

Committee Administrator: Democratic Services Officer (01609 767015)

Monday, 15 March 2021

Dear Councillor

Notice of Meeting

Meeting **Audit, Governance and Standards Committee**
Date **Tuesday, 23 March 2021**
Time **9.30 am**
Venue **Virtual Meeting via Teams**

Yours sincerely

J. Ives.

Dr Justin Ives
Chief Executive

To: Councillors Councillors
 N A Knapton (Chairman) K G Hardisty
 P Atkin R W Hudson
 P Bardon P Thompson
 D B Elders (Vice-Chairman)

Other Members of the Council for information

Note: Owing to the recent Covid-19 pandemic and government guidance, the Council has made arrangements under the Coronavirus Act 2020, and subsequent Regulations permitting remote meetings, to hold the meeting virtually via Teams. For access to the meeting, please click on the media link displayed on the internet to direct you to Teams or alternatively please dial the telephone number 020 3855 5195 followed by the Conference ID: 225 703 748#

For further information, please contact the Democratic Services Officer, Louise Hancock, on telephone: 01609 767015 or email committeeservices@hambleton.gov.uk

Agenda

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1. Minutes
To confirm the minutes of the meeting held on 26 January 2021 (AGS.16 to AGS.17), previously circulated.
2. Apologies for Absence
3. Regulation of Investigatory Powers Act - Review of Activity and Review of Policy
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4. Annual Report Code of Conduct Complaints
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11. Report Programme for 2021/22
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Any other business of which not less than 24 hours prior notice, preferably in writing, has been given to the Chief Executive and which the Chairman decides is urgent.

Hambleton District Council

Report To: Audit, Governance and Standards Committee
23 March 2021

From: Director of Law and Governance (Monitoring Officer)

Subject: **Regulation of Investigatory Powers Act – Review of Activity and Review of Policy**

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 bi-annual 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 usually 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 Since 1 November 2012 the Council has only been 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 is unable to use the procedure for low-level offences such as littering or dog control. 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. The Council also needs the approval of a magistrate to carry out this activity.
- 2.6 The only area in which the Council might very occasionally involve 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 regular 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 27 January to 22 March 2021. There were no authorisations during this period. It is recommended that the Committee note the position.

4.0 Review of Policy Statement:

- 4.1 The Council's current Policy Statement on the use of powers under RIPA is attached as an Annex to this report. There are no changes recommended to this Policy.

5.0 Recommendation

- 5.1 It is recommended that:-

- (1) the current Policy on the Regulation of Investigatory Powers Act be approved;
- (2) it be noted that no RIPA authorisations were made by the Council during the period 27 January to 22 March 2021.

Gary Nelson
Director of Law and Governance (Monitoring Officer)

Background papers: HDC RIPA Register of Authorisations
Author ref: GN
Contact: 01609 767012



REGULATION OF SURVEILLANCE ACTIVITIES **POLICY STATEMENT**

The Council acknowledges that surveillance plays a necessary part in a number of its functions, on a day-to-day basis. To meet its legal obligations, the Council will comply with the Regulation of Investigatory Powers Act 2000 and in particular:-

- follow the principles of a Code of Practice reflecting the principles of the Covert Surveillance Code of Practice issued by the Home Office;
- make sure the Code of Practice is adopted for each Council function;
- make the Code readily available to officers, Members and customers;
- arrange for a central record of authorisations;
- make sure the authorisation process is followed for covert surveillance;
- ensure that surveillance is lawful under the Human Rights rules;
- provide guidance and training for Members and officers at an appropriate level;
- ensure there are designated officers within each Directorate, with responsibility for implementing the rules for surveillance activities;
- ensure the Director of Law and Governance monitors compliance with the rules for surveillance activities.

Monitoring Framework:

Monitoring compliance with these policy statements will include the following:-

- audits by the Director of Law and Governance;
- cross-audits by practitioners of other Sections;
- reports to Management Team and Audit, Governance and Standards Committee on the level of RIPA authorisations;
- checking examples of authorisations;
- use of other accepted methodology for monitoring RIPA compliance, as standards emerge.

January 2021

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Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 23 March 2021

From: Director of Law and Governance (Monitoring Officer)

Subject: **Annual Report – Code of Conduct Complaints**

Portfolio Holder: Governance
Councillor Mrs I Sanderson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 This report sets out the Monitoring Officer's Annual Report on matters relating to ethical governance, including details of any complaints handling activity in relation to allegations of breaches of a member code of conduct.
- 1.2 Having robust ethical governance policies and procedures in place helps to maintain openness, transparency and probity in the way in which the Council conducts its business. This in turn should help increase public confidence in local governance by maintaining high standards of conduct.

2.0 Allegations regarding Code of Conduct Matters

- 2.1 Between April 2020 and March 2021 the Monitoring Officer received ten complaints alleging breaches of a Code of Member Conduct. All ten complaints related to Parish/Town Councillors. There were no complaints received against District Councillors.
- 2.2 In accordance with the Council's procedures (and following an initial investigation and consultation with the Independent Person), all ten complaints were dismissed without a formal hearing because the actions complained of either did not fall within the scope of the applicable Codes of Conduct or there was no case to answer.
- 2.3 There are no overarching standards issues or themes to report as a result of these complaints.

3.0 Hambleton District Council's Code of Member Conduct

- 3.1 The Council's updated Code of Member Conduct is now in place. This will be kept under review.

4.0 Link to Council Priorities

- 4.1 This report supports the Council's foundation of strong governance.

5.0 Risk Assessment

5.1 There are no risks associated with this report.

6.0 Financial Implications

6.1 There are no financial implications associated with this report.

7.0 Legal Implications

7.1 It is a requirement that an annual report on code of conduct complaints is presented to the Audit Governance and Standards Committee.

8.0 Equalities and Diversity Issues

8.1 There are no issues associated with this report.

9.0 Recommendation

9.1 That the Committee notes the report of the Monitoring Officer.

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)
Tel: 01609 767012

Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 23 March 2021

From: Director of Finance and Commercial (s151 Officer)

Subject: **Veritau Internal Audit, Counter Fraud and Information Governance Plans 2021/22**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's Audit Charter. In accordance with those standards, internal audit work must be risk based and take into account the requirement to produce an evidence based annual internal audit opinion. The Head of Internal Audit's annual opinion is based on an objective assessment of the effectiveness of the framework of risk management, governance and internal control. The work of Internal Audit should be regularly reviewed and adjusted in response to changes in the Council, risks, operations, programmes, systems and controls.
- 1.2 In addition to internal audit, Veritau provides the Council with specialist counter fraud and information governance services. For transparency, we have included plans for these services alongside the audit plan within this report. These plans 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 2021/22 internal audit plan for approval, and the counter fraud and information governance plans for information.

2.0 The Report

- 2.1 The proposed areas of internal audit coverage are included in annex 1. These have been identified on the basis of a risk assessment which is intended to ensure limited internal audit resources are prioritised towards those areas which are considered to be carry the most risk and/or which contribute the most to the achievement of the Council's strategic priorities and objectives.
- 2.2 The impact of Covid-19 and Local Government Reorganisation means increased uncertainty and difficulty in predicting the nature of the key organisational risks for Hambleton for 2021/22. Best practice in internal audit supports a summarised annual plan of work at the beginning of the year, to be adapted and updated on a regular basis throughout the year. This approach will help ensure the work of internal audit matches the changing risk profile of the Council.

- 2.3 Veritau will regularly discuss with officers and management the scope and timings of work to help ensure internal audit provide assurance in the right areas at the right time. Regular updates on the scope and findings of internal audit work will be provided to the Audit, Governance and Standards Committee throughout 2021/22.
- 2.4 The plans for counter fraud and information governance are included in annexes 2 and 3. Progress against these plans will also be reported to Committee on a quarterly basis.
- 2.5 Consultation on the content of each of the plans has been undertaken with relevant Directors and other senior officers.
- 2.6 The Internal Audit plan includes 285 days, the Counter Fraud plan 120 days and Information Governance 175 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 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 Equality and Diversity Issues have been considered. There are no issues associated with this report.

8.0 Recommendation

- 8.1 That:-

- (1) the internal audit plan be approved; and
- (2) the counter fraud and information governance plans be noted.

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

Background papers: None
Author ref: SC, DC, KB
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Daniel Clubb, Corporate Fraud Manager
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Kirsty Bewick, Information Governance Manager
The Veritau Group
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Hambleton District Council

Internal Audit Plan 2021/22

**Assistant Director – Audit Assurance:
Head of Internal Audit:**

Stuart Cutts
Max Thomas

Date: 23 March 2021



Introduction

- 1 This document sets out the proposed 2021/22 areas 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 and the Council's Audit Charter. In accordance with those standards, internal audit work must be risk based and take into account the requirement to produce an evidence based annual internal audit opinion. Work should be reviewed and adjusted in response to changes in the business, risks, operations, programmes, systems and controls.
- 3 The Head of Internal Audit's annual opinion is 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 Responsibility for effective risk management, governance and internal control arrangements remains with the Council. The Head of Internal Audit cannot be expected to prevent or detect all weaknesses or failures in internal control nor can audit work cover all areas of risk across the organisation.

Approach

- 5 There is currently a significant amount of uncertainty for Hambleton District Council within the overall environment in which it operates. The impact of Covid-19 on all aspects of the Council and the significant potential impact of Local Government Reorganisation are just two reasons why it is difficult to accurately predict key organisational risks for 2021/22. Risks relating to these issues, and the actions needed to manage and mitigate them, are likely to change over the next 12 months.
- 6 To meet professional aims and objectives, good practice for internal audit requires us to adopt flexible planning processes. This helps to ensure that audit work undertaken during the year is adapted on an ongoing basis to reflect changing risks within the Council. The audit plan presented below represents a summary of the overall areas where we expect to undertake work over the next year, based on our current assessment of risk. We will prioritise work in the short term and regularly review and update plans for actual work to be undertaken, on an ongoing basis throughout the year.
- 7 We will regularly discuss with officers and management the scope and timings of work to help ensure that we provide assurance in the right areas at the right time. A meeting is diarised for mid April to plan and confirm the scope and timings of some 2021 work. We will also provide regular updates on the scope and findings of work to the Audit, Governance and Standards Committee throughout 2021/22.
- 8 The proposed areas of audit coverage are included in appendix A. They have been identified on the basis of a risk assessment. This is intended to ensure that limited audit resources are prioritised towards those areas which are considered to carry the most risk or which contribute the most to the achievement of the Council's strategic priorities and objectives.

- 9 The identification of risks has been informed in a number of ways; including review of the organisational risk management processes, sector wide risk information, understanding the Council's strategies and objectives, other known risk areas (for example areas of concern highlighted by management), the results of recent audit work and other changes in Council services and systems. The proposed areas of coverage have been subject to consultation with directors and senior officers.
- 10 Where possible work will also include shorter, more focussed assignments and increased use of data analytics to support the provision of continuous assurance to the Council.

