10,000
HK	Car Park Reinstatements	50,000	0	50,000
HK	Car Park Improvement Scheme	550,000	0	550,000
Cllr Wilkinson	**Finance**			
LBW	Property Investment Fund	38,088,000	0	38,088,000
	Capital Fund Capital Programme 2019/20	**39,532,300**	**410,000**	**39,122,300**

Cabinet Member/ Responsible Officer	Total Capital Programme 2019/20	Capital Expenditure 2019/20 Only £	Third Party Contribution £	Cost to the Council £
Cllr Fortune/Cllr Watson	**Leisure & Environment**	350,370	10,000	340,370
Cllr Wilkinson/ Cllr Sanderson/Cllr Webster	**Economy & Planning**	1,226,700	400,000	826,700
Cllr Wilkinson/Cllr Sanderson	**Finance**	38,378,880	0	38,378,880
	Total Capital Programme 2019/20	**39,955,950**	**410,000**	**39,545,950**

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ANNEX C

TREASURY MANAGEMENT STRATEGY STATEMENT - MINIMUM REVENUE PROVISION POLICY STATEMENT and ANNUAL INVESTMENT STRATEGY 2019/20

1.0 INTRODUCTION:

1.1 Background

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

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

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

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

1.1.5 CIPFA defines Treasury Management as:

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

1.1.6 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the Ministry of Housing, Communities and Local Government (MHCLG) Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The Capital Strategy 2019/20 is being reported separately within this Cabinet agenda.

1.2 Reporting Requirements

Capital Strategy

1.2.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

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

1.2.2 The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.3 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Strategy 2019/20 will show:

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

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

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

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

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

Treasury Management Reporting

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

Prudential and treasury indicators and treasury strategy

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

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

A Mid Year Treasury Management Report

1.2.10 This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. In addition, this Council will receive quarterly update reports.

An Annual Treasury Report

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

Scrutiny

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

1.3 **Treasury Management Strategy for 2019/20**

1.3.1 The strategy for 2019/20 covers two main areas:

(a) Capital Issues

- the capital plans and the prudential indicators
- the Minimum Revenue Provision (MRP) policy

(b) Treasury Management Issues

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

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

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2021/22:

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

Capital Expenditure

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

Capital Expenditure	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Services	5,319,469	13,419,211	5,795,526	1,511,136	1,628,000
Commercial activities/non-financial investments*	-	1,912,000	38,088,000	-	-
Total	5,319,469	15,331,211	43,883,526	1,511,136	1,628,000

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

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

2.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need. In 2019/20, borrowing may occur to support the Capital programme.

Capital Expenditure £	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total	5,319,469	15,331,211	43,883,526	1,511,136	1,628,000
Financed by:					
Capital receipts	940,154	469,983	1,767,808	18,299	65,964
Capital grants	1,151,491	2,657,260	931,494	400,000	400,000
Capital reserves	3,147,704	659,999	1,095,656	958,136	1,027,000
Revenue	80,120	79,786	87,368	134,701	135,036
Net financing need for the year	**0**	**11,464,183**	**40,001,200**	**0**	**0**

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

Commercial activities / non-financial investments £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Expenditure	0	1,912,000	38,088,000	0	0
Financing costs	0	0	53,556	1,379,879	1,379,879
Net financing need for the year	0	1,912,000	38,088,000	0	0
Percentage of total net financing need	**0%**	**16.68%**	**95.22%**	**0%**	**0%**

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

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

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

2.7 For the past few years, the CFR has remained at zero as the Council has been debt free and has had no underlying borrowing requirement. In 2016/17, due to the capital expenditure with regards to the loan to the local Housing Association and the loan to the Business Improvement District, the CFR has been set as this is a prudent approach to the need to borrow. In addition it is now also forecast that there will be a borrowing requirement for Commercial activities/non- financial investments as detailed in the capital expenditure table above. The CFR provides the Council with the flexibility to use borrowing to support the capital programme if it chooses to do so but still allows the use of surplus funds if available. If external borrowing is taken, consideration is given to the Treasury Management environment to ensure that the best option is achieved in relation to interest rates in the short and long term.

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

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

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Financing Requirement					
CFR - Services	**26,200,000**	**9,552,183**	**1,913,200**	**0**	**0**
CFR – Commercial activities/ non-financial investments	**0**	**1,912,000**	**38,088,000**	**0**	**0**

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total CFR	**26,200,000**	**37,664,183**	**77,665,383**	**76,723,590**	**75,787,158**
Movement in the Capital Financing Requirement	**0**	**11,464,183**	**40,001,200**	**-941,793**	**-936,432**
Movement in Capital Financing Requirement represented by					
Net financing need for the year (above)	**0**	**11,464,183**	**40,001,200**	**0**	**0**
Less Minimum Revenue Provision and other financing movements	0	0	0	-941,793	-936,432
Movement in the Capital Financing Requirement	**0**	**11,464,183**	**40,001,200**	**-941,793**	**936,432**

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

Minimum Revenue provision (MRP) Policy Statement

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

2.12 This Council in 2019/20 will have a Capital Financing Requirement of £77,665,383 to support the total capital programme and this is the potential amount of borrowing that may be required in 2019/20.

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

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

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

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

- **Asset Life Method** – Minimum Revenue Provision will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life.

2.16 Repayments included in annual Private Finance Initiative scheme or finance leases are applied as Minimum Revenue Provision (MRP), though this Council does not expect to have these repayments in 2019/20 or in the foreseeable future.

2.17 The Capital Financing Requirement for the loan to the local Housing Association will be a maximum of £35,000,000 in 2018/19 and future years. The agreement with the local Housing Association states they will make bullet repayments to the Council at years 5, 10, 15, 20 and 25. The bullet repayments made throughout the life of the loan will be set aside by the Council when received to ensure that prudent provision is made for regular repayment. These regular bullet points will be earmarked and used as the Minimum Revenue Provision that the Council needs to make on a regular basis to reduce the Capital Financing Requirement. Therefore, if a total of £35,000,000 is loaned to the local Housing Association by the end of 2018/19, the first time the MRP charge will be made to the revenue account to reduce the level of CFR will be 2020/21 and at regular intervals thereafter.

2.18 The Minimum Revenue Provision for the £40m commercial investment is also worth noting in accordance with the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003 where it suggests that the life of an asset should not be greater than 50 years. Currently, the financial costs have been calculated using an asset life of 50 years and therefore this is likely to be the steer to the Property Investment advisor when undertaking the commercial investment. The guidance does also state that if a local authority deems an asset to have a life greater than 50 years then a professional advisor is required to be appointed by the local authority to support this, however asset life of greater than 50 years is for capital expenditure to enhance the delivery of services rather than the capital expenditure on commercial investment.

2.19 The Minimum Revenue Provision Asset Life Method provides for a prudent provision to reduce the borrowing need over approximately the asset's life. Therefore the minimum revenue provision set aside would be the same every year. This method of minimum revenue provision is usually used when a maturity loan is taken. An alternative calculation for the minimum revenue provision is when an annuity loan is taken and then the annuity method is used. This occurs when the amount of principle and interest together total the same amount each year; therefore in the earlier years there is a lower minimum revenue provision charge. This method is likely to be used for the initial years of the commercial investment; it is similar to a mortgage and can potentially maximise the amount of income generated to support the revenue budget whilst still being a prudent approach to the repayment of debt.

2.20 When advice is taken form the Property Investment advisor to undertake the commercial investment, consideration will be given to the view that a prudent approach to the repayment of debt is not to set aside an amount at all. The rationale behind this is that the borrowing will be held for a specified number of years to cover the capital expenditure of the commercial investment, then when it is decided to realise the property commercial investment the funds will be returned to the Council. The council will then use this to repay the borrowing; clearly it is expected that the property investment will have appreciated in value. Past performance is no guarantee of future increase in value of a commercial property investment and therefore if this approach were to be taken a Cabinet report would be written to recommend to Council this approach and Members would be able to make a considered decision.

2.21 Finally it should be noted that a further change introduced by the revised Ministry of Housing, Communities and Local Government (MHCLG) Minimum Revenue Provision Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), called 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 2019/20 budget the voluntary revenue provision must be stated. This Council has never overpaid minimum revenue provision so this does not apply; however it is noted here for future reference if ever needed.

Core funds and expected investment balances

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

Year End Resources	**2017/18 Actual**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Fund balances / reserves	15,472,295	13,452,233	10,404,904	9,086,381	7,664,011
Capital receipts	2,077,584	2,834,084	1,326,276	1,539,977	1,484,013
Provisions	0	0	0	0	0
Other	7,450,121	8,713,683	4,268,820	3,373,642	3,851,976
Total core funds	**25,000,000**	**25,000,000**	**16,000,000**	**14,000,000**	**13,000,000**
Under/over borrowing	**25,000,000**	**25,000,000**	**16,000,000**	**14,000,000**	**13,000,000**
Expected investments	**0**	**0**	**0**	**0**	**0**

Affordability Prudential Indicators

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

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

%	**2017/18 Actual**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Services	0.12%	0.29%	2.87%	4.06%	4.08%
Commercial activities/non-financial investments	0.00%	0.00%	0.00%	70.91%	70.91%
Total	0.12%	0.29%	2.87%	14.39%	14.45%

2.25 This shows the proportion of finance costs in relation to the Council's total net income position; where the finance costs are the interest on borrowing and the minimum revenue provision set aside to repay that borrowing and where the total net income position is the net funding position of the council – Council tax, business rates, grant funding, income generated – and also income received from the loan to the local housing association.

3.0 BORROWING:

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

3.2 Current Portfolio Position

3.2.1 The overall treasury position as at 31 March 2018 and for the position as at 31 December 2018 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual 31.03.18	Actual 31.03.18	Current 31.12.18	Current 31.12.18
	£000	%	£000	%
Treasury Investments				
Banks	2,180	100	2,740	35
Money Market Funds	-	-	5,200	65
Total Treasury Investments	**2,180**	**100**	**7,940**	**100**
Treasury External Borrowing				
Local Authorities	5,000	81	-	-
Public Works Loan Board	1,200	19	1,200	100
Total External Borrowing	**6,200**	**100**	**1,200**	**100**
Net Treasury Investments / (Borrowing)	4,020	-	9,140	-

3.2.2 The Council's forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need the Capital Financing Requirement (CFR), highlighting any over or under borrowing. The actual position for 2017/18 and the estimated position for future years is reflected in the table below:

£	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
External Debt					
Debt at 1 April	1,200,000	6,200,000	12,664,183	52,665,383	52,665,383
Expected change in Debt	0	11,464,183	40,001,200	0	0
Actual gross debt at 31 March	**1,200,000**	**17,664,183**	**52,665,383**	**52,665,383**	**52,665,383**
The Capital Financing Requirement	**26,200,000**	**37,664,183**	**77,665,383**	**77,665,383**	**77,665,383**
Under / (over) borrowing	**25,000,000**	**25,000,000**	**25,000,000**	**25,000,000**	**25,000,000**

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

£	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
External Debt for commercial activities / non-financial investments					
Actual debt at 31 March £m	0	1,912,000	38,088,000	0	0
Percentage of total external debt %	0%	15.10%	95.22%	0%	0%

3.2.4 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

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

3.3.1 **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt. In order to give the Council complete flexibility these limits for borrowing activity are always set at the beginning of each financial year.