2021/22 Internal Audit work

- 11 The plan is based on a total commitment of 285 days. Further detail on the potential areas of coverage is included in appendix A.
- 12 It is important to emphasise that the audit areas included in this draft plan are not fixed. Work will be kept under review to ensure that audit resources continue to be deployed in the areas of greatest risk and importance to the Council. The prioritisation and scoping of work will be discussed regularly with officers, and relevant changes will be agreed with the Director of Finance and Commercial (s151 officer) and will be notified to this committee.

Appendix A

Draft Internal Audit Plan 2021/22

Area	Days	Potential audits/ activity
Strategic and Corporate risks	120	Local Government Reorganisation (LGR) preparedness and other linked areas Covid-19 recovery Medium term financial planning and the CIPFA Financial Management Code Commercialisation and investments. Risk management HR and workforce planning (homeworking arrangements, management of remote teams, staff wellbeing). Performance management and data quality Business continuity and disaster recovery Health and safety (risk assessments, accident and incident reporting, lone working) Procurement and contract management Climate change Training and Development
Fundamental / material systems	50	Payroll Budgetary Control (setting, monitoring, managing and reporting) Revenues and Benefits Creditors Sundry Debtors including debt recovery Income collection and fees and charges
Service Area reviews	30	Leisure Services Environmental Health - food inspections and water safety inspections. Customer Services
Technical and Project Risks	30	Cyber security ICT Change Management Digitalisation / automation Overall corporate project management arrangements and project risk management Support and review of specific key projects
TOTAL	230	

Other Audit Assurance Areas

Area	Days	
Covid-19 response	10	Covid-19 related risk assessments and guidance General support and advice
Ongoing assurance	10	Continuous Audit planning and assurance gathering to support our opinion.
Follow up of management actions	15	Follow-up of previously agreed management actions
TOTAL	35	

Committee related and other liaison and support

Area	Days	
Committee and Client related liaison and support	20	Committee preparation and attendance Client liaison, support and advice External audit liaison Member and officer training
TOTAL	20	
OVERALL TOTAL DAYS	285	



Hambleton District Council

Counter Fraud Plan 2021/22

Corporate Fraud Manager:
Head of Internal Audit:

Daniel Clubb
Max Thomas

Date: 23 March 2021



Introduction

- 1 Veritau undertakes counter fraud work on behalf of Hambleton District Council. This document summarises the agreed areas of counter fraud work for 2021/22.
- 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 2021/22.

2021/22 Counter Fraud Plan

- 3 A summary of planned areas of work is set out in the table below. An estimated number of days for each area is provided but this will be flexible to reflect the work that arises during the year.

Fraud Area	Days	Scope
Counter Fraud General	10	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	15	This includes: <ul style="list-style-type: none">• 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	80	Investigation of suspected fraud affecting the council. This includes feedback on any changes needed to procedures to prevent fraud recurring.
Covid-19 response work	13	Undertake post assurance activities and investigation of potential fraud highlighted through this work. Assisting the council to recover money lost to fraud through grants.
National Fraud Initiative (NFI)	2	Offer advice and support in processing National Fraud Initiative match outputs, including criminal investigation where necessary.



Hambleton District Council

Information Governance Plan 2021/22

Information Governance Manager: Kirsty Bewick
Head of Internal Audit: Max Thomas

Date: 23 March 2021



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 UK-General Data Protection Regulation (UK-GDPR), Data Protection Act 2018 and Freedom of Information Act 2000. This document summarises the agreed areas of work for 2021/22.
- 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 175 days of information governance work has been agreed for 2021/22.

2021/22 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	142	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	The investigation of serious information security incidents and the coordination of remedial activity.
Data Protection Officer Role	5	Monitoring compliance with the Council's policy framework and data protection legislation 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	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	The provision of advice and guidance on all information governance related matters. Supporting service managers by providing specific information governance training sessions to officers.

2021/22 Information Governance Strategic Objectives

- 4 The following strategy objectives will be delivered by Veritau in 2021/22.

Information Asset Management

- 5 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 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.
- 6 A process map detailing how this work will be undertaken can be found in Appendix 1 of this report.

Law Enforcement

- 7 Veritau will continue to review all law enforcement activity for the collection of personal information to ensure all detail has been captured as part of the information asset register and that privacy notices are updated.

Privacy Notice Review

- 8 Having conducted a review in 2020/21, Veritau will ensure that all privacy notices are now updated.

2021/22 Information Governance Training Provision

- 9 The following information governance themes will be covered by specific Veritau delivered training in 2021/22, as requested by Hambleton District Council.

Data Protection Impact Assessments

- 10 Delegates will be introduced to the concept of data protection impact assessments, a now mandatory tool to identify risk, including their purpose and the various aspects that need to be included. The delegates will work through an example DPIA which will provide the opportunity to learn how to complete a DPIA and ask any relevant questions.

Records Management

- 11 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.

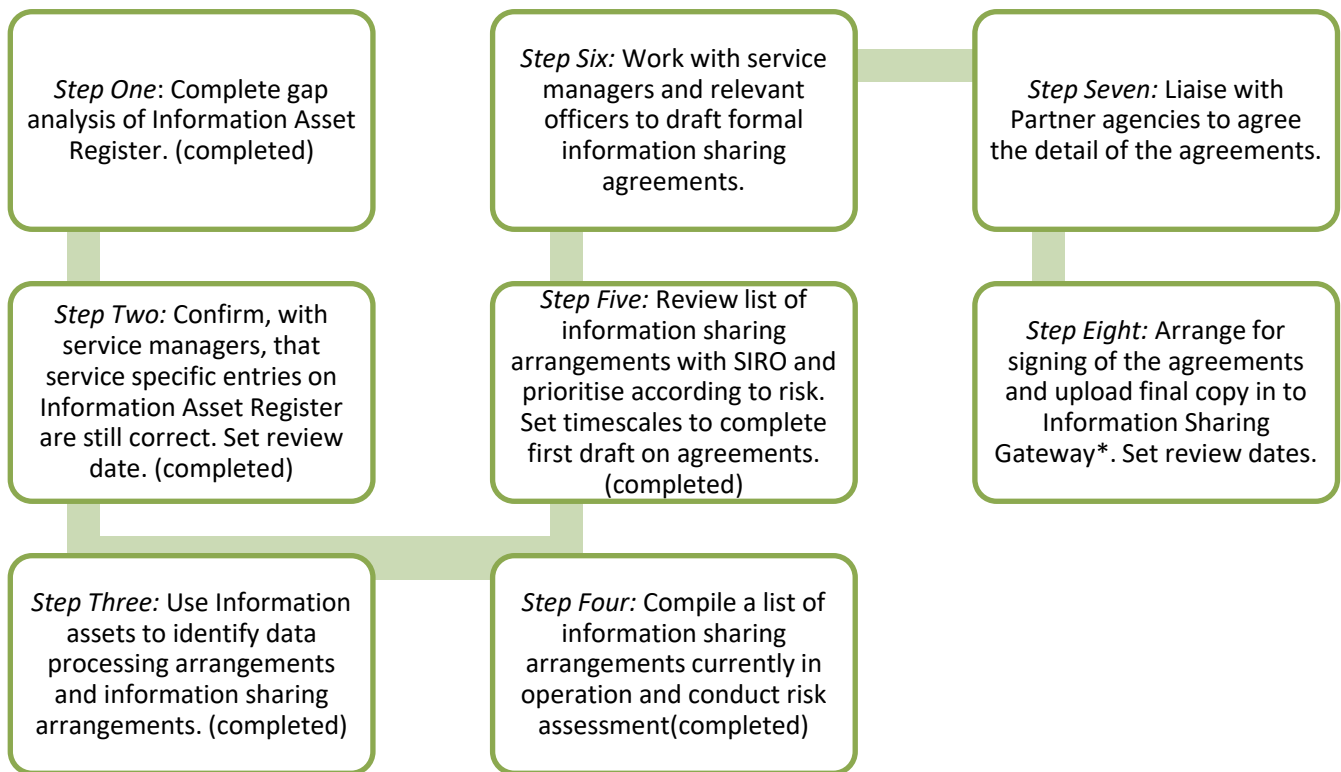
Data Protection Rights and Principles

- 12 Delegates will have the data protection principles explained in detail and will be introduced to specific rights that service users have in relation to their personal data. This workshop will give delegates practical knowledge which can be applied to their day-to-day work.

Law Enforcement

- 13 Delegates will be introduced to part three of the Data Protection Act 2018. This will help develop an understanding of the key differences between law enforcement and UK-GDPR and their obligations.

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



* The 'Information Sharing Gateway' is 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

Date: 23 March 2021

From: Director of Finance and Commercial (s151 Officer)

Subject: **Internal Audit and Counter Fraud Progress Report 2020/21**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 Under the Accounts & Audit Regulations 2015, it is a statutory requirement for councils to have effective internal audit. 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 An updated internal audit plan was prepared, and agreed by the Director of Finance and Commercial (s151 officer), under delegated responsibility in July 2020 and was reported to this committee in October 2020. In October 2020 we updated this plan in line with Members comments to include a piece of work covering Commercial and Economic Development Initiatives.
- 1.3 This is the second Internal Audit and Counter Fraud progress report to be received by the Audit, Governance and Standards Committee in 2020/21.

2.0 The Report

- 2.1 Annex 1 provides a summary of progress with delivering internal audit work for 2020/21. In the period between 1 January 2021 and 5 March 2021 three final internal audit reports (covering Sundry Debtors and Debt Recovery, General Ledger and ICT Asset Management) relating to the 2020/21 audit year have been issued.
- 2.2 All work continues to be carried out remotely, for example through virtual meetings with officers and sharing of information electronically. Work has been progressing and we are working closely with officers to help ensure as much work is completed as possible. Eight pieces of work are currently in progress and only one planned piece of work has yet to start.
- 2.3 It is important that agreed actions are fully implemented by managers, following an internal audit review. The internal audit team follows-up previously agreed actions throughout the year. We escalate 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.

2.4 Annex 2 provides a summary of counter fraud work undertaken up to 19 February 2021. The team has ongoing investigations in a range of areas. In addition, the team continues to provide support with Covid-19 grant schemes. Assistance was provided with a post-payment assurance plan for the Department of Business, Enterprise and Industrial Strategy and sample checking of payments from the first schemes is almost complete.

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 Equality and Diversity Issues have been considered. There are no issues associated with this report.

8.0 Recommendation

8.1 That the Committee note the work undertaken by internal audit and the counter fraud team in the year to date.

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

Background papers: None

Author ref: SC/DC

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Hambleton District Council

Internal Audit Progress Report 2020/21

Period to 5 March 2021

Assistant Director – Audit Assurance:
Head of Internal Audit:

Stuart Cutts
Max Thomas

Circulation List:

Members of the Audit, Governance and Standards Committee
Director of Finance and Commercial (s151 Officer)

Date:

23 March 2021



Background

- 1 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's Audit Charter. In accordance with the PSIAS, the Head of Internal Audit is required to report progress to the committee on the programme of internal work to support the annual internal audit opinion, and to highlight any emerging significant risks and/or control issues we have become aware of.
- 2 An updated internal audit plan was prepared, and agreed by the Director of Finance and Commercial (s151 officer), under delegated responsibility in July 2020 and was reported to this committee in October 2020. In October 2020 we updated this plan in line with Members comments to include a piece of work covering Commercial and Economic Development Initiatives.
- 3 This is the second Internal Audit progress report to be received by the Audit, Governance and Standards Committee in 2020/21. This report updates the Committee on the work relating to the 2020/21 audit year completed to 5 March 2021.

Internal Audit work in 2020/21

- 4 In the period between 1 January 2021 and 5 March 2021 three final internal audit reports (covering Sundry Debtors and Debt Recovery, General Ledger and ICT Asset Management) have been issued. 8 pieces of work are currently in progress. Detailed information on these audits is included in appendix B.
- 5 All work continues to be carried out remotely, for example through virtual meetings with officers and sharing of information electronically. Work has been progressing and we are working closely with officers to help ensure as much work is completed as possible. There is only one planned area (Customer Services) where we have yet to start work.
- 6 We have agreed with officers that work planned on the newly introduced budgetary systems would be best completed in the summer of 2021. Whilst the new budget system has been introduced, and used to help prepare the 2021/22 budget, some additional improvements are planned. Monitoring, review and reporting using the new system will also start in 2021/22. Work on Revenues and Benefits has been arranged for April and May 2021 (at the request of the Director of Finance and Commercial, s151 Officer), to help manage the high levels of work being experienced by the department.
- 7 Further information on the planned 2020/21 areas of work, and the progress made, is included in appendix A. Where a specification for the work has been agreed and fieldwork is in progress, this has been classified as 'specification issued'.
- 8 Overall there are no areas of emerging significant risks and/or significant control issues we have become aware of, that we need to highlight to the committee.

Audit Opinions

- 9 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. As reported in October 2020, our opinions in 2020/21 have changed and there are now four levels of opinion, compared to the previous five. Details of the definitions used are included in appendix C.

Follow up of management actions

- 9 Responsibility to resolve issues and implement agreed actions lies with management. Public Sector Internal Audit Standards (PSIAS) require internal auditors to have a follow up process to monitor what is happening to the results of audit engagements.
- 10 It is important that agreed actions to address previously reported findings and internal control matters are regularly and formally followed up. This helps to provide assurance to Management and Members that control weaknesses have been properly addressed, and also provides assurance for our overall Head of Internal Audit Opinion.
- 11 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.

Audit	Status	Assurance Level	Audit Committee
Director of Finance and Commercial (s151 Officer)			
Revenues and Benefits			
Revenues and Benefits	In Progress		
Corporate Finance			
General Ledger	Final Report	Substantial Assurance	March 2021
Creditors	Specification issued		
Sundry Debtors and Debt Recovery	Final Report	Substantial Assurance	March 2021
Budgetary Control		Deferred to 2021/22	
Commercial, Performance and Information Technology			
Customer Services	Not Started		
Microsoft Office 365	Specification issued		
ICT Asset Management	Final Report	Substantial Assurance	March 2021
Commercial and Economic Development Initiatives	Specification issued		
Director of Economy and Planning / Deputy Chief Executive¹			
Communications	Final Report	Substantial Assurance	January 2021
Director of Leisure and Communities			
Leisure Centres	In Progress		
Community Safety and Safer Hambleton Hub	Final Report	Substantial Assurance	January 2021
Lifeguard Training	Specification issued		
Director of Environment			
Depot Security, Policies and Training	In Progress		
Health and Safety Management	Specification issued		
Other			
Covid 19	Ongoing		
Follow-Ups	Ongoing		

¹ Director of Economy and Planning post is now vacant so refer to Deputy Chief Executive.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Sundry Debtors & Debt Recovery	Substantial Assurance	<p>Civica Financials was introduced in April 2020 as the Council's new financial system, which includes a module for sundry debtors.</p> <p>We reviewed the procedures and controls on sundry debtors and debt recovery to ensure:</p> <ul style="list-style-type: none"> Invoices were requested and raised accurately and in a timely manner. Outstanding debt was actively pursued and correct procedures were followed. Correct procedures were followed when placing accounts on hold. Controls were in place to prevent the occurrence of duplicate accounts within the system. 	February 2021	<p>Strengths:</p> <p>Procedures and controls within the new sundry debtors system were found to be working well. Access arrangements to the new system were appropriate.</p> <p>Invoices were being raised within expected timescales.</p> <p>Tasks such as issuing reminder letters are now automated helping to reduce staff time processing these.</p> <p>Temporary debt recovery procedures were implemented from March to November 2020 due to the pandemic. Instructions were received from senior management to guide this process. No significant issues were noted from our testing on debt recovery.</p> <p>Robust procedures were in place when accounts were placed on hold.</p> <p>Areas for improvement:</p> <p>No recovery action had been taken for one case for over two years. In this case there had been a lack of communication between the Recovery Team and the relevant department.</p> <p>Some invoices we reviewed had minor inaccuracies in the supplier information.</p> <p>The Council's VAT guide was not comprehensive and was not being shared with all staff. We noted VAT training had not been provided to Finance staff for a number of years.</p>	<p>2 x Priority 3 findings were agreed.</p> <p>Officers are to review communication between the Recovery Team and other departments to establish what communication is required, how often, and how the new finance system could be used to support timely debt recovery. This review is planned to be completed by the end of 2021.</p> <p>Training will be provided to staff requesting debtor invoices to be raised during 2021/22. A VAT training guide will be made accessible on the Council's Intranet to enable staff to input the correct VAT category when raising debtor invoices.</p>
General Ledger	Substantial Assurance	The audit reviewed the Civica Financials General Ledger system to ensure:	March 2021	<p>Strengths:</p> <p>Access to the Civica Financials system was restricted and was reviewed for appropriateness before the new system went live.</p>	<p>2 x Priority 3 findings were agreed.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<ul style="list-style-type: none"> • Access to the system was restricted to appropriate officers. • Responsibilities and processes for journal entries were defined. • Interface holding/suspense accounts were monitored and cleared regularly. • Appropriate bank reconciliations were performed • Feeder systems were reconciled prior to upload. 		<p>Responsibilities and processes for journal entries were appropriately defined and allocated. All journals had a creator and an authoriser. We used our data analysis software to assess whether there had been duplicate journals posed. No valid duplicate journals were found.</p> <p>Transactions posted to suspense accounts were being investigated and cleared-out promptly in line with procedures.</p> <p>Appropriate bank reconciliations were being carried out and counter signed.</p> <p>Our review of feeder systems saw that these were being reconciled.</p> <p>Areas for Improvement:</p> <p>Seven members of staff within Corporate Finance had full access to the General Ledger, as well as Cashbook, Creditors and Debtors. This level of access was granted (and was appropriate) linked to the installation and testing of the new system in 2020. However now, in some instances, the level of access may not continue to be appropriate.</p> <p>We identified (from the whole population of journals posted at the time of our work) that 6 journals over £25,000 had been created and authorised by the same staff member. Financial regulations require these to be authorised by a different officer.</p>	<p>Following our discussions during the audit some Finance Team, access rights were changed and the number of full access levels reduced. Full access may be provided to some additional users on a temporary basis during the second phase of the new systems implementation. The need for full access in the future will be considered on a case by case basis.</p> <p>A process of countersigning journals over £25,000 if mistakenly authorised by the person creating the journal is to be introduced by the end of April 2021.</p>
ICT Asset Management	Substantial Assurance	The work focused on assets (laptops, mobile phones and Ipads) that are used off site, store data and where the volume distributed by the council increased following	March 2021	<p>Strengths:</p> <p>An inventory of ICT assets is maintained and all devices were registered on the ICT asset register. Appropriate controls are in place to ensure the asset register is complete and accurate.</p>	No management actions

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		<p>Covid-19 and the move to home working arrangements. We reviewed the Council's procedures and controls to ensure that</p> <ul style="list-style-type: none"> • An inventory of ICT assets was maintained and designated custodians identified. • Information storage media is managed, controlled, moved and disposed appropriately. • Assets are upgraded when they have reached the end of their lifecycle. 		<p>There is a clear procedure of assigning ICT assets to individuals and returning them to ICT when a member of staff leaves the Council.</p> <p>Information storage media was being secured. Laptops have a standard build applied where only council approved software is installed. Other security measures are in place to help prevent unauthorised individuals using the device and make the asset less appealing for theft.</p> <p>Smart phones are managed using Microsoft's Intune. There is a password lock on all phones and software is limited to approved applications.</p> <p>To support home working in 2020 the council replaced a large proportion of the ICT assets with laptops. Under normal circumstances the ICT Asset team would plan a replacement programme to cover a 4 year time period and replace devices in a phased approach. However due to the uncertainty and possibility of Local Government Reorganisation, at this time the council has, understandably, not prepared an asset replacement programme.</p> <p>Areas for Improvement: No significant areas for improvement were identified.</p>	

Audit Opinions and Priorities for Actions

Audit Opinions	
Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.	
Opinion	Assessment of internal control
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

There are circumstances when it's not appropriate to give an opinion, for example fact finding work, grant claims, projects, and consultancy work. When no opinion is given this is not to be confused with a no assurance opinion.

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.



Hambleton District Council
Counter Fraud Progress Report
2020/21

Corporate Fraud Manager: Daniel Clubb
Head of Internal Audit: Max Thomas

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

Date: 23 March 2021



Background

- 1 Fraud is significant risk to the public sector. Annual losses are estimated to exceed £40 billion in the United Kingdom.
- 2 Financial loss due to fraud can reduce a council's ability to support public services and cause reputational damage.
- 3 Hambleton District Council engages Veritau to deliver a corporate fraud service which aims to prevent, detect and deter fraud against the organisation. The Council, through Veritau, works with a large group of councils and other public sector bodies in North Yorkshire and the North East to combat fraud and corruption.

Covid-19 Grant Funds

- 4 In January, the counter fraud team provided support with the council's post-payment assurance plan. Post-assurance checks on the first grant schemes are reaching their conclusion in line with government targets. This work will be supplemented by outputs from the National Fraud Initiative that will be reviewed and investigated as necessary.
- 5 Veritau are continuing to provide input with pre-payment assurance to current schemes through the use of government verification tools and undertaking investigation in cases of suspected fraud.

Counter Fraud Performance 2020/21

- 6 Up to 19 February 2021, investigation prevented an incorrect payment of a £25k Covid-19 business grant and recovered a £10k payment. Intelligence sharing prevented £100k of grant payments to organised criminals. As a result of investigative work £4.1k in savings have been achieved. 21 cases are currently under investigations. A summary of counter fraud activity is included in the tables below.