Operational boundary	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt	37,000,000	38,800,000	38,800,000	38,800,000
Other long term liabilities	600,000	600,000	600,000	600,000
Commercial activities/non-financial investments	2,000,000	40,000,000	40,000,000	40,000,000
Total	**39,600,000**	**79,400,000**	**79,400,000**	**79,400,000**

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

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.
2. The Council is asked to approve the following Authorised Limit. This limit is set to give the Council complete flexibility and also to encompass the maximum amount of borrowing that could occur for the capital programme:

Authorised limit £	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt	37,500,000	40,000,000	40,000,000	40,000,000
Other long term liabilities	1,000,000	1,000,000	1,000,000	1,000,000
Commercial activities/non-financial investments	2,000,000	40,000,000	40,000,000	40,000,000
Total	**40,500,000**	**81,000,000**	**81,000,000**	**81,000,000**

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

3.4.1 The Economic Background is attached at Annex C3 which includes the Brexit timetable and and economic update.

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

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Mar 2019	0.75	2.10	2.50	2.90	2.70
Jun 2019	1.00	2.20	2.60	3.00	2.80
Sep 2019	1.00	2.20	2.60	3.10	2.90
Dec 2019	1.00	2.30	2.70	3.10	2.90
Mar 2020	1.25	2.30	2.80	3.20	3.00
Jun 2020	1.25	2.40	2.90	3.30	3.10
Sep 2020	1.25	2.50	2.90	3.30	3.10
Dec 2020	1.50	2.50	3.00	3.40	3.20
Mar 2021	1.50	2.60	3.00	3.40	3.20
Jun 2021	1.75	2.60	3.10	3.50	3.30
Sep 2021	1.75	2.70	3.10	3.50	3.30
Dec 2021	1.75	2.80	3.20	3.60	3.40
Mar 2022	2.00	2.80	3.20	3.60	3.40

3.4.3 The flow of generally positive economic statistics after the quarter ended 30 June 2018 meant that it came as no surprise that the Monetary Policy Committee (MPC) came to a decision on 2 August 2018 to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November 2018 quarterly Inflation Report meeting, the Monetary Policy Committee (MPC) left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the Monetary Policy Committee (MPC) would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

3.4.4 The overall longer run future trend is for gilt yields, and consequently Public Works Loan Board (PWLB) rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

3.4.5 From time to time, gilt yields, and therefore Public Works Loan Board (PWLB) rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

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

3.4.7 Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

- Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.5 **Borrowing Strategy**

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

3.5.2 If the Council does undertake borrowing then interest rates will be viewed from 1 year to 50 years, in accordance with the interest rates available from the markets as well as the Governments Public Works Loans Board (PWLB). For 2019/20 interest rates span between 5 years at 2.10% to 2.80%,10 at 2.50% to 3.20%, 25 at 2.90% to 3.60% or 50 years at 2.70% to 3.4%. The interest rates trend is to increase slightly across all years as the 2019/20 year progresses. Therefore, in the current volatile money market, the borrowing target rate for 2019/20 is set at 3.30%. External borrowing will be considered throughout the financial year when interest rates seem most favourable.

3.5.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

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

3.6 Policy on Borrowing in Advance of Need

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

Borrowing in advance will be made within the constraints that:

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

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

3.7 Debt Rescheduling

3.7.1 It is not anticipated that in 2018/19 that debt rescheduling will occur. The Council currently only has long term debt of £1,200,000. However, in order to cover all possibilities in the Treasury Management Strategy Statement it should be noted that short term borrowing rates will be considerably cheaper than longer term fixed interest rates, therefore, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings would need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premium charges would be incurred).

3.7.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

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

3.8 Municipal Bond Agency

3.8.1 It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to Local Authorities sometime in the future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB).

The Council could therefore potentially make use of this new source of borrowing as and when appropriate to fund all or part of the borrowing required for the two previously mentioned schemes.

4.0 Annual Investment Strategy

4.1 Investment Policy

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

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

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

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

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

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

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

4. This authority has defined the list of types of investment instruments that the treasury management team are authorised to use; there are two lists in Annex C1 under the categories of 'specified' and 'non-specified' investments and Counterparty limits will be as set through the Council's treasury management practices – schedules.

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

    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

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

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

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

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

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

Individual Limits – These limits will be set at 30% of total investments or £3m per counterparty whichever is the higher. There are three exceptions to this policy:

(a) with counterparties that are backed by the Government – Royal Bank of Scotland and Natwest – (and therefore are more secure) there will be a 40% limit or £5m per counterparty whichever is the higher.

(b) with the Council's own bank - Lloyds - and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £5m per counterparty whichever is the higher

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

It should be noted that it is expected during 2019/20, that the status of the current counterparties backed by the Government in (a) above may change. If this occurs a report will be brought to Cabinet at the earliest opportunity with the revised limits.

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

4.1.4 As a result of the change in accounting standards for 2018/19 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [(MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1st April 2018.

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

4.2 Creditworthiness policy

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

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

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

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

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

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

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

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

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

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

4.2.7 **UK banks – ring fencing**

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

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

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

4.3 **Country Limits**

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

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

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

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

4.4 **Investment Strategy**

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

4.4.2 **Investment returns expectations**
Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by Quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/2019 0.75%
- 2019/2020 1.25%
- 2020/2021 1.50%
- 2021/2022 2.00%

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

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%
- 2021/22 1.75%
- 2022/23 1.75%
- 2023/24 2.00%
- Later years 2.50%

4.4.4 The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

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

Maximum principal sums invested > 365 days			
£	**2019/20**	**2020/21**	**2021/22**
Principal sums invested > 365 days	£1,000,000	£1,000,000	£1,000,000

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

4.5 **Investment Risk Benchmarking**

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

4.6 **End of year investment report**

4.6.1 At the end of the 2018/19 financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5.0 **Policy on the Use of External Service Providers and Training**

5.1 **Policy on the Use of External Service Providers**

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

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

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

5.2 **Training**

5.2.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This applies to cabinet members and members on scrutiny committee. During 2019/20, members will be offered training to provide an overview of treasury management and also any specific treasury management are they would choose. This training can be provided by Council officers or by the external service provider – Link Asset Services. The training needs of treasury management officers in the Council are periodically reviewed and officers have the opportunity to attend seminars and update services from Link Asset Services.

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

1.0 SPECIFIED INVESTMENTS:

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

2.0 NON-SPECIFIED INVESTMENTS:

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

3.0 INVESTMENT INSTRUMENTS:

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

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

	Minimum credit criteria / colour band	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating		12 months
UK Government Treasury bills	UK sovereign rating		12 months
Bonds issued by multilateral development banks	AAA (or state your criteria if different)		6 months
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LVNAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid

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

A) – SPECIFIED

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

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

NON-SPECIFIED INVESTMENTS*:*

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

1. Maturities of ANY period

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

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

2. Maturities in excess of 1 year

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

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

ANNEX C2

APPROVED COUNTRIES FOR INVESTMENT
Current List as at 8 January 2019

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

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A.

AA

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

AA-

- Belgium
- Qatar

ANNEX C3

ECONOMIC BACKGROUND AND BREXIT TIMETABLE

GLOBAL OUTLOOK

World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

KEY RISKS

Central bank monetary policy measures

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because quantitative easing (QE)-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we have indeed, seen a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of quantitative easing (QE) debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. The potential for central banks to get this timing and strength of action wrong are now key risks. At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and was likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in liquidity creation over the last five years where the US has moved from boosting liquidity by quantitative easing (QE) purchases, to reducing its holdings of debt, (currently about $50bn per month). In addition, the European Central Bank ended its quantitative easing (QE) purchases in December 2018.

UK

The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the Monetary Policy Committee (MPC) repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in Gross Domestic Product (GDP) growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the Monetary Policy Committee (MPC) would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the Monetary Policy Committee (MPC) at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation

The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to Gross Domestic Product (GDP) growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the labour market figures in October**,** unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less Consumer Price Index (CPI) inflation), earnings are currently growing by about 1.0%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the Monetary Policy Committee (MPC) was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore

medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

Euro Zone

Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank (ECB) ended all further purchases in December 2018. The European Central Bank (ECB) is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the European Union economy is on a weakening trend.

USA

President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2 % in November, however, Consumer Price Index (CPI) inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles, of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

CHINA

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

JAPAN

Japan has been struggling to stimulate consistent significant Gross Domestic Product (GDP) growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries

Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.4.2 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.
-
- Bank of England monetary policy takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the eurozone sovereign debt crisis, possibly in Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by *delaying* the planned increases in expenditure to a later year. This can has therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.

- Weak capitalisation of some European banks. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.

- German minority government. In the German general election of September 2017, Angela Merkel's Christian Democratic Union (CDU) party was left in a vulnerable minority position dependent on the fractious support of the Social Democratic Party (SPD), as a result of the rise in popularity of the anti-immigration Alternative for Germany (AfD) party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the Social Democratic Party (SPD), and showed a sharp fall in support for the Christian Democratic Union (CDU). As a result, the Social Democratic Party (SPD), is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as Christian Democratic Union (CDU) party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and European Union parliamentary elections in May/June; these could result in a further loss of electoral support for both the Christian Democratic Union (CDU) and Social Democratic Party (SPD), which could also undermine her leadership.

- Other minority eurozone governments. Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.

- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.

- Further increases in interest rates in the US could spark a sudden flight of investment funds from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.

- There are concerns around the level of US corporate debt which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

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

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

- Brexit – if both sides were to agree a compromise that removed all threats of economic and political disruption.

- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of quantitative easing (QE), which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process

- March 2017: UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.

- 25.11.18 EU27 leaders endorsed the withdrawal agreement

- Dec 2018 vote in the UK Parliament on the agreement was postponed

- 21.12.18 – 8.1.19 UK parliamentary recess

- 14.1.19 vote in Parliament on a 'no deal' scenario

- By 29.3.19 second vote (?) in UK parliament if first vote rejects the deal

- By 29.3.19 if the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority

- By 29.3.19 if the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree

- 29.3.19 UK leaves the EU, (or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament rejects the deal and no deal departure?)

- 29.3.19: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed transitional period ending around December 2020.

- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.

- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.

- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.

- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.

- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

ANNEX D

TREASURY MANAGEMENT SCHEME OF DELEGATION

APPENDIX: Treasury management scheme of delegation

(i) Full Council

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

(ii) Cabinet

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

(iii) Audit, Governance and Standards Committee

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

ANNEX E

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

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

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HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 March 2019

From: Director of Finance (S151 Officer)

Subject: **REVIEW OF THE CAPITAL STRATEGY 2019/20**

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 2019/20. It also provides members with the opportunity to review the Joint Venture Company – Central Northallerton development Company Ltd – Accounts 2017/18.

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; treasury investments will be reported through the Treasury Management Strategy Statement and non-treasury investments will be reported through this capital strategy. 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.

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

1.4 This capital strategy sets out the long term decisions on capital expenditure and capital investments and explains the approach to:

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

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

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

1.5 The affordability and risk associated with the capital strategy will be reported to Cabinet and council when capital expenditure occurs on non-treasury investments in the Capital Monitoring and Treasury Management report on a quarterly basis.

1.6 Attached at Appendix ‘A’ is the "Capital Strategy 2019/20” report which was approved by Cabinet and Council in February 2019. This report contains the Council’s capital strategy at Annex A.

1.7 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 8.10.
- Paragraphs 10 to 13 detail and ‘Implications for future financial sustainability’

1.8 Included in the capital strategy section ‘Implications for the future financial sustainability’ is the capital plan for non-treasury investment which is split between service capital expenditure and commercial capital expenditure. Service capital expenditure is on:

(i) the enhancement or creation of assets for the future of the service
(ii) loans to third parties which benefit the local area for economic and housing advancement to support the district.
(iii) the investment in the Joint Venture Company – Central Northallerton development Company Ltd – where the purpose is to regenerate the local area and bring new businesses into the high street of Northallerton as well as developing the former HMP Prison site

1.9 Attached at Appendix B, for Members’ information, is the Central Northallerton Development Company Ltd’s Accounts for 2017/18.