COUNTER FRAUD ACTIVITY 2020/21

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

	2020/21 (As at 19/02/21)	2020/21 (Target: Full Year)	2019/20 (Full Year)
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions).	30%	30%	46%
Amount of actual savings (quantifiable savings - e.g. repayment of loss and stopping ongoing fraudulent claims) identified through fraud investigation.	£4,149	£16,000	£15,885
Amount of savings from the prevention of Covid-19 grant fraud.	£135,000	n/a	n/a

Caseload figures for the period are:

	2020/21 (As at 19/02/21)	2019/20 (Full Year)
Referrals received	36	66
Referrals rejected	20	20
Number of cases under investigation	21 ¹	24 ²
Number of investigations completed	20	28

¹ In addition there are nine Covid-19 grant verification cases.

² As at end of financial year, ie. 31/03/2020.

Summary of counter fraud activity:

Activity	Work completed or in progress
Data matching	The 2020/21 National Fraud Initiative exercise is underway. Initial match outputs have been released by the Cabinet Office and work has commenced to review these. Further matches, including those relating to Covid-19 grants, are due to be released in the coming months.
Fraud detection and investigation	<p>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.</p> <ul style="list-style-type: none">• Covid-19 Grants – Two Covid-19 grant applications have been investigated which resulted in a payment of £25k being stopped, and recovery of a £10k payment. As a result of intelligence sharing with national partners, four further payments to organised criminals totalling £100k were prevented. There are four ongoing investigations.• Council Tax Support fraud – The team has completed eight investigations into council tax support fraud and there are currently eight investigations ongoing. One person have been issued with a formal warning. 15 referrals for council tax support fraud have been received to date in 2020/21.• Council Tax fraud – Ten referrals for council tax fraud have been received to date. Seven investigations have been completed in this area and nine are ongoing.• NNDR fraud – Two business rate fraud referral has been received this year. There are no cases ongoing in this area.• Internal fraud – No internal fraud referrals have been received in 2020/21 to date.

Activity	Work completed or in progress
Fraud Management	<p>In 2020/21 a range of activity has been undertaken to support the Council's counter fraud framework.</p> <ul style="list-style-type: none">• 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.• In May 2020, the Council's counter fraud transparency data was updated to include data on counter fraud performance in 2019/20. The Council is obliged to publish this information under the Local Government Transparency Code 2015.• In September 2020, the Council participated in the annual CIPFA Counter Fraud and Corruption Tracker (CFaCT) survey. The information contributes to an annual CIPFA report which provides a national picture of fraud, bribery and corruption in the public sector and the actions being taken to prevent it.• Throughout the Covid-19 pandemic, the counter fraud team have provided support to the Council in preparing for and administering government funded grant schemes. This has included reviewing government guidance and advising on best practice.

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Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 23 March 2021

From: Director of Finance and Commercial (s151 Officer)

Subject: **Review of Annual Treasury Management Strategy 2021/22**

Portfolio Holder: Governance
Councillor Mrs I Sanderson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 The purpose of this report is to give the Committee an opportunity to review the Council's Treasury Management Strategy for the forthcoming financial year 2021/22. The Treasury Management Strategy is influenced by the capital expenditure plans of the Council for 2021/22 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 "2021/22 Capital Programme Budget, Treasury Management Strategy Statement and Prudential Indicators" report which was approved by Cabinet at its meeting on 9 February 2021. 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 2021/22 where the annexes provide further details.
- 1.5 The Treasury Management Strategy sets out a framework for how the Council will manage its investments, cash flows and borrowings for 2021/22. The Treasury Management Strategy Statement includes the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and Prudential and Treasury Management Indicators.
- 1.6 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. Members should consider training in 2021, 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 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 2021/22 and make any appropriate recommendations to Cabinet; and
 - (b) consider treasury management training during 2021/22.

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

Background papers: None
Author ref: LB-W
Contact: Louise Branford-White
Director of Finance and Commercial (Section 151 Officer)
Direct Line No: (01609) 767024

Hambleton District Council

Report To:	Cabinet
Date:	9 February 2021
Subject:	2021/22 Capital Programme Budget, Treasury Management Strategy Statement and Prudential Indicators
Portfolio Holder:	Economic Development and Finance Councillor P R Wilkinson
Wards Affected:	All Wards

1.0 Purpose and Background

- 1.1 This report considers the 10 Year Capital Programme covering the financial years 2021/22 to 2030/31, the 2021/22 Capital Programme and the Treasury Management Strategy Statement; including the Minimum Revenue Provision policy statement and Annual Investment Strategy.
- 1.2 The 10 Year Capital Programme is set within the fiscal parameters of the Financial Strategy, a key feature of which is to ensure that at the end of the 10 year Strategy sufficient reserve funds – grants, contribution and capital receipts – remain available so that the Council’s capital plans are affordable, sustainable and prudent. In addition to reserves being maintained, the Council can also use borrowing to support the Capital programme.
- 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 2021/22 to 2030/31 clearly adheres to this requirement and it should be noted that the 10 Year Programme is an estimate. The Financial Strategy for 2021/22 is for 4 years whilst the Capital programme is maintained for 10 years to be able to forecast the expenditure on the asset base for the longer term.
- 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 2021/22 Capital Programme is detailed in this report.
- 1.5 The Treasury Management Strategy Statement includes the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and the Prudential and Treasury indicators. The Treasury Management Strategy manages the cash flow position of the Council on a long and short term basis to ensure that cash is available when needed and surplus funds are invested in with low risk counterparties (ensuring security of funding is key), providing adequate liquidity, whilst also considering investment return.

- 1.6 The Capital Programme and Treasury Management Strategy are monitored through the setting of the Prudential and Treasury Management Indicators on an annual basis prior to the beginning of the new financial year.
- 1.7 This report seeks approval for
- (a) the 10 Year Capital Programme 2021/22 to 2030/31;
 - (b) the Capital Programme for the coming financial year 2021/22, which is informed by the 10 Year Capital Programme;
 - (c) the Treasury Management Strategy Statement 2021/22;
 - (d) the Minimum Revenue Provision Policy Statement 2021/22; and
 - (e) the Prudential and Treasury Indicators 2021/22.

2.0 10 Year Capital Programme 2021/22 to 2030/31

2.1 The 10 Year Capital Programme 2021/22 to 2030/31 shows capital expenditure of £35,398,320 which is funded by reserves, contributions, capital receipts, borrowing and surplus funds of £37,239,048, which leaves a balance of funding of £1,840,728. £1,382,232 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 £458,496 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 next four years.

2.2 The 10 Year Capital Programme 2021/22 to 2030/31 is financed from 4 earmarked reserves, revenue contributions, grants as well as borrowing or reduction in surplus funds:

	£
Repairs and Renewals Fund	354,200
Computer Fund	1,737,760
Economic Development Fund	695,248
Capital Receipts Reserve	1,172,255
Capital Grants/Contributions	13,604,364
Revenue Contributions	478,309
Borrowing / Surplus Funds	<u>17,356,184</u>
	35,398,320

In essence, the Capital Programme is split into four sections detailed below; 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 **Economic Development Fund** – Annex A3 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 2020/21 is £225,638.
- 2.7 **Capital Receipts Reserve** - Annex A4 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.
- 2.8 **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 2021/22 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 2021/22 Capital Programme Budget

- 3.1 The Capital Programme 2021/22 totals £26,059,362 and is funded as follows:

	£
Repairs and Renewals Fund	36,000
Computer Fund	246,900
Economic Development Fund	154,610
Capital Receipts Reserve	925,528
Capital Grants and Contributions	9,244,334
Revenue Contributions	85,036
Borrowing / Surplus Funds	<u>15,366,954</u>
	26,059,362

- 3.2 The Capital Programme 2021/22 is attached at Annex B which shows the additional schemes of £18,511,690. Annex A highlights the full capital programme for 2021/22 of £26,059,362 which includes roll forwards of £7,547,672 from Quarter 1 - Quarter 3 in 2020/21 to 2021/22. This details the capital expenditure cost and also the total cost to the Council, along with associated funding received from third parties in respect of the schemes.

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

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

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

3.5 The 10 Year Capital Programme and the 2021/22 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 2021/22 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 2021/22. The Treasury Management Strategy Statement including the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and Prudential and Treasury Management Indicators is attached at Annex C. The Treasury Management Strategy specifically sets out:

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

- the calculations of the Prudential and Treasury Management Indicators based on the Capital Programme funding requirements; including the Authorised Borrowing limit
- 4.2 Approval of the Treasury Management Strategy Statement is required by the Local Government Act and Code of Practices as detailed above and advice has been taken from the Council's Treasury Management advisors, Link Asset Services, in constructing this strategy.
- 4.3 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code which requires all local authorities to prepare a capital strategy report and it provides the following:
- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
 - an overview of how the associated risk is managed; and
 - the implications for future financial sustainability.
- 4.4 The Capital Strategy 2021/22 is reported elsewhere on this agenda and is separate from the Treasury Management Strategy Statement, where non-treasury investments will be reported through the Capital Strategy and treasury investments through this report. This ensures the separation of the core treasury function under the security, liquidity and yield principles and the policy and commercialism investments usually driven by capital expenditure on an asset.
- 4.5 It should be noted that in the Treasury Management Strategy Statement which includes the Prudential Indicators, reference is made to non-treasury investments which is capital expenditure being either for commercial activity or for valid service delivery. 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 management activities. In 2021/22, the Council will make non-treasury investments for service delivery but will not be pursuing any commercial activity. Commercial activity is still included in the capital strategy to show a complete view of the governance arrangements necessary if this was to occur. From a treasury management perspective, non-treasury activity in the capital programme for service delivery, where expenditure is funded from either external borrowing or the use of existing cash balances then both these actions would affect treasury management.
- 4.6 The Treasury Management Strategy Statement for 2021/22 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 2021/22 and the next 10 years. It can be summarised as follows:
- The Council's Capital Financing Requirement and the potential need to borrow;
 - The Minimum Revenue Provision policy is defined determining the minimum revenue payments that are required;

- The Council continues with its investment priority as being the security of capital and also liquidity of its funds, whilst maximising returns commensurate with risk;
- Investment of surplus funds can be made to other Local Authorities, nationalised banks, banks which are part of the UK banking system support package, as well as other UK banks and building societies, subject to the application of Link Asset Services' credit worthiness criteria;
- Investments of surplus funds can be made in foreign Banks and institutions of AA- sovereign rated countries subject to Link Asset Services' credit worthiness criteria;
- Limits for all investments to be placed with specified and non-specified investments are:

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

- (a) with counterparties that are backed by the Government – Royal Bank of Scotland and Natwest – (and therefore are more secure) there will be a 40% limit or £7m per counterparty whichever is the higher;
- (b) with the Council's own bank – Lloyds – and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £7m per counterparty, whichever is the higher;
- (c) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

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

- 4.7 **Authorised Limit for external debt** – it should be noted that the Authorised Limit has increased from £62.5m in 2020/21 to £72m in 2021/22 and onwards due to the Council's commitment to the capital programme.
- 4.8 The Scheme of Delegation is attached at Annex D and the Treasury Management role of the Director of Finance and Commercial (s151 Officer) is attached at Annex E. This is in accordance with the revised Codes and details that the specific roles of the chief financial officer - Director of Finance and Commercial (s151 Officer) at this Council - have been extended in respect of investment in non-treasury investments (non-financial assets) as well as the responsibility in relation to Treasury Management, that those charged with governance are responsible for Treasury Management activities within the organisation; it is recommended to be approved by Cabinet and Council.

5.0 Link to Council Priorities

5.1 This report links to the efficient use of Council resources, where the Capital Programme 2021/22 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 2021/22:

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative action	Net Prob	Net Imp	Net Total
Proposed capital schemes for 2021/22 are not assessed for risk prior to the commencement of the schemes	The Council is unable to control capital expenditure or redirect resources to priority areas	3	5	15	Capital Scheme Proposal Forms are prepared for each individual capital scheme, including the assessment of risk.	2	5	10
Treasury management function is a high risk area due to the volume and level of large investment of money transactions.	The value of the investment could be lost, liquidity of the Council could be reduced and yield not maximised.	3	5	15	The Local Government Act 2003, supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 2017 are all adhered to as required	3	5	15

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

7.0 Financial Implications

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

8.0 Legal Implications

8.1 The Council is legally required to set a balanced 3 year Capital Programme budget and Treasury Management Strategy Statement as set out in Local Government Act 2003. This Council has set a 10 Year Capital Plan to assist with medium term financial planning, budget and Council Tax setting for 2021/22 and future years. This report provides detail of the Capital Programme 2021/22 and also includes the requirements for the Treasury Management Strategy Statement.

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

9.0 Equality/Diversity Issues

9.1 The equality and diversity implications of the individual schemes will be assessed by individual departments once the Capital Programme 2021/22 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 2021/22 to 2030/31 at £35,398,320 be approved, as detailed in paragraph 2.2 and attached at Annex A;
- 2) the Capital Programme 2021/22 at £26,059,362 detailed in Annex A where the additional schemes of £18,511,690 are attached in Annex B be approved for implementation;
- 3) the Treasury Management Strategy attached at Annex C be approved;
- 4) the Minimum Revenue Provision Policy Statement attached in the body of the Treasury Management Strategy Statement Annex C be approved;
- 5) the Prudential and Treasury Indicators attached at Annex C in the body of the Treasury Management Strategy Statement be approved;
- 6) the Treasury Management Scheme of Delegation at Annex D be approved; and
- 7) the Treasury Management role of the S151 Officer attached at Annex E be approved.

Louise Branford-White
Director of Finance and Commercial (S151 Officer)

Background papers: None

Author ref: SC

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10 YEAR CAPITAL PLAN 2021/22 TO 2030/31

ANNEX A1

REPAIRS AND RENEWALS FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	
	£	£	£	£	£	£	£	£	£	£	
INCOME											
Opening balance	(854,261)	(768,261)	(682,261)	(196,261)	(110,261)	(24,261)	(338,261)	(252,261)	(166,261)	(80,261)	
Add: Transfers to/(from) Council Taxpayers Reserve	0	0	400,000	0	0	(400,000)	0	0	0	0	
	(854,261)	(768,261)	(282,261)	(196,261)	(110,261)	(424,261)	(338,261)	(252,261)	(166,261)	(80,261)	(854,261)
EXPENDITURE											
DFG Revenue	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	500,000
Public lighting replacement	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	30,200	354,200
Northallerton LC - Internal Painting	0	0	0	0	0	0	0	0	0	0	0
Northallerton LC - Pool Flume Improvements	0	0	0	0	0	0	0	0	0	0	0
TOTAL REPAIRS AND RENEWALS CAPITAL	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	30,200	354,200
TOTAL REPAIRS AND RENEWALS EXP	86,000	86,000	86,000	86,000	86,000	86,000	86,000	86,000	86,000	80,200	854,200
BALANCE ON REPAIRS & RENEWALS FUND	(768,261)	(682,261)	(196,261)	(110,261)	(24,261)	(338,261)	(252,261)	(166,261)	(80,261)	(61)	(61)

10 YEAR CAPITAL PLAN 2021/22 TO 2030/31

ANNEX A2

COMPUTER FUND SCHEMES	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	
	£	£	£	£	£	£	£	£	£	£	
INCOME											
Opening balance	(874,587)	(575,687)	(765,627)	(518,627)	(295,827)	(596,827)	(396,827)	(606,827)	(416,827)	(216,827)	
Add: Transfers to/(from) Council Taxpayers Reserve	0	(500,000)	0	0	(500,000)	0	(400,000)	0	0	0	
	(874,587)	(1,075,687)	(765,627)	(518,627)	(795,827)	(596,827)	(796,827)	(606,827)	(416,827)	(216,827)	(2,274,587)
EXPENDITURE											
ICT REVENUE COSTS	52,000	52,000	52,000	52,000	52,000	52,000	52,000	52,000	52,000	52,000	520,000
ICT Improvements - CAPITAL	246,900	258,060	195,000	170,800	147,000	148,000	138,000	138,000	148,000	148,000	1,737,760
COMPUTER FUND CAPITAL	246,900	258,060	195,000	170,800	147,000	148,000	138,000	138,000	148,000	148,000	1,737,760
TOTAL COMPUTER FUND EXPENDITURE	298,900	310,060	247,000	222,800	199,000	200,000	190,000	190,000	200,000	200,000	2,257,760
BALANCE ON COMPUTER FUND	(575,687)	(765,627)	(518,627)	(295,827)	(596,827)	(396,827)	(606,827)	(416,827)	(216,827)	(16,827)	(16,827)

10 YEAR CAPITAL PLAN 2021/22 TO 2030/31

ANNEX A3

ECONOMIC DEVELOPMENT FUND	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	
	£	£	£	£	£	£	£	£	£	£	
INCOME											
Opening Balance	(1,057,480)	(706,189)	(260,638)	(225,638)	(225,638)	0	0	0	0	0	
Add: Transfers to/(from) Council Taxpayers Reserve	0	0	0	0	0	0	0	0	0	0	
Add: Estimated Capital Receipts from sale of prison site	0	0	0	0	0	0	0	0	0	0	
Add: Estimated income from third party contributions	0	0	0	0	0	0	0	0	0	0	
	(1,057,480)	(706,189)	(260,638)	(225,638)	(225,638)	0	0	0	0	0	(1,057,480)
EXPENDITURE											
Economic Development Revenue Expenditure	196,681	130,551	35,000								362,232
Economic Development Capital Expenditure	154,610	315,000			225,638					0	695,248
TOTAL ECONOMIC DEVELOPMENT FUND EXPENDITURE	351,291	445,551	35,000	0	225,638	0	0	0	0	0	1,057,480
BALANCE ON ECONOMIC DEVELOPMENT FUND	(706,189)	(260,638)	(225,638)	(225,638)	0	0	0	0	0	0	0

10 YEAR CAPITAL PLAN 2021/22 TO 2030/31

ANNEX A4

CAPITAL RECEIPTS, BORROWING, GRANTS/CONTRIBUTION, ONE-OFF RESERVE AND REVENUE CONTRIBUTION	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	
	£	£	£	£	£	£	£	£	£	£	
INCOME											
Opening Balance	(968,863)	(598,335)	(586,707)	(554,667)	(572,967)	(591,608)	(601,608)	(591,608)	(541,608)	(491,608)	
Add: Capital Receipts Estimated	(555,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(1,613,863)
Add: Grants and Contributions Estimated	(9,244,334)	(1,190,602)	(497,458)	(381,710)	(381,710)	(381,710)	(381,710)	(381,710)	(381,710)	(381,710)	(13,604,364)
Add: One Off Reserve Estimated	0	0	0	0	0	0	0	0	0	0	0
Add: Revenue Contributions	(85,036)	(88,372)	(67,960)	(68,300)	(68,641)	(60,000)	(40,000)	0	0	0	(478,309)
Borrowings	(15,366,954)	(1,489,230)	(500,000)	0	0	0	0	0	0	0	(17,356,184)
TOTAL CAPITAL RECEIPTS, BORROWING, GRANTS/CONTRIBUTION, ONE-OFF RESERVE AND REVENUE CONTRIBUTION	(26,220,187)	(3,376,539)	(1,662,125)	(1,014,677)	(1,033,318)	(1,043,318)	(1,033,318)	(983,318)	(933,318)	(883,318)	(33,052,720)

Wainstone Court -Redecoration	0	2,800	0	0	0	0	0	0	0	0	2,800
Bedale Bridge and Cycle Scheme	479,689.00	0	0	0	0	0	0	0	0	0	479,689
Skills village	33,210	0	0	0	0	0	0	0	0	0	33,210
Heritage Action Zone schemes	199,800	90,000	65,000	0	0	0	0	0	0	0	354,800
Town Square Enhancement scheme	2,180,040	0	0	0	0	0	0	0	0	0	2,180,040
Town Centre Living	120,000	0	0	0	0	0	0	0	0	0	120,000
CORPORATE PROJECTS											
Crematorium	5,176,307	0	0	0	0	0	0	0	0	0	5,176,307
Treadmills Phase 2 Purchase	10,034,120	765,580	0	0	0	0	0	0	0	0	10,799,700
Additional Scheme	0	0	500,000	0	0	0	0	0	0	0	500,000
TOTAL CAPITAL RECEIPTS, GRANTS/CONTRIBUTION, ONE-OFF RESERVE AND REVENUE CONTRIBUTION EXPENDITURE	25,621,852	2,789,832	1,107,458	441,710	441,710	441,710	441,710	441,710	441,710	441,710	32,611,112
BALANCE ON CAPITAL RECEIPTS RESERVE	(598,335)	(586,707)	(554,667)	(572,967)	(591,608)	(601,608)	(591,608)	(541,608)	(491,608)	(441,608)	(441,608)

10 YEAR CAPITAL PLAN 2021/22 TO 2030/31

TOTAL CAPITAL PROGRAMME	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	
	£	£	£	£	£	£	£	£	£	£	
REPAIRS AND RENEWALS FUND	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	30,200	354,200
COMPUTER FUND	246,900	258,060	195,000	170,800	147,000	148,000	138,000	138,000	148,000	148,000	1,737,760
ECONOMIC DEVELOPMENT FUND	154,610	315,000	0	0	225,638	0	0	0	0	0	695,248
CAPITAL RECIEPTS RESERVE	925,528	21,628	42,040	(8,300)	(8,641)	0	20,000	60,000	60,000	60,000	1,172,255
CAPITAL GRANTS AND CONTRIBUTIONS	9,244,334	1,190,602	497,458	381,710	381,710	381,710	381,710	381,710	381,710	381,710	13,604,364
REVENUE CONTRIBUTIONS	85,036	88,372	67,960	68,300	68,641	60,000	40,000	0	0	0	478,309
BORROWING	15,366,954	1,489,230	500,000	0	0	0	0	0	0	0	17,356,184
TOTAL CAPITAL PROGRAMME	26,059,362	3,398,892	1,338,458	648,510	850,348	625,710	615,710	615,710	625,710	619,910	35,398,320