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 (S151 OFFICER)

Background papers: None
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HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
12 February 2019

Subject: **CAPITAL STRATEGY 2019/20**

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

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1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of the capital strategy is to give a clear and concise view of how a local authority determines it 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, in 2019/20, 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 will explain the approach to:

- High level overview of:
  - Service objectives relating to the investments;
  - Corporate governance arrangements for non-treasury investment activities;
- Overview of how associated risk is managed:
  - Risks associated with treasury investments (treasury management investments) and non-treasury investments (commercial investments);
- Implications for future financial sustainability:
  - Expected income, costs and resulting contribution;
  - Debt related to the activity and the associated interest costs;
  - Payback period (Minimum Revenue Provision (MRP) policy);
  - Other ratio analysis;

1.5 This capital strategy is a key document for the Council and forms part of the authority's integrated revenue, capital, balance sheet and reserves planning and is reported separately from the Treasury Management Strategy Statement; treasury investments will be reported through the Treasury Management Strategy Statement and non-treasury investments will be reported through this capital strategy. 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.

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

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

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

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

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

2.0 LINK TO COUNCIL PRIORITIES:

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

3.0 RISK ASSESSMENT:

3.1 There are no risks associated in approving the recommendation.

4.0 FINANCIAL IMPLICATIONS:

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

5.0 LEGAL IMPLICATIONS:

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

5.2 The Council has sought legal advice to confirm under which legal powers it is acquiring commercial properties, Counsel's advice on the legal status of the CIPFA guidance and how the capital strategy and no-treasury commercial activity fit with the guidance. This guidance will be available in due course and referred to for non-treasury commercial activities and in future reports.

6.0 EQUALITY/DIVERSITY ISSUES

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

7.0 RECOMMENDATIONS:

7.1 That Cabinet approves and recommends to Council the Capital Strategy 2019/20 attached at Annex A of the report.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: 10 Year Capital Programme
Treasury Management Strategy Statement
Financial strategy

Author ref: **lbw**

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Annex A

HAMBLETON
DISTRICT COUNCIL

Capital Strategy 2019/20

Contents

CAPITAL STRATEGY

1.0 Purpose

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential and Treasury Management Codes require, in 2019/20, 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.

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

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

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

2.0 Scope

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

High level overview:

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

Overview of how associated risk is managed:

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

Implications for future financial sustainability:

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

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

reports will identify risks and the impact on the financial sustainability of these schemes

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

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

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

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

3.0 Definitions

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

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

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

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

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

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

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

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

3.9 **Service Investments (Non-Treasury Management Investment) -** These are investments 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, capital expenditure in ICT and etc

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

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

4.0 Council Objectives

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

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

- Council Plan;
- Asset Management Strategy;
- Risk Management Guide
- Individual Service Plans;
- Contract Procedure Rules;
- Financial Regulations;
- Economic Development Strategy
- Treasury Management Strategy Statement and Minimum Revenue Provision Policy.
- Commercial Strategy

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

4.4 The Asset Management Strategy is currently under development and will be reported to Members for approval in the Autumn 2019.

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

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 proceeding the new financial year in February. In order for the capital programme to be constructed, consideration is given to schemes across the Council by reviewing option appraisals and feasibility studies which contribute to the construction of individual capital schemes initially in the form of a high level overview which is followed by a more detailed Project Initiation Document (PID).

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

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

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

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

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

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

5.7 It is essential that all procurement activities comply with EU procurement directives and adhere to the relevant requirements stipulated in directives. Guidance on this can be sought from the Procurement team. Procurement must also comply with the Councils policies and regulations such as Contract Procedural Rules and Financial Regulations. The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.

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

- The location of the property to be purchased will bring added value to the estate;
- The requirement for the asset is an extraordinary service demand which could not be anticipated in the normal planning processes;
- There is a limited time span when the opportunity is available.

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.

5.9 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.

5.10 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

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

6.0 Corporate governance arrangements - Non-Treasury Investment activities

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

6.2 The Council's Programme Management Board - takes a corporate and group view on the capital programme and investment, where this group receives information from the operational Asset Management Working Group. Programme Management Board will also ensure a corporate and group portfolio perspective to the use and allocation of the Council's capital assets and in planning capital investment on service capital expenditure; for commercial capital investment see below. The Programme Management Board receives reports on proposed capital projects, as well as monitoring reports for those included in the Capital programme on a regular basis. Post scheme evaluation reviews should be completed by departments for all schemes; those over £50,000 and also strategic capital projects will be reported to Project Management Board. The Programme Management Board is key in finalising the Capital Programme for approval at Cabinet and Council every year prior to the beginning of the financial year.

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

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

6.5 Investment Board and Commercial Activities – the process for making commercial investments has be 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). Further development of the role of the Investment Board and potential extension of membership will occur in due course and be taken to cabinet and council. In addition, it should be noted that all commercial investment opportunities and decisions will be brought to Cabinet and Council for approval.

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

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

7.2 The Council has sought legal advice to confirm under which legal powers it is acquiring commercial properties, Counsel's advice on the legal status of the CIPFA guidance and how the capital strategy and non-treasury commercial activity fit with the guidance. This guidance will be available in due course and referred to for non-treasury commercial activities. The Council will use its "power to invest" for the prudent management of the Council's financial affairs.

7.3 CIPFA's Prudential Code and the Statutory guidance on Local Government investments state that Council should not "borrow in advance of need". The intent of the "borrowing in advance of need" within the revised English MHCLG Investment Guidance (paragraph 46 of the Guidance and 35 of the Commentary) 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 illegal. The expectation in within this revised wording is that borrowing to invest in purely income generating assets is to be discouraged and not undertaken, and activity should be financed by capital. However, the Guidance goes on to state that if this is disregarded, and funded by borrowing; the rationale is to be set out to elected members. This can be contrasted with the CIPFA Prudential Code paragraph 45, 62 (and E16), which allows borrowing in advance of need against the CFR for the current and next two financial years. These two approaches can be seen as confusing.

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

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

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

It further states that

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

7.6 The Council is mindful of the CIPFA prudential Code and does not propose to borrow more than or in advance of need. The rational that the Council intends to borrow is that the capital expenditure for the commercial investment portfolio will be incorporated into the Council's capital programme where the borrowing of the Council will be looked at in it totality within its Capital Financing Requirement and the appropriate Authorised Borrowing Limit will be set. This can be seen in the Treasury Management Strategy Statement that is approved by Council every February prior to the beginning of the new financial year.

7.7 In addition, in relation to commercial investment and proportionality this is described in the 'associated risk' and 'implications for future financial sustainability' sections of this Capital Strategy.

7.8 The Statutory Guidance on Local Government Investments (3rd edition) sets out the expectations in terms of disclosures where a Local Authority chooses to disregard part of the Prudential Code which includes risk management of any potential income shortfall (Paragraph 47).

- "*Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:*

  - *Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and*
  - *The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing."*

7.9 The 'associated risk' and 'implications for future financial sustainability' section of the Capital Strategy addresses these issues. In addition these matters will also be address in a future reports to members on non-treasury commercial activities.

7.10 In addition CIPFA is of the view, as well as is stated in the guidance, that if a local authority invests outside its boundary, using borrowing to support this, in other areas of the UK to generate profit then it may be hard to justify this as it is not for core services to the resident. CIPFA is aware of the requirement for local authorities to support themselves due to reduction in Government funding however if commercial property investments are looked at in isolation then the local authority will be open to scrutiny to justify the borrowing for this this. If reserves where used to fund the commercial property investment then this would be in accordance with the guidance. The reserves of the Council are further addressed in the 'risk associated' and 'implications for future financial sustainability' section of this Capital Strategy.

7.11 The Council believes that in accordance with the Prudential Code and Investment Guidance, that if the capital programme is reviewed as whole and borrowing is for the entirety of the capital programme and property investment is looked at within this then this commercial property capital expenditure investment could be considered as justifiable. For example if property investment occurred in Scotland and the income generated form this support the Business & Economy Section (not a statutory service) then this enables resident to receive a valuable service to help them with their business through 'lunch & learn', conferences, funding opportunities etc. As long as the Council can clarify and confirm its position on prudence then this is in line with the code. (It should be noted that this is not the view of the Council's treasury management advisor Link Asset Services who believe that investment should be maintained within the boundary).

7.12 The Council's view on prudence and its prudent approach to the consideration of its position on the Minimum Revenue Provision is included in the 'implications for future financial sustainability' section of this Capital Strategy - Treasury Management Strategy Statement - Minimum Revenue provision (MRP) Policy Statement.

7.13 The guidance also suggests a range of indicators should be established and reviewed on a regular basis as part of the Capital Strategy; again this is seen in this Capital Strategy in the following two sections - 'risk associated' and 'implications for future financial sustainability'.

An overview of how associated risk is managed

8.0 Associated Risk

8.1 Risk Management Overview - Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

8.2 The aim of risk management is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

8.3 Risk Appetite and Monitoring - To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk by each scheme as well as for the capital programme as a whole.

8.4 The appetite for risk associated with treasury investments (treasury management investments) is centred around the security, liquidity and yield and is covered in the Treasury Management Strategy Statement. For completeness of this Capital Strategy risks associated with treasury investments is attached at **Annex C**

8.5 The appetite for risk associated with capital expenditure on non-treasury investment schemes can be for service investments described above) and commercial investments.

8.6 When the Capital Programme is produced at the beginning of every financial year, the capital budget setting process – as detailed above – includes the requirement for each capital scheme to write a Project Initiation Document. For capital expenditure on Service Investment this Project Initiation Document includes the risks associated with that scheme; these risks are then captured in each of the Department's Section Service Plans, consolidated in the Corporate Risk Register which are monitored on a quarterly basis being reported to Scrutiny Committed and at least annual an update on risk is provided to Audit Governance & standards Committee.

8.7 For those capital schemes which are of a commercial nature, and are capital assets held primarily for financial return, these schemes are significant to the Council and in accordance with transparency a separate cabinet report would be written which would include the associated risks. These risks are then also included in the Corporate Risk Register and would be reported to Scrutiny on a quarterly basis, with at least an annual update to Audit Governance & standards Committee.

8.8 An assessment of risk should therefore be built into every capital project and major risks recorded in the Corporate Risk Register. More information is available in the Risk Management Guide which is approved by Audit Governance and Standards Committee.

8.9 When investing in capital assets held primarily for financial returns, under the CIPFA Prudential Code these are defined as investments and so the key principle of control of risk and optimising returns consistent with the level of risk applies.

8.10 Measures to manage risk - The following measures to manage the risks associated with commercial investment are listed below and the Director of Finance (S151 Officer) will report on the affordability of these risks associated with the capital strategy in the Capital Monitoring and Treasury Management report on a quarterly basis:

(i) Proportionality - Advice from CIPFA is that borrowing for investment should be proportionate to the Council's overall budget.

- a 20% limit is deemed as an appropriate level for the commercial investment finance costs to be set at as a proportion of the budget.

(ii) Reserves Position - The financing cost is deemed to be manageable if income from the investment properties was reduced, due to the Council's balance on reserves being £13.5m at quarter 2 2018/19.

- the Council's 10 Year Financial Strategy 2019/20 to 2028/29 shows that the end of 10 years the reserve position remains at £10m, with the lowest point of reserves being £8m in 2023/24.

(iii) Financial strategy review - It is important to note that a shortfall in net income that is received on the commercial investment will reduce the funding that supports the budget, however it is highly unlikely for the entire net income to be eroded so a smaller proportion of funding would need to be found. The Council's reserves are allocated over 10 years in the financial strategy;

- the 10 year financial strategy would be reviewed along with the budget and reported to Members at the earliest opportunity if there was to be a short fall in income.