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Cabinet Member/ Responsible Officer	Repairs & Renewals Fund	Capital Expenditure 2021/22 Only	Third Party Contribution	Cost to the Council
		£	£	£
Cllr Sanderson Portfolio Holder for Governance	Leisure & Communities			
SL	Public lighting replacement	36,000	0	36,000
	Repairs & Renewals Fund Capital Programme 2021/22	36,000	0	36,000
Cabinet Member/ Responsible Officer	Computer Fund	Capital Expenditure 2021/22 Only	Third Party Contribution	Cost to the Council
		£	£	£
Cllr Fortune Portfolio Holder for Leisure	Leisure & Communities			
SL	Leisure Centres -Update activity management system	25,000	0	25,000
SL	Leisure Centres - Upgrade wi-fi	20,000	0	20,000
Cllr Webster Portfolio Holder for Planning	Economy & Planning			
MAJ	DM - Development Management Information System (MIS)	10,000	0	10,000
Cllr Sanderson Portfolio Holder for Governance	Finance & Commercial			
LBW	ICT Improvements	86,940	0	86,940
LBW	Information @ work upgrade	33,200	0	33,200
	Computer Fund Capital Programme 2021/22	175,140	0	175,140
Cabinet Member/ Responsible Officer	Capital Fund	Capital Expenditure 2021/22 Only	Third Party Contribution	Cost to the Council
		£	£	£
Cllr Fortune Portfolio Holder for Leisure	Leisure & Communities			
SL	BLC - Air Handling Unit (AHU)	62,500	0	62,500
SL	BLC - Electrical Distribution boards/Main panel	25,000	0	25,000
SL	SLC - Flatroof isolated replacement	13,750	0	13,750
SL	SLC - Glazed roof and entrance lobby	37,500	0	37,500
SL	SLC - Dry side changing areas and wetside shower areas	150,000	0	150,000
SL	SLC - Electrical Distribution Boards	38,130	0	38,130
SL	NLC - AHU and Ductwork replacement	262,500	0	262,500
SL	NLC - Electrical distribution boards	56,250	0	56,250
SL	NLC - Roof overlay and rainwater goods improvements	362,500	0	362,500
SL	NLC - Glazed roof replacement	81,250	0	81,250
SL	NLC - Steelwork repairs and redecoration	17,500	0	17,500
SL	NLC - Sports Hall floor (including ramp) replacement	162,500	0	162,500
SL	NLC - Gas heating boilers replacement	100,000	0	100,000
SL	NLC - Pressurisation unit	7,500	0	7,500
SL	NLC - Domestic hot water tank	22,500	0	22,500
SL	Thirsk & Sowerby - Sports Village	1,100,000	1,100,000	0
SL	Northallerton - Sports Village	265,270	265,270	0
SL	T&SLC - Poolside ductwork	112,500	0	112,500
SL	T&SLC - Improvement Project	3,029,987	34,860	2,995,127
SL	T&SLC - Car park resurfacing and access road resurfacing	60,500	0	60,500
SL	Resurface footpath cycleway - Stone Cross	16,500	0	16,500
SL	Refurbish footbridges and outfall - Stone Cross	22,000	0	22,000
SL	Improve structural support and resurface riverside footpath - Millgate Th	22,000	0	22,000
Cllr Sanderson Portfolio Holder for Governance	Leisure & Communities			
SL	Civic Centre - Pumping Station refurbishment	25,000	0	25,000
SL	Civic centre - Replacement A/C indoor Units	12,000	0	12,000
SL	Forum - Air handling unit	43,750	0	43,750
SL	Forum - Boiler Replacement	18,750	0	18,750
SL	Market Place - Replace and repoint Yorkstone paving areas	66,000	0	66,000
SL	WOJH - Damp Proofing/Tanking to basement	10,000	0	10,000
Cllr Watson Portfolio Holder for Environmental Health, Waste and Recycling	Environment			
PS	Purchase of bins for refuse and recycling - New Waste Strategy	60,000	10,000	50,000
PS	Northallerton Depot - Condition Management	139,340	0	139,340
PS	Stokesley Depot - Bin Store hardstanding	12,500	0	12,500
Cllr Webster Portfolio Holder for Planning	Economy & Planning			
MAJ	Disabled Facilities Grant	431,710	381,710	50,000
Cllr Wilkinson Portfolio Holder for Economic Development & Finance	Economy & Planning			
MAJ	Springboard - Gas boiler replacement	33,500	0	33,500

MAJ	Springboard - Control panel	10,000	0	10,000
MAJ	Springboard - Water heaters	16,000	0	16,000
MAJ	Springboard - Vent terminal extract fan	16,500	0	16,500
MAJ	Springboard - Structural steel, louveres, and actuators	35,000	0	35,000
MAJ	Springboard - Intruder Alarm	5,000	0	5,000
MAJ	Springboard - Redecoration internal	6,000	0	6,000
MAJ	Bedale Craft Yard - External (Units 8 & 9) and Internal redecoration	5,000	0	5,000
MAJ	Bedale Craft Yard - Floor reconstruction unit 10	25,000	0	25,000
MAJ	Bedale Craft Yard - Lighting internal and external replacement	10,000	0	10,000
MAJ	Binks close - Water heaters replacement	1,500	0	1,500
MAJ	Binks close - Internal lighting replacement	8,000	0	8,000
MAJ	Binks close - Guttering replacement	18,000	0	18,000
MAJ	Lumley Close - Water heater replacement	1,800	0	1,800
MAJ	Lumley Close - Internal lighting replacement	10,000	0	10,000
MAJ	Lumley Close - External works fencing and landscaping	4,000	0	4,000
MAJ	Wainstone Court - Water boilers replacement (kitchen)	5,600	0	5,600
MAJ	Heritage Action Zone schemes	199,800	199,800	0
MAJ	Town Square Enhancement scheme	2,180,040	1,212,480	967,560
MAJ	Town Centre Living	120,000	120,000	0
Cllr Taylor Portfolio Holder for Transformation and Projects	Finance & Commercial			
LBW	Crematorium	5,176,307	0	5,176,307
LBW	Treadmills Phase 2	3,566,316	0	3,566,316
	Capital Fund Capital Programme 2021/22	18,300,550	3,324,120	14,976,430
Capital Expenditure 2021/22				
Cabinet Member/ Responsible Officer	Total Capital Programme 2021/22	Capital Expenditure 2021/22 Only £	Third Party Contribution £	Cost to the Council £
Cllr Fortune/Cllr Sanderson	Leisure & Communities	6,284,637	1,400,130	4,884,507
Cllr Watson	Environment	211,840	10,000	201,840
Cllr Wilkinson/Cllr Webster	Economy & Planning	3,152,450	1,913,990	1,238,460
Cllr Sanderson/Cllr Taylor	Finance & Commercial	8,862,763	0	8,862,763
	Total Capital Programme 2021/22	18,511,690	3,324,120	15,187,570

TREASURY MANAGEMENT STRATEGY STATEMENT -
MINIMUM REVENUE PROVISION POLICY STATEMENT and
ANNUAL INVESTMENT STRATEGY 2021/22

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 service investments, income generating initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure) and are separate from the day to day treasury management activities.
- 1.1.5 CIPFA defines Treasury Management as:
- “The management of the Local Authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

1.2 Reporting Requirements

Capital Strategy

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

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
 - an overview of how the associated risk is managed; and
 - the implications for future financial sustainability.
- 1.2.2 The aim of the Capital Strategy is to ensure that all elected members on the Full Council fully understand the overall long-term policy objectives and the resulting capital strategy requirements, governance procedures and risk appetite.
- 1.2.3 The Capital Strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former and in the capital programme. 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. The Capital Strategy 2021/22 will show:
- The corporate governance arrangements for these types of activities;
 - Any service objectives relating to the investments;
 - The expected income, costs and resulting contribution;
 - The debt related to the activity and the associated interest costs;
 - The payback period (Minimum Revenue Provision (MRP) policy);
 - For non-loan type investments, the cost against the current market value; and
 - The risks associated with each activity.
- 1.2.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs, investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash. It is extremely unlikely that non-treasury investment of a commercial nature will occur in 2021/22 as the Commercial Investment Strategy was suspended by Council in September 2020 due to the change in the market environment. Details are included in the Capital Strategy 2021/22 and in the prudential indicators in this report to illustrate that activity of a commercial nature is zero.
- 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 if the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance and CIPFA Prudential Code 2017 have not been adhered to.
- 1.2.6 If any non-treasury investments sustain a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital programme and revenue budget.
- 1.2.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report. It should be highlighted that non-treasury investments is expenditure being either for

commercial activity or for valid service delivery reported through the capital programme.

Treasury Management Reporting

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

Prudential and treasury indicators and treasury strategy

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

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

A Mid Year Treasury Management Report

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

An Annual Treasury Report

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

Scrutiny

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

1.3 Treasury Management Strategy for 2021/22

1.3.1 The strategy for 2021/22 covers two main areas:

(a) Capital issues

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

(b) Treasury Management issues

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

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

2.0 The Capital Prudential Indicators 2021/22 to 2023/24:

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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Services	7,402,914	19,745,917	26,059,362	3,398,892	1,338,458
Commercial activities/ non- financial investments*	-	-	-	-	-
Total	7,402,914	19,745,917	26,059,362	3,398,892	1,338,458

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

It should be noted that the Commercial Activity has been reduced to zero due to the decision that was made at Cabinet and Council in September 2020 where the Commercial Investment Strategy was suspended. This report illustrates that commercial activity is estimated to be zero in 2021/22.

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

2.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need. In 2021/22, borrowing may occur to support the Capital Programme.

2.5

Capital Expenditure £	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Existing Capital Programme	7,402,914	19,745,917	26,059,362	3,398,892	1,338,458
New Finance Lease	-	-	-	-	-
Total expenditure	7,402,914	19,745,917	26,059,362	3,398,892	1,338,458
Financed by:					
Capital receipts	89,568	1,362,853	925,528	21,628	42,040
Capital grants	2,805,079	7,322,022	9,244,334	1,190,602	497,458
Capital reserves	791,716	719,020	437,510	609,060	231,000
Revenue	149,368	84,701	85,036	88,372	67,960
Finance Lease	-	-	-	-	-
Total Financing	3,835,731	9,488,596	10,692,408	1,909,662	838,458
Net financing need for the year	3,567,183	10,257,321	15,366,954	1,489,230	500,000

The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below, this position is zero due to that the Commercial Investment Strategy being suspended at Cabinet and Council in September 2020.

Commercial activities / non-financial investments £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Expenditure	-	-	-	-	-
Financing costs	-	-	-	-	-
Net financing need for the year	-	-	-	-	-
Percentage of total net financing need	0%	0%	0%	0%	0%

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

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.