(iv) Geographical and Sector Diversity - The commercial investment would be made across several assets in different sectors and geographies to reduce the risks associated with this investment. To ensure a low risk profile it is crucial to invest across the UK and in different sectors. The Council is already in the process of acquiring Treadmills Phase 1 within its administrative boundaries and, as part of a balanced portfolio, the Council would seek opportunities in other areas in the UK, outside the retail sector. Opportunities are likely to be sought in the industrial, warehousing and office sector.

- the geographical and Sector diversity of commercial investments to be monitored

(v) Low risk of income shortfall -v- return - The risk profiles of assets vary greatly and this is reflected in the yield of an asset. The higher the yield of a commercial investment the more income it generates as a proportion of its purchase price, however this is associated with higher risks e.g. voids, maintenance costs, income shortfall and/or failing tenants. It is therefore crucial to acquire assets where a balance is struck between an acceptable return on investments and a low risk of income shortfall.

- Any proposed investment in a commercial asset will include the purchaser's costs associated with any acquisition.
- All commercial assets will be sought to be occupied under full repairing and insuring terms.

(vi) Net Yield - The Council's policies for investment decisions would be set out in an Acquisition Strategy, which would be developed and approved by Council before any further purchases are made to avoid a reactive approach to market opportunities. This would ensure that any investments that are considered are in a strategic context. Within the Strategy an overall net yield between 4.5% and 5.5% should be targeted to balance risks and returns. Advice from property investment advisors shows that most Local Authorities are looking for a yield between 4.5% and 5.5%. The strategy would also consider thresholds and criteria for acquisitions which will provide safeguards to avoid overexposure to one particular location or sector.

- an overall net yield between 4.5% and 5.5% should be targeted to balance risks and returns or an explanation as to why this is not achievable

(vii) Specialist Investment Advice - A property investment advisor should be appointed to act on behalf of the Council. Property investment advisors have established relationships that give them access to off-market opportunities, preferential treatment and the experience to avoid bidding wars; approaches by 'agents' would be motivated by the desire to sell a property and would not

take into consideration whether these properties are a good investment for the Council and therefore should be avoided.

- The investment advisor would help develop and implement an Acquisition Strategy.
- The investment advisor would be expected to produce quarterly reports on the Council's Investment Portfolio, the commercial property market, any management issues emerging as well as any risks.
- The investment advisor could also act as the property manager carrying out any management function (Licence for Alterations, landlord inspections, rent reviews etc). The management cost would be taken into account when establishing the net yield of the portfolio.
- Council will seek advice on the terms required in the tendering of the property investment advisor to ensure strict monitoring for the Council and to be able to hold the advisor to account.
- The Council will seek advice on the terms required in the tendering of the property investment advisor to ensure strict monitoring for the Council and to be able to hold the advisor to account.
- The investment advisor will be held to account by the Investment Board, Management team and an update provided to Cabinet and Council

(viii) Decision Making and the Investment Board - A robust decision making process for making commercial investments has be devised to ensure that appropriate oversight, quality assurance and risk management is in place. This includes the Investment Board (as set out in the Cabinet Report "Commercial Opportunities" on the 9th October 2018). The Investment Board currently consists of the Chief Executive, the Deputy Chief Executive, the Finance Director (S.151 Officer) and the Director of Legal and Governance (Monitoring Officer).

- The role of the Investment Board and its membership will be reviewed and brought back to Cabinet.

8.11 Due Diligence - For all capital investments, Service Investments and Commercial Investments, the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered. Due diligence process and procedures will include:

- effective scrutiny of proposed investments by the relevant committee;
- identification of the risk to both the capital sums invested and the returns;
- understanding the extent and nature of any external underwriting of those risks;
- the potential impact on the financial sustainability of the Council if those risks come to fruition;
- identification of the assets being held for security against debt and any prior charges on those assets;
- where necessary further independent and expert advice will be sought.

8.12 Legal and Regulatory Risk - This is the risk that changes in laws or regulation and makes a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Council will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

8.13 The Director of Finance (S151 Officer) will report explicitly on the affordability and management of these risks, listed above, associated with the capital strategy which will be included in the Quarterly Monitoring report - Capital programme and treasury Management strategy - to Cabinet as well as being reported to the Investment Board if required as described above. Where appropriate the Director of Finance (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 (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 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 2019/20 to 2028/29. The 10 year Capital Programme is set within the fiscal parameters of the Financial Strategy, a key feature of which is to ensure that at the end of the 10 year Strategy sufficient reserve funds – grants, contribution and capital receipts – remain available. The 10 year financial strategy also includes the finance costs associated with the borrowing required to support the capital programme.

9.3 The 10 year capital programme and the 10 year financial strategy ensure that the Council's capital plans are affordable, sustainable and prudent.

9.4 The future capital plans of the Council out to 30 years are to ensure that capital expenditure continues to invest in

- service assets - to maintain the long term fabric and delivery of services in line with Council Objectives to the residents, businesses and communities of Hambleton and
- commercial assets - to support the delivery of services from income generating schemes.

9.5 In order for the Council to ensure future capital plans are financial sustainability the capital strategy indicators are classed into the following four areas and these will be monitored on a quarterly basis in the Capital Programme and Treasury Management Strategy reports to Cabinet and Council:

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

10.0 Expected income, costs and resulting contribution

10.1 The capital plan for non-treasury investment is split between service capital expenditure and commercial capital expenditure.

- Service capital expenditure is on:

(i) the enhancement or creation of assets for the future of the service
(ii) loans to third parties which benefit the local area for economic and housing advancement to support the district.
(iii) the investment in the Joint Venture Company – Central Northallerton development Company Ltd – where the purpose is to regenerate the local area and bring new businesses into the high street of Northallerton as well as developing the former HMP Prison site.

- Commercial capital expenditure is on:
  (i) the proposed development of phase 1 of the Treadmills Site
  (ii) the commercial property portfolio

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.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Services	0.12%	0.29%	2.87%	4.06%	4.08%
Commercial activities/non-financial investments	0.00%	0.00%	0.00%	70.91%	70.91%
Total	0.12%	0.29%	2.87%	14.39%	14.45%

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, income generated – and also income received from the loan to the local housing association.

10.4 Loan to the third party expected income, costs and resultant contribution from the local housing association is detailed in the table below:

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Net Revenue Streams	1,138,400	1,138,400	1,478,400	1,478,400	1,478,400
Finance costs	12,668	28,700	268,070	268,070	268,070
Total	**1,125,732**	**1,109,700**	**1,210,330**	**1,210,330**	**1,210,330**

10.5 The table above details the expected income to be generated from the local housing association using current information available on the interest to be received, and interest rates available to calculate the costs of borrowing.

10.6 Commercial investment expected income, costs and resultant contribution – The following table provides an estimate of future income to be received by the council in investing £40m (the proposed development of phase 1 of the Treadmills Site and the commercial property portfolio). It takes into account financing (borrowing at 2.5% over 50 years) and assumes a net yield of 5% of the portfolio where the net yield takes into account all purchaser's and management costs; then the return to the Council following financing is set out in the table below. In reality not the entire £40m would be invested at the same time, but over a longer period when appropriate opportunities become available and the Council successfully bids for these.

	Year 1-5	**Year 6-10**
Annual Net income	2,000,000	2,318,548
Net Initial Yield	**5.00%**	**5.80%**
Annual Financing Cost	-1,402,284	-1,402,284
Net annual return to Council	597,716	916,264
Yield to council	1.49%	2.29%

10.7 The type of acquisitions that the Council would consider, are likely to have 5 yearly rent reviews linked to the Retail Price Index (RPI). The table above is assuming a compound annual increase of 3% which results in the increase of income from year 6. The table is only an indication as the timing of rent reviews, the staggered purchase of properties and varying yields will result in a different income profile, which can only be determined as and when properties become available for purchase. All purchases will be in accordance with the Acquisition Strategy that is due to be developed by spring 2019.

11.0 Debt related to the activity and the associated interest costs

11.1 Debt related to non-treasury investment activity and the associated interest costs – is illustrated using the table from the Treasury Management Strategy Statement which details the capital expenditure, financing costs, net financing need for the year and the related percentage of total net financing need:

Commercial activities / non-financial investments £m	**2017/18 Actual**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Capital Expenditure	0	1,912,000	38,088,000	0	0
Financing costs	0	0	53,556	1,379,879	1,379,879
Net financing need for the year	0	1,912,000	38,088,000	0	0
Commercial activities percentage of total net financing need	0%	16.68%	95.22%	0%	0%

11.2 The table above highlights:

- Net financing need for the year - In 2018/19 and 2019/20 it highlights the need for borrowing to occur to support the purchase of the £40 million commercial investment (the proposed development of phase 1 of the Treadmills Site and the commercial property portfolio.
- Finance costs - are lower initially in 2019/20 as the minimum revenue provision (see paragraph 12.0) is not charged until 2020/21 when the whole of the expenditure on the capital investment has occurred.
- Commercial activities net financing need as a percentage of total net financing need – in 2019/20 this is 95.22% which highlights that there is no significant borrowing on the Service Capital Expenditure plans of the Council This is positive as it means that capital receipts and other funding sources are continue to fund the rest of the Council's capital programme.

12.0 Payback period (Minimum Revenue Provision (MRP) Policy Statement)

12.1 The payback period is the length of time over which it is acceptable to the Council to repay debt. Debt occurs from the borrowing taken to support the Council's expenditure on capital projects in the capital programme. Under Local Government Act 2003 guidance is issued on the payback period of borrowing which is called the Minimum Revenue Provision where it is a requirement for Full Council to approve a Minimum Revenue Provision (MRP) Statement in advance of each year. Recently in light of non-treasury activity - commercial investments – this guidance has been updated for 1 April 2018. in the Treasury Management Strategy Statement.

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 Minimum Revenue provision (MRP) Policy Statement - 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 2019/20 will have a Capital Financing Requirement of £77,665,383 to support the total capital programme and this is the potential amount of borrowing that may be required in 2019/20.

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:

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** – Minimum Revenue Provision 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.

12.8 Repayments included in annual Private Finance Initiative scheme or finance leases are applied as Minimum Revenue Provision (MRP), though this Council does not expect to have these repayments in 2019/20 or in the foreseeable future.

12.9 The Capital Financing Requirement for the loan to the local Housing Association will be a maximum of £35,000,000 in 2018/19 and future years. The agreement with the local Housing Association states they will make bullet repayments to the Council at years 5, 10, 15, 20 and 25. The bullet repayments made throughout the life of the loan will be set aside by the Council when received to ensure that prudent provision is made for regular repayment. These regular bullet points will be earmarked and used as the Minimum Revenue Provision that the Council needs to make on a regular basis to reduce the Capital Financing Requirement. Therefore, if a total of £35,000,000 is loaned to the local Housing Association by the end of 2018/19, the first time the MRP charge will be made to the revenue account to reduce the level of CFR will be 2020/21 and at regular intervals thereafter.

12.10 The Minimum Revenue Provision for the £40m commercial investment is also worth noting in accordance with the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003 where it suggests that the life of an asset should not be greater than 50 years. Currently, the financial costs have been calculated using an asset life of 50 years and therefore this is likely to be the steer to the Property Investment advisor when undertaking the commercial investment. The guidance does also state that if a local authority deems an asset to have a life greater than 50 years then a professional advisor is required to be appointed by the local authority to support this, however asset life of greater than 50 years is for capital expenditure to enhance the delivery of services rather than the capital expenditure on commercial investment.

12.11 The Minimum Revenue Provision Asset Life Method provides for a prudent provision to reduce the borrowing need over approximately the asset's life. Therefore the minimum revenue provision set aside would be the same every year. This method of minimum revenue provision is usually used when a maturity loan is taken. An alternative calculation for the minimum revenue provision is when an annuity loan is taken and then the annuity method is used. This occurs when the amount of principle and interest together total the same amount each year; therefore in the earlier years there is a lower minimum revenue provision charge. This method is likely to be used for the initial years of the commercial investment; it is similar to a mortgage and can potentially maximise the amount of income generated to support the revenue budget whilst still being a prudent approach to the repayment of debt.

12.12 When advice is taken form the Property Investment advisor to undertake the commercial investment, consideration will be given to the view that a prudent approach to the repayment of debt is not to set aside an amount at all. The rationale behind this is that the borrowing will be held for a specified number of years to cover the capital expenditure of the commercial investment, then when it is decided to realise the property commercial investment the funds will be returned to the Council. The council will then use this to repay the borrowing; clearly it is expected that the property investment will have appreciated in value. Past performance is no

guarantee of future increase in value of a commercial property investment and therefore if this approach were to be taken a Cabinet report would be written to recommend to Council this approach and Members would be able to make a considered decision.

12.13 Finally it should be noted that a further change introduced by the revised Ministry of Housing, Communities and Local Government (MHCLG) Minimum Revenue Provision Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), called 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 2019/20 budget the voluntary revenue provision must be stated. This Council has never overpaid minimum revenue provision so this does not apply; however it is noted here for future reference if ever needed.

13.0 Other Ratio Analysis

13.1 Proportionality and Reserves Position - A particular aspect of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance is proportionality, in effect gearing. Proportionality is a difficult concept and is related to the level of investment asset activity, the risks and how much an individual authority can afford to lose. The General Fund Balance or other usable unallocated available reserves provide a base of the total amount that can be put at risk. Below are worst case scenario examples to show the capital and revenue exposure to the Council and the associated potential loss compared to the reserves of the Council and the budget position.

13.2 If £40m is invested in a commercial activity:

- and £8.0m or 20% of this capital is lost then in accordance with the financial strategy over the next 10 year forecast there are sufficient resources to support this. The lowest forecast of reserves is £8.0m in 2023/24.
- the finance costs in relation to the net budget are 15%, (this is calculated based on 2020/21– when it is likely that the commercial investment will have occurred if approved at Cabinet and Council). A proportion of 20% finance cost to net budget is deemed prudent.

13.3 The intent of proportionality within the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance seems to point to what degree the example activity above is reasonable against the available resources. It is a balance of risk and what is deemed to be excessive risk. For this Council with estimated reserves of between £8.0m and £10.5m at the end of the 10 year strategy, expected losses may be politically unpleasant, but could be contained within the available resources.

13.4 Asset Cover for Debt (loan to value cover) - Indebtedness (Capital Financing requirement- CFR) and external debt in relation to commercial assets, compared against the asset valuations may provide some support, for example £10m of debt with assets valued at £12m may suggest asset cover; assets valued at £8m may suggest disproportionate risk. A higher debt/indebtedness of commercial activity compared with its valuation, may prompt consideration of Minimum Revenue Provision or additional Voluntary Revenue Provision to be required.

13.5 At this Council when the commercial investment at £40m proceeds, the Capital Financing requirement is £40m and if it is financed using borrowing then the extremal debt would be £40m. If the council's surplus funds are used to finance £10m of the commercial investment then the external debt would be £30m. In due course when the assets have been purchased the Council will be able to monitor the debt position of this commercial activity against the value. This will enable the Council to judge whether further minimum revenue provision is needed.

13.6 It is worth noting at this stage the estimates provided in this report for the finance costs in relation to the debt to be taken for the commercial activity have been calculated on £40m. This is the worst case scenario so that this will be the highest amount of finance costs to be incurred.

13.7 Valuations against cost – In accordance with the guidance it is necessary to report to Members on valuations against cost. In line with the detail provided above for Asset Cover for debt, when the capital expenditure has been invested in the commercial activity the information will be available to report valuations against cost and at this further explanation will be provided to assist members understanding.

13.8 Service Capital Financing Requirement (CFR) against Service CFR and Non-treasury CFR - may also provide an indicator of the proportion of the Council's non-treasury investment / commercial activities compared to the whole of the Council's capital expenditure. So for example, a Service CFR £6m against a combined Service and Non-Treasury investment CFR of £12m indicates that the proportion of the non-treasury investment is half of the Council's overall CFR. This can be a useful measure as it raises awareness to the amount of capital expenditure invested in non-treasury activity; which is required generate income to support the delivery of council services on an ongoing basis.

13.9 At the Council the table below shows the proportion of the Council's non treasury investment - commercial activities - in relation to the total capital financing requirement:

Proportion of commercial CFR against the Total CFR	**2017/18** **Actual**	**2018/19** **Estimate**	**2019/20** **Estimate**	**2020/21** **Estimate**	**2021/22** **Estimate**
Capital Financing Requirement (CFR)	**0**	**26,200,000**	**37,664,183**	**77,665,383**	**77,665,383**
CFR - Services	**26,200,000**	**9,552,183**	**1,913,200**	**0**	**0**
CFR – Commercial activities	**0**	**1,912,000**	**38,088,000**	**0**	**0**
Total CFR	**26,200,000**	**37,664,183**	**77,665,383**	**77,665,383**	**77,665,383**
Proportion	**0.00%**	**5.08%**	**49.04%**	**49.04%**	**49.04%**

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 Set by Members

For any particular budget setting year, the process starts in the Spring of the preceding year with sessions held with the operational Asset Management Working Group to discuss the key criteria by which scheme proposals will be considered. These may include:

- *How does the scheme contribute to the Councils Plan and Targets?*
- *Is this scheme a statutory requirement?*
- *Does the scheme generate any on-going revenue savings?*
- *What are the costs and revenue implications*
- Does the scheme contribute to an improved service provision/ reduction in risks?

Identifying the need for Capital Expenditure/Investment

The need for a capital scheme may be identified by a Service through one or more of the following processes.

- Services annually prepare Service Plans for the improvement of their areas (ensuring that their objectives meet the overall aims and objectives of the Council); these can identify any capital investment needed to meet future service demands. This is a good method to identifying and planning for service's capital requirements;
- Condition Surveys prepared by Design & Maintenance in consultation with Premises Mangers and notified through Asset Management Working Group.
- Economic Development Strategy identifies needs in the local area and reports to the Project Management Board making future capital schemes known;
- Reviews and external Inspections may also identify areas that need capital Investment from Design & Maintenance and Premises Managers
- The need to respond to Government initiatives and new laws and regulations;
- The need to generate a revenue income to contribute to the funding of services.

These capital plans are raised and discussed at Asset Management Working Group and Project Management Board.

Chief Officers and Portfolio Holders must identify their key capital priorities for the relevant service planning period by the end of summer each year.

Deciding which Schemes are to be put forward

Once the list of key capital priorities has been identified, in preparing capital project proposals consideration should been given to the key criteria identified earlier in the year. Additionally, consideration should been given to:

<u>Prudence:</u>

- Recognition of the capacity in the organisation to deliver such a programme;

- Recognition of the knowledge and skills available and whether these are commensurate with the appetite for risk;
- Recognition of the future vision of the authority;
- The approach to commercial activities including ensuring effective due diligence, expert advice and scrutiny, defining the risk appetite and considerations of proportionality in respect of overall resources;
- The approach to treasury management and the management of risk as set out in the Treasury Management Strategy.

Affordability:

- Revenue impact of the proposals on the 10 year financial strategy;
- The borrowing position of the Council, projections of external debt and the use of internal borrowing to support capital expenditure;
- The authorised limit and operational boundary for the following year;
- Whether schemes are profiled to the appropriate financial year.

Sustainability:

- A long-term view of capital expenditure plans, where long term is defined by the financing strategy and 10 year capital programme and consideration is given to risks faced with reference to the life of the project/assets;
- Provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy;
- An overview of asset management planning including maintenance requirements and planned disposals.
- All bids are produced in line with the appropriate timetable with consideration for the financial information contained within the bid.
- Project Management Board is briefed and understand the service need and the budget consequences, both revenue and capital, of completing the scheme.
- Possible sources of funding are considered for each of the proposed capital
- Schemes - each project will be considered in terms of revenue funding to cover the operational running costs of the asset and any borrowing repayment costs, and also how the asset will be funded in terms of capital expenditure.
- The proportionality of the proposals as a whole will then be considered in respect of overall resources and longer term sustainability and risk. The Director of Finance (Section 151 Officer) will take an overall view on the prudence, affordability and sustainability of the overall borrowing level if all bids are accepted.
- Project management board will then consider the bids from a corporate priority perspective.

Prioritisation of Schemes put forward

A formalised corporate system for prioritising capital projects has been adopted by the Council. This has resulted in:

- Identifying essential capital investment where needed for the 10 year capital programme;
- Utilising feasibility studies where needed;
- The ability to enter items into the capital programme in a managed way through firstly the annual Capital budget process and secondly when the capital programme is reviewed on a quarterly basis to Cabinet and council;
- Being mindful of the current level of the programme in relation to capacity to deliver, the relevant financing of schemes and any other running costs.

Member Approval Process

- In late summer, service managers and premises managers will list high level requests for capital projects for their Service to Project Management Board. Consideration will be given and funding allocated. More detailed Project Initiation Documents will be drawn up and finalised in late autumn.
- The overall capital programme is then reported to Cabinet which in turn make their recommendations to Council; this occurs in February before the beginning of each financial year.
- If the capital programme were to be scrutinised then Scrutiny committee can request this to occur and state the aspect that they require further information.
- Members approve the overall borrowing limit – Authorise Borrowing Limit - at the budget meeting in February each year as part of the Treasury Management Report. The taking of loans then becomes an operational decision for the Chief Finance Officer who will decide on the basis of the level of reserves and money market position whether borrowing should be met internally from the Capital Reserve/Capital Receipts or whether to enter into external borrowing.
- Once the Council has approved the capital programme, then expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding.
- Whether capital projects are funded from grant, contributions, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.
- Following approval by Council, the capital programme expenditure is then monitored on a quarterly basis to Cabinet and council.

Options Appraisal, Feasibility Studies and Project Management Process

- As part of the process of producing a list of potential schemes for the capital programme service managers and premises managers should complete option appraisals to determine the most cost effective and best service delivery options.
- The option appraisals will include the amount of capital expenditure required, the associated ongoing revenue implications and if there are any savings that result or income generating opportunities.
- Some projects may require a feasibility study. As part of any feasibility study an assessment of the maintenance costs per annum averaged over the whole life of the asset should be calculated. As a minimum this will be based on the RICS (Royal Institute of Chartered Surveyors) recommended benchmark figure prevailing at the time.

For major, complex and strategic projects, as part of setting the capital programme for new schemes and additions, the Council's project management documentation process is followed:

Stage One – Project Initiation

- the initial scheme is submitted to Management Team or Project Management Board which identifies the purpose, the proposed position, financial implications, and issues for consideration.

Stage Two – Project Development

- At this stage is the preparation of the Project Initiation Document occurs and is signed off for the direction of travel, noting the project risks and the initial projection of investment required to realise the project;
- The risk register, regular meetings, communications plans, design of the project etc will all be formed

Stage Three – Project Implementation

- The project commences, the procurement process is followed, the main contractors are appointed and the project is underway.
- The progress of the project is monitored on a regular basis in line with the requirements of the scheme

Stage Four – Project Review

- A final evaluation would be undertaken considering whether the project has met its initial objectives and reviewing all lessons learned.
- Further resources to progress any of schemes will need to be approved separately by Cabinet and/or at quarterly reporting to Cabinet and / or as part of the annual review of the capital programme and would be subject to the relevant resources being available

Monitoring of the Capital Programme Expenditure

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

ANNEX B

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 (S151 Officer), will review all of the Council's property annually against the aims and objectives the Coucnil 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 (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 (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 (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 (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 (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 (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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REGISTERED NUMBER: 09730539

CENTRAL NORTHALLERTON DEVELOPMENT COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2018

Central Northallerton Development Company Limited

Directors' Report and financial statements for the period ended 31 March 2018

Contents

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

Secretary
I C Franks

Independent Auditors
PricewaterhouseCoopers LLP
2 Humber Quays
Wellington Street West
Hull
East Yorkshire
HU1 2BN

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 period ended 31 March 2018.