- 2.7 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.
- 2.8 The Capital Financing Requirement (CFR) is detailed in the table below and for 2021/22 the underlying need for the Council to borrow is £67,361,062. This is a combination of numerous projects the Council is committed to delivering in the 10 Year Capital Programme and significant schemes that contribute to this are the loan to the local housing association, the development of the former prison site Treadmills, the crematorium development and town square. These capital projects and the associated borrowing requirements relate to economic development and regeneration projects (non-treasury investments) as well as service activities (also non-treasury investments); this is detailed in the capital expenditure table above. The CFR provides the Council with the flexibility to use borrowing to support the capital programme if it chooses to do so but still allows the use of surplus funds if available; this is known as internal borrowing. If external borrowing is taken, consideration is given to the Treasury Management environment to ensure that the best option is achieved in relation to interest rates in the short and long term.
- 2.9 The Capital Financing Requirement includes any other long-term liabilities (e.g. Private Finance Initiative schemes (PFI), finance leases). Whilst these increase the Capital Financing requirement 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.
- 2.10 The Council is asked to approve the Capital Financing Requirement (CFR) projections detailed in the table below:-

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement B/F	38,169,604	41,736,787	51,994,108	67,361,062	68,634,082
CFR - Services	3,567,183	10,257,321	15,366,954	1,273,020	162,880
CFR – Commercial activities/ non-financial investments	-	-	-	-	-
Total CFR	41,736,787	51,994,108	67,361,062	68,634,082	68,796,962
Movement in the Capital Financing Requirement	3,567,183	10,257,321	15,366,954	1,273,020	162,880
Net financing need for the year	3,567,183	10,257,321	15,366,954	1,489,230	500,000
Less Minimum Revenue Provision	-	-	-	(216,210)	(337,120)

	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Estimate	Estimate	Estimate	Estimate
and other financing movements					
Movement in the Capital Financing Requirement	3,567,183	10,257,321	15,366,954	1,273,020	162,880

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 2021/22 will have a Capital Financing Requirement of £67,361,062 to support the total capital programme and this is the potential amount of borrowing that may be required in 2021/22.
- 2.13 Ministry of Housing, Communities and Local Government (MHCLG) regulations have been issued which require the Full Council to approve a Minimum Revenue Provision (MRP) Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following Minimum Revenue Provision Statement which includes four different approaches for:
1. Capital expenditure on supported and unsupported borrowing
 2. Commercial Investment Property portfolio
 3. Loan to Third parties
 4. Voluntary Revenue Provision
- 2.14 For capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, the Minimum Revenue Provision policy will be:
- Based on Capital Financing Requirement (CFR) – Minimum Revenue Provision (MRP) will be based on the Capital Financing Requirement. This option provides for an approximate 4% reduction in the borrowing need (Capital Financing Requirement) each year.
- 2.15 From 1 April 2008 for all unsupported borrowing (including Private Finance Initiative and finance leases) the Minimum Revenue Provision policy will be:
- Asset Life Method – Minimum Revenue Provision will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life. There are two main methods that will be considered to achieve this either the Equal Instalment method or the Annuity method. The estimated life of the

asset would usually not exceed the useful life of 50 years but consideration will be given to exceed this in the following two scenarios: an appropriately qualified professional advisor's opinion is that an asset will deliver service functionality for more than 50 years then the use the life suggested by its professional advisor will be used o for a lease or PFI asset, where the length of the lease/PFI contract exceeds 50 years, the length of the lease/PFI contract will be used

- 2.16 In using the Asset Life Method for the prudent provision for the Minimum Revenue Provision the following can be noted:
- There are two methods of calculation and the Council reserves the right to select the most appropriate method, depending on the type of project: Equal instalment which normally generates a series of equal annual amounts over the estimated life of the asset, where there are equal instalments of interest and principle charged on the annuity method which has the advantage of linking Minimum Revenue Provision to the flow of benefits from an asset where the benefits are expected to increase in later years. It is attractive in connection with projects promoting regeneration or schemes where revenues will increase over time.
 - Freehold land cannot properly have a life attributed to it, so it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.
 - Timing of the Minimum Revenue Provision - Provision for debt will normally commence in the financial year following the one in which the expenditure is incurred, however in the case of the provision of a new asset, Minimum Revenue Provision would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This "Minimum Revenue Provision holiday" would be perhaps 2 or 3 years in the case of major projects, or possibly longer for some complex infrastructure schemes; this could make projects more affordable
- 2.17 In addition, where repayments are included in annual Private Finance Initiative schemes or finance leases then this will be applied as the Minimum Revenue Provision (MRP).
- 2.18 It should be noted that in 2021/22 there is no Minimum Revenue Provision policy for the Commercial Investment Strategy as no non -treasury investments of this type will be made as illustrated in the prudential indicators in this report.
- 2.19 The Capital Financing Requirement for the loan to the local Housing Association at the beginning of 2021/22 is £34,000,000. The agreement with the local Housing Association states they will make bullet repayments to the Council at years 5, 10, 15, 20 and 25. The bullet repayments made throughout the life of the loan will be set aside by the Council when received to ensure that prudent provision is made for regular repayment. These regular bullet points will be earmarked and used as the Minimum Revenue Provision that the Council needs to make on a regular basis to reduce the Capital Financing Requirement.
- 2.20 Therefore, it can be noted in 2020/21 £1,000,000 was repaid from the local Housing Association which reduced the level of the Capital Financing Requirement and this

will continue when the Council investment is repaid from the local Housing Association at regular intervals thereafter. It should be noted that if no borrowing has been taken to support the capital financing requirement and instead the Council's surplus funds have been used then no Minimum Revenue Provision charge will be made.

2.21 Finally Voluntary Revenue Provision is where the Council believes it is prudent to set aside an increased amount to repay the Capital Financing Requirement during the year. Any charges made over the statutory Minimum Revenue Provision i.e. voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, the cumulative overpayment made each year must be disclosed. Up until the 31 March 2020 the total Voluntary Revenue Provision overpayments were £0m. This Council has never overpaid Minimum Revenue Provision so this does not apply; however it is noted here for future reference if ever needed.

2.22 Core funds and expected investment balances

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. This is not in the pro forma

Year End Resources	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Fund balances / reserves	13,338,965	11,505,224	8,343,844	7,061,068	5,606,368
Capital receipts	2,107,716	968,863	598,335	586,707	554,667
Provisions	841,532	610,000	610,000	610,000	610,000
Other	11,550,535	8,794,190	8,189,330	8,144,378	7,987,803
Total core funds	27,838,748	21,878,277	17,741,509	16,402,153	14,758,838
Under/over borrowing	14,036,787	18,294,108	12,661,062	13,134,082	13,296,962
Expected investments	13,801,961	3,584,169	5,080,447	3,268,071	1,461,876

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.

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

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

2.26 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 appropriate 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 2020 and for the position as at 31 December 2020 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	<u>Actual</u> <u>31.03.20</u>	<u>Actual</u> <u>31.03.20</u>	<u>Current</u> <u>31.12.20</u>	<u>Current</u> <u>31.12.20</u>
	<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>
<u>Treasury Investments</u>				
Banks	13,880	100	7,000	40
Money Market Funds	-	-	10,590	60
Total Treasury Investments	13,880	100	17,590	100
<u>Treasury External Borrowing</u>				

Local Authorities	-	-	-	-
Public Works Loan Board	27,700	100	27,700	100
Total External Borrowing	27,700	100	27,700	100
Net Treasury Investments / (Borrowing)	(13,820)	-	(10,110)	-

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 2019/20 and the estimated position for future years is reflected in the table below:

£	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt					
Debt at 1 April	12,700,000	27,700,000	33,700,000	54,700,000	55,500,000
Expected change in Debt	15,000,000	6,000,000	21,000,000	800,000	-
Actual gross debt at 31 March	27,700,000	33,700,000	54,700,000	55,500,000	55,500,000
The Capital Financing Requirement	41,736,787	51,994,108	67,361,062	68,634,082	68,796,962
Under / (over) borrowing	14,036,787	18,294,108	12,661,062	13,134,082	13,296,962

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

£	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt for commercial activities / non-financial investments					
Actual debt at 31 March £m	-	-	-	-	-
Percentage of total external debt %	0%	0%	0%	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 Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future

years, however, ensures that borrowing is not undertaken for revenue or speculative purposes.

3.2.5 The Director of Finance and Commercial (S151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.3 Treasury Indicators: Limits to Borrowing Activity

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

Operational boundary	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	55,000,000	67,500,000	68,500,000	69,200,000
Other long-term liabilities	600,000	800,000	800,000	800,000
Commercial activities/non-financial investments	-	-	-	-
Total	55,600,000	68,300,000	69,300,000	70,000,000

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

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

Authorised limit £	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	61,500,000	71,000,000	71,500,000	72,000,000
Other long-term liabilities	1,000,000	1,000,000	1,000,000	1,000,000
Commercial activities/non-financial investments	-	-	-	-
Total	62,500,000	72,000,000	72,500,000	73,000,000

3.4 Prospects for Interest Rates and Economic Background

3.4.1 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11 August 2020. However, following the conclusion of the review of PWLB margins over gilt yields on 25 November 2020, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Mar 2021	0.10	0.80	1.10	1.50	1.30
Jun 2021	0.10	0.80	1.10	1.60	1.40
Sep 2021	0.10	0.80	1.10	1.60	1.40
Dec 2021	0.10	0.80	1.10	1.60	1.40
Mar 2022	0.10	0.90	1.20	1.60	1.40
Jun 2022	0.10	0.90	1.20	1.70	1.50
Sep 2022	0.10	0.90	1.20	1.70	1.50
Dec 2022	0.10	0.90	1.20	1.70	1.50
Mar 2023	0.10	0.90	1.20	1.70	1.50
Jun 2023	0.10	1.00	1.30	1.80	1.60
Sep 2023	0.10	1.00	1.30	1.80	1.60
Dec 2023	0.10	1.00	1.30	1.80	1.60
Mar 2024	0.10	1.00	1.30	1.80	1.60

3.4.2 Link have made a slight change to the interest rate forecasts table above for forecasts for 3, 6 and 12 months. Traditionally, Link used LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that all LIBOR rates up to 6m are currently running below 10bps, using that convention would give negative figures as forecasts for those periods. However, the liquidity premium that is still in evidence at the short end of the curve means that the rates actually being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, Link's analysis would suggest that an average rate of around 10 bps is achievable for 3 months, 10bps for 6 months and 20 bps for 12 months.

3.4.3 During 2021, Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.

3.4.4 Link will maintain continuity by providing clients with LIBID investment benchmark rates on the current basis.

3.4.5 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate

unchanged at its meeting on 6th August 2020, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31 December 2020: as this has now occurred, these forecasts do not need to be revised.