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 redevelopment the 3.5 acre former Prison site in Northallerton. On that date, the land was transferred into the Company from Hambleton District Council at its open market value of £2,350,000.

Results and dividend
The loss for the period amounted to £12,423 (year ended 31 August 2017: £nil). The Directors do not recommend the payment of a final dividend for the period ended 31 March 2018 (year ended 31 August 2017: £nil).

Directors
The directors of the Company who were in office during the period ended 31 March 2018 and up to the date of signing the financial statements were those listed on page 1. D A Gibbons, J D Stubbs and P Wilkinson were appointed as Directors on 20 October 2017.

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

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

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 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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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. They 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.

Auditors
PricewaterhouseCoopers LLP were appointed as auditors to the Company during the period, 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

23 July 2018

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 2018 and of its loss for the period 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 Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2018; the statement of comprehensive income, the statement of changes in equity for the period 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 when:

- 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.

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.

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

Reporting on other information (continued)

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 period ended 31 March 2018 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 set out on page 2, 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.

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.

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

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 take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Other matter

The financial statements for the year ended 31 August 2017, forming the corresponding figures of the financial statements for the period ended 31 March 2018, are unaudited.

Lee Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Hull
23 July 2018

Statement of comprehensive income for the period ended 31 March 2018

	Notes	Period ended 31 March 2018 £	Year ended 31 August 2017 £
Administrative expenses		(12,423)	-
Loss on ordinary activities before taxation		**(12,423)**	-
Tax on loss on ordinary activities	6	-	-
(Loss)/result for the financial period/year		**(12,423)**	-

All amounts relate to continuing operations.

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

Balance Sheet at 31 March 2018

	Notes	2018 £	2017 £
Fixed Assets			
Investment Properties	7	2,567,494	-
		2,567,494	-
Current Assets			
Debtors	8	3,986	1
Cash at bank and in hand		461,793	-
		465,779	1
Creditors: amounts falling due in within one year	**9**	**(484,305)**	-
Net Current liabilities		**(18,526)**	1
Total assets less current liabilities		**2,548,968**	1
Creditors: amounts falling due after more than one year	**10**	**(2,561,387)**	-
Total Assets less Liabilities		**(12,419)**	1
Capital and Reserves			
Called up share capital	11	4	1
Profit and loss account		(12,423)	-
Total shareholders' deficit		**(12,419)**	**1**

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 14 were approved by the Board of Directors on 23 July 2018 and signed on its behalf by:

J D Stubbs
Director

Central Northallerton Development Company Limited
Company Number: 09730539

Statement of changes in equity for the period ended 31 March 2018

	Called up Share capital	Profit and loss account	Total shareholders' funds
	£	£	£
Balance at 1 September 2016	1	-	1
Result for the financial year	-	-	-
Balance at 31 August 2017	1	-	1
Shares issued in period	3	-	3
Loss for the financial period	-	(12,423)	(12,423
Balance at 31 March 2018	**4**	**(12,423)**	**(12,419)**

Notes to the Financial Statements for the period ended 31 March 2018

1 General Information

Central Northallerton Development Company Limited (the "Company") is engaged in property investment. The Company is a private company limited by shares and is incorporated in England and Wales under company number 9730539. The address of its registered office is Wykeland House, 47 Queen Street, Hull, HU1 1UU.

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 disclosed in note 4.

The financial statements are presented in Sterling (£).

Going Concern
The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the Company's shareholders. The directors have received confirmation that the shareholders intend to support the company for at least one year after these financial statements are signed.

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.

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 period in which they are incurred.

Notes to the Financial Statements for the period ended 31 March 2018 (continued)

3 Accounting Policies (continued)

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

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.

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 and Directors' Emoluments

The Company did not have any employees during the period (year ended 31 August 2017: nil), and no emoluments were payable to the directors (2017: £nil).

5 Interest

Interest payable on long term loans

	Period ended 31 March 2018 £	Year ended 31 August 2017 £
Interest payable on long term loans	50,891	-
Interest capitalised into investment properties (note 7)	(50,891)	-
	-	-

Notes to the Financial Statements for the period ended 31 March 2018 (continued)

6 Taxation

The tax assessed on the ordinary activities for the year is lower than the standard rate of corporation tax in the UK. The differences are reconciled below:

	Period ended 31 March 2018 £	Year ended 31 August 2017 £
Loss before taxation	(12,423)	-
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax of 19% (2017: 20%)	**2,360**	**-**
Unrelieved tax losses	(2,360)	-
	-	**-**

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 2018 amount to £12,423 (31 August 2017: £nil).

7 Investment Property

	Freehold land and buildings £
Cost or valuation:	
At 1 September 2017	-
Additions	2,567,494
At 31 March 2018	**2,567,494**
Accumulated depreciation:	
At 1 September 2017 and at 31 March 2018	-
Net book value:	
At 31 March 2018	**2,567,494**
At 31 August 2017	-

Interest capitalised into investment properties in the year amounted to £50,891 (31 August 2017: £nil). Total interest capitalised into investment properties amounted to £50,891 (31 August 2017: £nil).

Notes to the Financial Statements for the period ended 31 March 2018 (continued)

8 Debtors

	2018 £	2017 £
Other taxation and social security	3,986	-
	3,986	**-**

9 Creditors: Amounts falling due within one year

	2018 £	2017 £
Trade creditors	474,427	-
Accruals and deferred income	9,878	-
	484,305	**-**

10 Creditors: Amounts falling due after more than one year

	2018 £	2017 £
Loans	**2,510,496**	-
Accruals and deferred income	**50,891**	-
	2,561,387	**-**
The loans are as follows:		
Hambleton District Council	**2,415,248**	-
Wykeland Properties Limited	**95,248**	-
	2,510,496	

The loans attract an interest rate of 4.0% above base rate, and are repayable on completion of the scheme, in accordance with the terms of the shareholder agreement.

Notes to the Financial Statements for the period ended 31 March 2018 (continued)

11 Called Up Share Capital

The share capital of the Company at 1 September 2017 and 31 March 2018 consisted of:

Ordinary shares of £1	Allotted and fully paid £
At 1 September 2017	1
Shares issued in period	3
At 31 March 2018	4

On 20 October 2017, the ordinary share of £1 in the Company was redesignated as a B Ordinary share. On the same date 1 additional B ordinary share of £1 and 2 A ordinary shares of £1 were allotted.

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 £nil (year ended 31 August 2017: £nil).

13 Related Party Transactions

The Company has the following loans outstanding to its shareholders:

(a)	31 March 2018 £	31 August 2017 £
Hambleton District Council	2,415,248	-
Wykeland Properties Limited	95,248	

The loans attract an interest rate of 4.0% above base rate, and are repayable on completion of the scheme, in accordance with the terms of the shareholder agreement

(b) On 20 October 2017, the Company acquired 3.5 acres of land and buildings at the former prison site in Northallerton from Hambleton District Council at an agreed open market valuation of £2,350,000. The valuation was carried by the Valuation Office.

14 Ultimate Holding Company

At 31 March 2018 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.

HAMBLETON DISTRICT COUNCIL

Report to: Audit Governance and Standards Committee
26 March 2019

From: Director of Finance (s151 Officer)

Subject: **UPDATE ON THE REVIEW OF RISK MANAGEMENT**

All Wards

1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of this report is to update Audit Governance and Standards Committee, the committee responsible for risk management, on the progress that is being made on the review of the Council's risk management process further to that reported to members in October 2018 and in line with the information provided to Scrutiny Committee.

1.2 The Council has a robust risk management process in place which includes a comprehensive risk register. The register captures all risks identified as presenting a threat or opportunity which may impact the Council's service delivery.

1.3 All risks are reviewed by the relevant service on a quarterly basis to reflect upon their appropriateness and the adequacy of the mitigating action plan.

1.4 The Strategic Risk Management Group established in 2017 meets regularly to drive all aspects of risk management compliance for the authority, supporting the monitoring roles performed by Management Team, Scrutiny Committee and Audit, Governance and Standards Committee. The group act as risk 'champions' ensuring risk management has an appropriate profile and sufficient focus on the corporate agenda.

1.5 As a result of the Strategic Risk Management Group work so far, an expanded scoring methodology and Action Plan timeline was introduced in quarter 1 2018-19. Each risk must now carry both a Gross or Inherent score, as well as a Net or Residual score. The Gross score reflects the inherent risk to the council should the event occur, the Net score reflects the residual risk once the mitigating action plan is in place and successfully taken effect.

1.6 In this way the true impact of each risk can be seen more clearly enabling greater management engagement, leading to enhanced decision making for a more accurately targeted allocation of resources. Adding an Action Plan timeline or deadline acts as a further mechanism for managers to closely monitor and manage each risk, by ensuring action plans are implemented in a timely manner.

1.7 During Quarter 2 2018/19 Strategic Risk Management Group further agreed that:

(i) 'Strategic' and 'Operational' organisation identifiers no longer added value to the authority's risk management process and from quarter 2 were no longer used. This enabled all risks to all services to be considered together; this was also the approach for risk 'Categories'.
(ii) Project risks will continue to be clearly identified.
(iii) Risks will continue to be identified and monitored primarily by way of score.

1.8 Strategic Risk Management Group have during quarter 3 and quarter 4 2018/19 considered the two elements of a risk score – Likelihood x Impact - introducing new 'Impact Criteria' definitions and 'Impact Score' matrix to improve the understanding of the potential effect of each risk and consistent scoring. Also, further wording is being reviewed around the definition of the Council's risk appetite, where this will enable Net risks above a risk appetite threshold of '12' 'which the authority deems as 'High'' to be reported to members. Finally, the changes in approach to risk management will include Corporate risks for which further details will be provided in due course.

1.9 Risk Managers were asked to complete the comprehensive review of all their risks to ensure they remain relevant; as a result 196 risks were changed during quarter 2 with 17 risks closed and 18 new risks identified. At quarter 3 fewer amendments occurred, when just 26 risks were changed with no risks closed and 4 new risks identified. The authority currently holds a total of 338 active risks across all service areas.

1.10 The risk management process continues to be developed so that a clearer picture of high level risks, corporate risks and the Council's risk appetite can be reported. The Risk Management Framework is being updated to incorporate explanations and provide further guidance which will be presented to Members at the next appropriate meeting.

2.0 RISK MANAGEMENT:

2.1 There are no risks associated with the recommendations of this report.

3.0 RECOMMENDATIONS:

3.1 It is recommended that the Committee note the propose review and consequent improvements to the Council's risk management process.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background Papers:	Internal Audit Report - Annual Review of the Risk Management Strategy Department Quarterly Risk Register Review
Author ref:	Emma Thornton Project Officer Ext: 7047

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 March 2019

From: Director of Law and Governance (Monitoring Officer)

Subject: **AMENDMENT TO CONSTITUTION**

All Wards

1.0 PURPOSE AND BACKGROUND:

1.1 This report seeks consideration of an amendment to the Council's Constitution, specifically to the Scheme of Officer Delegation which is contained in Part 3 of the Constitution.

1.2 The Licensing and Appeals Hearings Panel has delegated authority to determine all hearings under licensing and registration functions and also to determine miscellaneous appeals in accordance with any Council powers and duties in accordance with Council procedures.

1.3 On occasion a matter of significant concern may arise regarding a licensed driver's fitness and propriety to hold a hackney carriage and private hire licence. In those circumstances it is in the interests of public safety for the Council to act quickly.

1.4 The power to revoke a licence currently lies exclusively with the Licensing and Appeals Hearings Panel and therefore there are currently no means of delegation which would permit officers to revoke a licence. As a result, potentially unscrupulous drivers can continue to provide private and/or public hire services until such time as a meeting of the Licensing and Appeals Hearings Panel can be arranged. In addition there are occasions where a licence must be revoked in accordance with statute. These matters are non-discretionary and therefore a Committee decision is not necessary.

1.5 To minimise the risk to public safety caused by a time delay, it is requested that the power to revoke or refuse to renew a licence be delegated to the Chief Executive, Deputy Chief Executive and Director of Law and Governance (Monitoring Officer).

1.6 It is envisaged that the power to revoke or refuse to renew a licence would only be exercised in instances where a statutory obligation exists or significant concern regarding a licensed driver's conduct has arisen. Under normal circumstances, the powers would continue to be exercised by the Licensing and Appeal Hearings Panel.

2.0 LEGAL IMPLICATIONS:

2.1 Section 61 of the Local Government (Miscellaneous Provisions) Act 1976 allows the Council to revoke or refuse to renew a hackney carriage and private hire driver's licence for any reasonable cause. The driver has a right of appeal to the Magistrates' Court against any such decision.

2.2 In the absence of appropriate delegation, any proposed action would need to be delayed until such time as a hearing can be held and the Council's failure to act swiftly could pose a significant risk to public safety and public confidence.

2.3 Section 68 of the Local Government (Miscellaneous Provisions) Act 1976 requires the Council to revoke a hackney carriage or private hire vehicle licence where, after a period of two months following the suspension of a licence, the Council is not satisfied as to the mechanical fitness of the vehicle. The proprietor has a right of appeal to the Magistrates' Court against any such decision.

2.4 Section 90 of the Licensing Act 2003 requires the Council to withdraw a club premises certificate in instances where the club ceases to be a qualifying club by virtue of its failure to satisfy the qualification criteria. The club has a right of appeal to the Magistrates' Court against any such decision.

2.5 Section 193 of the Gambling Act 2005 requires the Council to revoke a gambling premises licence where the annual fee has not been paid in accordance with the relevant regulations. Similar provision is made for the revocation of permits and registrations under the same Act. There is no statutory right of appeal against such a decision but the Council may exercise its discretion by disapplying the requirement to revoke where it is satisfied that the failure to pay the fee came as a result of an administrative error.

3.0 EQUALITY/DIVERSITY ISSUES:

3.1 These have been considered and there are no equality and diversity issues associated with this report.

4.0 RECOMMENDATION:

4.1 The Committee is asked to recommend to Council to implement the amendments to the Constitution as set out in paragraph 1.5 of the report and to authorise the Director of Law and Governance to update the Council's Constitution accordingly.

JUSTIN IVES
CHIEF EXECUTIVE

Background papers: Council's Constitution
Author ref: GN
Contact: Gary Nelson
Director of Law and Governance (Monitoring Officer)
Direct Line No (01609) 767012

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 March 2019

From: Director of Law and Governance (Monitoring Officer)

Subject: **APPOINTMENT OF INDEPENDENT PERSONS**

All Wards

1.0 PURPOSE AND BACKGROUND:

1.1 Under the provisions of the Localism Act 2011, the way that the Council maintains high standards of conduct and deals with complaints about its elected members and town and parish councillors requires the appointment of at least one Independent Person. This authority currently has three Independent Persons.

1.2 As the term of office for the Independent Persons runs for the term of the Council and expires this year in May 2019, it has been necessary to carry out a recruitment exercise.

1.3 An advertisement was placed in local newspapers and on the Council's website and six applications have been received. It is therefore necessary to undertake a selection process by way of interviews and this report seeks approval for those arrangements.

2.0 INTERVIEW PANEL

2.1 The current arrangements for the interview panel for the appointment of the Independent Persons is the Chairman and Vice-Chairman of Audit, Governance and Standards Committee, plus one other Member from the non-controlling Group.

2.2 The position of Vice-Chairman of the Committee is currently vacant and it is therefore requested that the Committee nominates another Member of the Committee to sit on the selection panel for the purposes of this recruitment exercise.

2.3 Councillor C Palmer will be invited to participate in the selection process as the other Member from the non-controlling Group.

2.4 Following the interview process, the recommendations of the selection panel will be submitted to Council for approval.

3.0 LEGAL IMPLICATIONS:

3.1 The Council must appoint at least one independent person under the requirements of the Localism Act 2011.

4.0 EQUALITY/DIVERSITY ISSUES:

4.1 Equality and Diversity issues have been considered however there are none associated with this report.

5.0 RECOMMENDATION:

5.1 That one other Member of the Committee be nominated to participate on the selection panel for the recruitment of the Independent Persons alongside the Chairman of the Committee and Councillor C Palmer.

GARY NELSON
DIRECTOR OF LAW AND GOVERNANCE (MONITORING OFFICER)

Background papers: None

Author ref: GN

Contact: Gary Nelson
Director of Law and Governance (Monitoring Officer)
Direct Line No (01609) 767012

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 March 2019

From: Director of Law and Governance (Monitoring Officer)

Subject: **AMENDMENTS TO MEMBER CODE OF CONDUCT ALLEGATIONS PROCEDURE**

All Wards

1.0 PURPOSE AND BACKGROUND:

1.1 This report seeks approval to amendments to the Council's Member Code of Conduct Allegations Procedure.

1.2 The current Allegations Procedure was approved by the Committee following the introduction of the new standards regime set out in the Localism Act 2011. The Procedure explains how the Council will deal with allegations that a councillor has breached the Code of Member Conduct.

1.3 Under the Localism Act 2011 each respective council (whether district, parish or town council) is responsible for promoting and maintaining high standards of conduct by its members. The Localism Act requires the District Council to have in place arrangements whereby allegations that a member may have breached the Code of Conduct can be referred to it for investigation and adjudication. The Council has in place these arrangements.

1.4 The Council's current arrangements (as set out in its Member Code of Conduct Allegations Procedure) require allegations about parish councillors to be made direct to the parish council. The District Council will only consider such allegations if they are then referred to it by the parish council. This could of course lead to a situation where allegations of breaches of the Code of Conduct might not be referred to the District Council, e.g. because the matter has been resolved informally by the parish council or the parish council does not believe the allegation relates to the Code of Conduct at all.

1.5 In the context of the wide discretion given to District Councils to enact its own local arrangements, this was considered to be a reasonable approach. Recent case law however, has suggested that this approach may no longer be appropriate, and that parish councils do not have the power under the Localism Act to consider Code of Conduct allegations even to the extent of deciding whether or not they should be referred to the District Council. This is because the statutory objectivity envisaged by the involvement of the Independent Person in any decision making (which is present in any decision reached by the District Council on such matters) is not present at parish council level.

1.6 In the circumstances, the Member Code of Conduct Allegations Procedure has been amended to reflect this judicial clarification. A copy of the amended Procedure is attached. The amendments to the Procedure are highlighted in red for ease of reference. In summary, the Procedure now makes it clear that it applies in the same way to allegations against parish as well as district councillors, and removes reference to the requirement to first refer parish councillor allegations to a parish council.

2.0 LEGAL IMPLICATIONS:

2.1 The Localism Act 2011 requires the District Council to have in place arrangements for the referral, investigation and adjudication of Code of Conduct complaints.

3.0 EQUALITY/DIVERSITY ISSUES:

3.1 These have been considered and there are no equality and diversity issues associated with this report.

4.0 RECOMMENDATION:

4.1 The Committee is asked to approve the amended Member Code of Conduct Allegations Procedure.

GARY NELSON
DIRECTOR OF LAW AND GOVERNANCE (MONITORING OFFICER)

Background papers: None
Author ref: GN
Contact: Gary Nelson
Director of Law and Governance (Monitoring Officer)
Direct Line No (01609) 767012

HAMBLETON
DISTRICT COUNCIL

MEMBER CODE OF CONDUCT ALLEGATIONS PROCEDURE

a guide to making an allegation about certain types of inappropriate behaviour by Elected, Co-opted and Independent Members of Hambleton District Council, and Members of any Parish or Town Council in the District

This document tells you how to make an allegation if you are unhappy about the way that a Councillor or Member of a Local Authority has behaved. It also explains:-

- who you can make an allegation about
- what you can make an allegation about
- what will happen to your allegation

This document is available in large print.

Email: customer.services@hambleton.gov.uk

Telephone: 01609 779977

ARRANGEMENTS FOR DEALING WITH STANDARDS ALLEGATIONS UNDER THE LOCALISM ACT:

Hambleton District Council and the Parish/Town Councils within the District have a legal responsibility to promote and maintain high standards of conduct by members or co-opted members of their authority.

Each Authority has a Code of Conduct for Members under the Localism Act 2011. Allegations can be made that a Member is thought to have broken the Authority's Code of Conduct.

These Arrangements set out how you may make a complaint that an elected or co-opted member of Hambleton District Council (or of a parish or town council within its area) has failed to comply with the authority's Code of Conduct, and sets out how Hambleton District Council will deal such allegations.

1. HOW TO MAKE AN ALLEGATION:

You need to send your allegation, in writing, to the address at the end of this document. The procedure is overseen by the Monitoring Officer of the Council, currently the Director of Law and Governance.

A form is included at the back of this document to help you make sure you are sending us all the information we need. You can either use the form or write a letter that covers all the points in the form. Please send any documents that support your allegation with your form or letter.

If you cannot write your allegation in English, we can arrange to have it translated for you.

If you have any questions or difficulties filling in this form, please contact the Monitoring Officer or Committee Services (tel: 01609 767015).

2. WHO YOU CAN COMPLAIN ABOUT:

You can complain about Members and Co-opted Members of Hambleton District Council, or of any parish or town council within the District. A Co-opted Member is a voting member of an Authority or one of its Committees, who was appointed to their position rather than being elected.

We can only consider allegations about individual Members. We cannot consider allegations about the Authority as a whole or about people employed by it.

Each Authority has its own Code of Conduct. If you would like a copy of a Parish Council's Code of Conduct please contact the relevant Parish Council Clerk. If you would like a copy of the District Council's Code of Conduct please access the Council's website or contact the Customer Services Team on 01609 779977.

3. WHAT YOU CAN MAKE ALLEGATIONS ABOUT:

You can make allegations about a Member breaking any part of a Council's Code of Member Conduct. This includes:-

- unlawfully discriminating against someone;
- failing to treat people with respect;

- revealing information that was given to them in confidence, or stopping someone getting information they are entitled to by law;
- damaging the reputation of their office or authority;
- using their position improperly, to their own or someone else's advantage or disadvantage;
- failing to register certain interests;
- failing to register any gifts they have received in their role as a Member, worth over £25.

If none of the above applies to your matter it is probably not something we can deal with. To find out if another organisation can help you contact your local Citizen's Advice Bureau, Law Centre or other advice centre.

4. WHAT THE COUNCIL CANNOT INVESTIGATE:

There are some allegations that it usually cannot investigate, including:-

- allegations where a Member is not named;
- allegations that are not in writing;
- incidents or actions that are not covered by the Code of Conduct;
- incidents that happened before a Member was elected;
- incidents that happened more than a year ago.

Other issues with the District Council, not covered by the Code of Conduct, may still be complained about using the District Council's Customer Feedback and Complaints Procedure. These include:-

- incidents that are about a fault in the way the District Council has or has not done something. This is known as maladministration and may be a matter for the Local Government Ombudsman;
- complaints about people employed by the District Council;
- complaints about the way in which the District Council conducts and records its meetings.

Information about the District Council's Customer Feedback and Complaints Procedure can be obtained by contacting Customer Services on 01609 779977 or accessing the Council's website.

5. BEFORE YOU MAKE AN ALLEGATION:

Before you send us your allegation, you should be aware that we are unlikely to be able to keep your identity confidential from the person about which you are making the allegation. Unless there are exceptional circumstances, details of the allegation will be given to the Member about whom you have made the allegation. Where the allegation is against a parish councillor a copy will also be sent to their parish council. In exceptional circumstances the identity may not be revealed. The Council's Monitoring Officer will decide whether to reveal your identity and will apply the criteria in Annex 'A' to this Procedure. If you have concerns about this and would like to discuss it with someone, please call (01609) 767043 and the Council's Monitoring Officer or his assistant will be pleased to help you.

6. WHAT HAPPENS TO YOUR ALLEGATION?

When we receive your allegation we will write to you to let you know that we have received it. We will then assess your allegation. We may decide that it will not be investigated for one or more of a number of reasons. These reasons could include those listed in the section "What the Council cannot investigate" in Section 4. In addition, we may decide not to investigate your allegation because of the criteria set out in Annex 'B' to this Procedure.

If we decide not to refer your allegation for investigation we will write to you explaining why.

If we decide to refer your allegation for investigation and adjudication we will write to let you know how the process will work. Usually it will be dealt with by the Council's Standards Hearings Panel.

7. THE STANDARDS HEARINGS PANEL:

This Panel comprises three elected Members of the Council, an Independent Person and a parish council representative. If a matter is referred to it the Panel will conduct a hearing. Both you and the Member against whom the allegation has been made will be invited to attend. The Panel will determine whether there has been a breach of the Code of Conduct.

PLEASE REMEMBER THAT WE CAN:

- only consider allegations that are about individual Members, not the Authority as a whole or Authority employees;
- only investigate matters where you believe a Member has breached the Authority's Code of Conduct.

Please provide us with as much information as you can about your allegation to help us decide whether or not it should be investigated.

Please avoid sending us large amounts of background information that only indirectly relates to your allegation.

We hope that this document has answered all your questions about making an allegation.

If you have any more questions you can contact us at:

The Monitoring Officer
Hambleton District Council
Civic Centre
Stone Cross
Northallerton
North Yorkshire
DL6 2UU

Telephone: 01609 767043

Fax: 01609 767228

E-mail: gary.nelson@hambleton.gov.uk

Website: www.hambleton.gov.uk

CRITERIA FOR CONSIDERING REQUESTS FOR COMPLAINANT CONFIDENTIALITY

1. The complainant has reasonable grounds for believing that they will be at risk of physical harm if their identity is revealed.

2. The complainant is an officer who works closely with the subject Member and they are afraid of the consequences to their employment if their identity is disclosed.

3. The complainant suffers from a serious health condition and there are medical risks associated with their identity being disclosed.

4. Disclosure of the identity of the complainant is likely to lead to intimidation of the complainant or other potential witnesses or interference with the investigation of the allegation (e.g., destruction of documents or other evidence).

In considering requests for confidentiality the Monitoring Officer will consider whether it is possible to investigate the allegation without making the complainant's identity known.

If the Monitoring Officer decides to refuse a request for confidentiality it may offer the complainant the opportunity to withdraw the allegation. In certain circumstances the public interest in proceeding with an investigation may outweigh the complainant's wish to have their identity withheld and the Monitoring Officer may authorise an investigation even though the complainant may wish to withdraw it.

ASSESSMENT CRITERIA FOR ALLEGATIONS

1. If a complainant has provided insufficient information to make a decision as to whether the allegation should be referred for investigation or other action then no further action may be taken on the allegation.

2. If the Member who is the subject of the allegation is no longer a Member of the Authority, but is still a Member of another Authority the allegation may be referred to the other Authority.

3. If the allegation has already been the subject of investigation or other action under the Code of Conduct or by another regulatory authority it may be considered that there is nothing more to be gained by taking further action.

4. If the allegation is trivial it may be considered not to be sufficiently serious to warrant further action.

5. If the allegation appears to be simply malicious or vexatious, politically motivated or tit-for-tat and not sufficiently serious it may be decided that no further action is warranted.

6. Anonymous allegations may only be acted upon if they include documentary or photographic evidence indicating an exceptionally serious or significant matter.

7. If the events forming the subject of the allegation happened more than 1 year before the allegation is made it is unlikely to be investigated.

8. Where the allegation does not, on its face, come within the matters covered by the Code of Conduct it will not be investigated.

9. Where the information provided does not provide at last an arguable case that there has been a breach of the Code of Conduct the matter will not be investigated.

HAMBLETON
DISTRICT COUNCIL

CODE OF MEMBER CONDUCT – ALLEGATION FORM

YOUR DETAILS:

1. Please provide us with your name and contact details

Title:	
First name:	
Last name:	
Address:	
Daytime telephone:	
Evening telephone:	
Mobile telephone:	
Email address:	

Your address and contact details will not usually be released unless necessary or to deal with your allegation.

However, we will tell the Member against whom you have made this allegation (and their parish council where applicable).

We will tell them your name and give them a summary of your allegation. We will give them full details of your allegation where necessary or appropriate to be able to deal with it. If you have serious concerns about your name and a summary, or details of your allegation being released, please complete Section 5 of this form.

2. Please tell us which complainant type best describes you:-

- ☐ Member of the public
- ☐ An Elected or Co-opted Member of an Authority
- ☐ Member of Parliament
- ☐ Local Authority Monitoring Officer
- ☐ Other Council officer or Authority employee
- ☐ Other ( )

MAKING YOUR ALLEGATION:

When we receive your allegation we will write to you to let you know we have received it. The allegation will be considered by the Monitoring Officer who will decide whether the allegation should be formally investigated or other action taken. In deciding whether to take the allegation further the Monitoring Officer will consider criteria such as the seriousness of the allegation, whether the matter has been previously dealt with, etc.

If the Monitoring Officer decides not to refer the matter for investigation you will be told why.

If the Monitoring Officer decides to refer the allegation for investigation and adjudication you will be given information about how it will be conducted.

3. Please provide us with the name of the Member(s) you believe have breached the Code of Conduct, together with details of their Authority:-

Title	First name	Last name

4. Please explain in this section (or on separate sheets) what the Member has done that you believe breaches the Code of Conduct. If you are complaining about more than one Member you should clearly explain what each individual person has done that you believe breaches the Code of Conduct.

   It is important that you provide all the information you wish to have taken into account by the Monitoring Officer when he decides whether to take any action on your allegation. For example:-

   - You should be specific, wherever possible, about exactly what you are alleging the Member said or did, and which part(s) of the Code of Conduct you allege has been breached. For instance, instead of writing that the Member insulted you, you should state what it was they said.

   - You should provide the dates of the alleged incidents wherever possible. If you cannot provide exact dates it is important to give a general timeframe.

   - You should confirm whether there are any witnesses to the alleged conduct and provide their names and contact details if possible.

- You should provide any relevant background information.

Please provide us with the details of your allegation. Continue on a separate sheet if there is not enough space on this form.

Only complete this next section if you are requesting that your identity is kept confidential

5. In the interests of fairness and natural justice, we believe Members who have allegations made about them have a right to know who has made the allegation. We also believe they have a right to be provided with a summary of the allegation. Parish councils are also likely to be notified of the complaint. We are unlikely to withhold your identity or the details of your allegation unless you have good reason for requesting anonymity.

   The Monitoring Officer may agree to a request to withhold your details in the following circumstances:-

   - there may be risk of physical harm to you;
   - you are an employee of the Authority and you are worried about the effect of the allegation on your employment;
   - there is a medical reason;
   - there is a risk of intimidation or interference with the investigation.

   Please note that requests for confidentiality or requests for suppression of allegation details will not automatically be granted. The Monitoring Officer will consider the request alongside the substance of your allegation. We will then contact you with the decision. If your request for confidentiality is not granted, we will usually allow you the option of withdrawing your allegation.

   However, it is important to understand that in certain exceptional circumstances where the allegation is very serious, we can proceed with an investigation or other action and disclose your name even if you have expressly asked us not to.

Please provide us with details of why you believe we should withhold your name and/or the details of your allegation:

ADDITIONAL HELP:

6. Allegations must be submitted in writing. This includes fax and electronic submissions. However, in line with the requirements of the Equality Act, we can make reasonable adjustments to assist you if you have a disability that prevents you from making your allegation in writing.

   We can also help if English is not your first language.

   If you need any support in completing this form, please let us know as soon as possible.

   You should contact Customer Services on 01609 779977.

   If you would like a copy of the Code of Member Conduct for Hambleton District Council you can ask for a copy from Customer Services or access it on the Council's website.

   If you would like a copy of a Parish or Town Council's Code of Member Conduct you will have to contact the Clerk of the relevant Council direct. Contact details are available from Customer Services or on the District Council's website.

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HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 March 2019

From: Director of Finance (Section 151 Officer)

Subject: **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE - REPORT PROGRAMME 2019/20**

All Wards

1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of this report is to identify those reports which the Committee wishes to receive on a structured basis.

1.2 The Committee meets four times per year and with this in mind, and based upon the work of the Committee since its inception, Annex 'A' is a suggested programme of reports that the Committee could consider. This would not, of course, prevent the Committee from considering ad hoc reports on other matters within the terms of reference for the Committee.

2.0 RISK MANAGEMENT:

2.1 There are no risks associated with approval of this report. The report will ensure that the Committee receives reports in a timely manner on those issues that are key to the Committee's terms of reference. Approval of a programme of reports is considered as best practice and will enable the work of the Committee to be spread out over the next financial year in a structured way.

2.2 The risk of not approving the report is that issues of relevance are not brought to the Committee's attention in a timely manner.

3.0 RECOMMENDATIONS:

3.1 It is recommended that Members approve the Report Programme set out at Annex 'A'.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: None

Author ref: LB-W

Contact: Louise Branford-White
Director of Finance (Section 151 Officer)
Direct Line No: (01609) 767024

REPORT PROGRAMME FOR
AUDIT, GOVERNANCE AND STANDARDS COMMITTEE 2019/20

JULY - 1ST QUARTER

1. RIPA Update
2. Annual Internal Audit Report 2018/19
3. Annual Governance Statement for 2018/19
4. Annual Report to Cabinet on the Committee's Activities for 2018/19
5. Annual Report on Counter Fraud and Anti-Corruption for 2018/19
6. Statutory Auditor – Quarterly Update
7. Annual Review of the Audit Vision and Charter
8. Politically Restricted Posts
9. Statement of Accounts for 2018/19

OCTOBER - 2ND QUARTER

1. RIPA Update and Policy Amendment
2. Internal Audit Q1 Report 2019/20
3. Annual Review of Audit and Governance Committee's Terms of Reference
4. Statutory Auditor – Quarterly Update
5. Statutory Auditor – Annual Audit & Inspection Letter 2018/19
6. Annual Review of Risk Management Strategy (Including a Review of the Process, the Policy Statement and the Risk Management Guidance Manual)

JANUARY - 3RD QUARTER

1. RIPA Update and Annual Review of Policy Statement
2. Internal Audit Q2+ Report 2019/20
3. Statutory Auditor – Quarterly Update
4. Statutory Auditor Audit Plan for 2020/21

MARCH - 4TH QUARTER

1. RIPA Update
2. Internal Audit Q3+ Report 2019/20
3. Internal Audit, Counter Fraud and Information Governance Plans for 2020/21
4. Statutory Auditor – Annual Grant Claims and Returns 2018/19
5. Reporting Programme for 2020/21
6. Review of Annual Treasury Management Strategy 2020/21
7. Review of Capital Strategy 2020/21