- 3.4.6 Gilt yields / Public Works Loan Board rates - There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.
- 3.4.7 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.
- 3.4.8 As the interest forecast table for Public Works Loan Board certainty rates above shows, there is likely to be little upward movement in Public Works Loan Board rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and

therefore Public Works Loan Board 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. (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

3.5 Investment and borrowing rates

3.5.1 Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

3.5.2 **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were on negative yields during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in Public Works Loan Board rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for amending the margins over gilt rates for Public Works Loan Board borrowing for different types of local authority capital expenditure. It also introduced the following rates for borrowing for different types of capital expenditure: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

3.5.3 As a consequence of these increases in margins, many local authorities decided to refrain from Public Works Loan Board borrowing unless it was HRA or local infrastructure financing, until such time as the review of margins was concluded.

On 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for Public Works Loan Board rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

3.5.4 **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all Public Works Loan Board rates are under 2.00%, there is now value in borrowing from the Public Works Loan Board for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the

Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.

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

3.6 Borrowing Strategy

- 3.6.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 3.6.2 If the Council does undertake borrowing then interest rates will be viewed from 1 year to 50 years, in accordance with the interest rates available from the markets as well as the Public Works Loans Board (PWLB). For 2021/22 interest rates span between 5 years at 0.80% to 0.90%, 10 at 1.10% to 1.20%, 25 at 1.60% or 50 years at 1.40%. The interest rates trend is to increase slightly across all years as the 2021/22 year progresses. Therefore, in the current volatile money market, the borrowing target rate for 2021/22 is set at 1.60%. External borrowing will be considered throughout the financial year when interest rates seem most favourable.
- 3.6.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Director of Finance and Commercial (Section 151 Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
 - if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected in the next few years.

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

3.7 Policy on Borrowing in Advance of Need

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

Borrowing in advance will be made within the constraints that:

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

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

3.8 Debt Rescheduling

3.8.1 Debt rescheduling of current Public Works Loan Board (PWLB) borrowing in our debt portfolio is unlikely to occur as the premature repayment rates provided by the PWLB are much lower than the new borrowing rates provided by the PWLB. The PWLB premature repayment rates are approximately 10-15bps lower than gilt yields. The current low interest rate environment would mean the cost of prematurely repaying any PWLB loans would come with higher premium costs to exit any loans. It is unlikely that any debt rescheduling opportunities will occur in the year ahead however the debt portfolio will continue to be monitored for any opportunities that may prevail.

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

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

3.9.1 Currently the Public Works Loan Board Certainty Rate is set at gilts + 80 basis points for both the Housing Revenue Account (HRA) and non-HRA borrowing, which is what this Council is concerned with as the Council does not have housing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency

3.9.2 Our advisor Link will keep us informed as to the relative merits of each of these alternative funding sources.

3.10 Approved Sources of Long and Short-term Borrowing

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

Approved Sources of Long and Short-term Borrowing		
On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	●
Local authority bills	●	●
Overdraft	●	●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	●
Medium Term Notes	●	●
Finance leases	●	●

3.11 Maturity structure of borrowing

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

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

Maturity structure of fixed interest rate borrowing 2021/22		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%

40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2021/22		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

4.0 Annual Investment Strategy

4.1 Investment Policy

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

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

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

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.
2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of types of investment instruments that the treasury management team are authorised to use; there are two lists in Annex C1 under the categories of 'specified' and 'non-specified' investments and Counterparty limits will be as set through the Council's treasury management practices – schedules.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding 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 and loan 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.
9. This authority has engaged external consultants, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
10. All investments will be denominated in sterling.
11. As a result of the change in accounting standards for 2020/21 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 ending 31 March 2023.

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

- 4.1.3 With regards to counterparty limits 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) due to the difficulty in placing surplus funds in the current economic environment. Therefore, the Counterparty limits are detailed as follows:

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

- (a) with counterparties that are backed by the Government – Royal Bank of Scotland and Natwest – (and therefore are more secure) there will be a 40% limit or £7m per counterparty whichever is the higher.
 - (b) with the Council's own bank - Lloyds - and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £7m per counterparty whichever is the higher
 - (c) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.
- **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.

4.2 Creditworthiness policy

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

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

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

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

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

- 4.2.3 The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.
- 4.2.4 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
- 4.2.5 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.
- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately; and
 - in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 4.2.6 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.
- 4.2.7 Creditworthiness - Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30 June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Quarter 1 and Quarter 2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on *actual* levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating

agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the Monetary Policy Committee’s central projection”. The Financial Policy Committee stated that for real stress in the sector, the economic output would need to be twice as bad as the Monetary Policy Committee’s projection, with unemployment rising to above 15%.

- 4.2.8 All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.
- 4.2.9 Credit Default Swap (CDS) prices - Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

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 £3m whichever is the lower will be invested in a single institution of a AA- sovereign rated country
- 4.3.3 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 unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

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 (the long-term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

The overall balance of risks to economic growth in the UK is probably now skewed to the upside, however, is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term Public Works Loan Board rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so Public Works Loan Board rates), in the UK.

4.4.3 Negative investment rates

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank

and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short-term maturities. This is not universal, and Money Market Funds are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

4.4.7 Investment Treasury Indicator and Limit

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

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

Maximum principal sums invested > 365 days			
£	2021/22	2022/23	2023/24
Principal sums invested > 365 days	£1,000,000	£1,000,000	£1,000,000

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

4.5 Investment Risk Benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID. The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors, Link, in determining suitable replacement investment benchmark ahead of this cessation and will report back to members accordingly.

4.6 End of year investment report

4.6.1 At the end of the 2020/21 financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5.0 Policy on the Use of External Service Providers and Training

5.1 Policy on the Use of External Service Providers

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

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

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

5.2 Training

5.2.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This applies to Cabinet members and members on Scrutiny committee. During 2021/22, 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. 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.

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

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. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months).

2.0 NON-SPECIFIED INVESTMENTS:

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

3.0 INVESTMENT INSTRUMENTS:

- 3.1 A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.
- 3.2 The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

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

Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	yellow	100%	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating		

A) – SPECIFIED

<i>Institution / Counterparty</i>	<i>Minimum 'High' Credit Criteria</i>	<i>Use</i>
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 Links 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 Links Matrix. Fitch's rating: Short-term F1+, Long-term AA- Or equivalent rating from Standard & Poors and Moody's	In-house / Fund Mangers
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Coded: Blue on Links Matrix. Fitch's rating: Long-term AAA, Or equivalent rating from Standard & Poors and Moody's	In-house and Fund Mangers
Collateralised deposit	UK sovereign rating or Coded: Orange on Links Matrix / UK Sovereign rating	In-house and Fund Mangers
UK Government Gilts	UK Sovereign rating	In-house buy and hold and Fund Mangers
Bonds issued by multilateral development banks	Coded: Orange on Links Matrix / Long term AAA	In-house buy and hold and Fund Mangers
Bonds issued by a financial institution which is guaranteed by the UK Government	UK Sovereign rating	In-house buy and hold and Fund Mangers
Sovereign bond issues (other than the UK Government)	Coded: Orange on Links Matrix / Long term AAA	In-house buy and hold and Fund Mangers
Treasury Bills	UK Sovereign rating	Fund Mangers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1a. Money Market Funds (CNAV)	MMF rating	In-house and Fund Mangers
1b. Money Market Funds (LVNAV)	MMF rating	In-house and Fund Mangers
1c. Money Market Funds (VNAV)	MMF rating	In-house and Fund Mangers
2a Ultra-Short Bond Funds with a credit score of 1.25	Bond fund rating	In-house and Fund Mangers

2b.Ultra-Short Bond Funds with a credit score of 1.50	Bond fund rating	In-house and Fund Managers
3. Bond Funds	Bond fund rating	In-house and Fund Managers
4. Gilt Funds	UK sovereign rating	In-house and Fund Managers

NON-SPECIFIED INVESTMENTS:

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

1. Maturities of ANY period

Institution / Counterparty	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks and building societies	Coded: red (6mths) and green (3mths) on Links 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 Links 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 Links 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 Links Matrix. Fitch's rating: Short-term F1, Long-term A-,	In-house	30%	1 Year

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

2. Maturities in excess of 1 year

Institution / Counterparty	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	--	In-house	30%	> 1 year
Term deposits – banks and building societies	Coded: Purple (2yrs) on Links' 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 Links Matrix / Short-term F1+, Long-term AA-	Fund Managers	30%	> 1 year
Collateralised deposit	UK Sovereign rating	In-house and Fund Managers	30%	> 1 year

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

APPROVED COUNTRIES FOR INVESTMENT
Current List as at 20 January 2021

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). This list is as at 20 January 2021.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

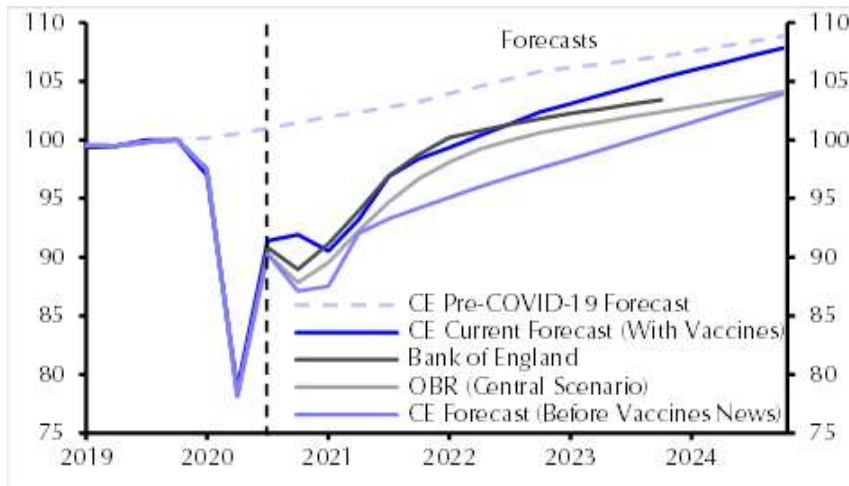
ECONOMIC BACKGROUND

- UK. The key quarterly meeting of the Bank of England Monetary Policy Committee kept Bank Rate unchanged on 5 November 2020. However, it revised its economic forecasts to take account of a second national lockdown from 5 November 2020 to 2 December 2020 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of quantitative easing, announced in March to June, runs out. It did this so that “announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target”.
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
 - The economy would recover to reach its pre-pandemic level in Quarter 1 2022
 - The Bank also expected there to be excess demand in the economy by Quarter 4 2022.
 - Consumer Price Index inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the “inflation risks were judged to be balanced”.
- Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the Monetary Policy Committee remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the Monetary Policy Committee this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.
- One key addition to the Bank’s forward guidance in August was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the Monetary Policy Committee to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. The Bank Rate forecast supplied by Link currently shows no increase, (or decrease), through to Quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the Monetary Policy Committee concern. Inflation is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor due to base effects from twelve months ago falling out of the calculation, and so is not a concern. Looking further ahead, it is also unlikely to be a problem for some years as it will take a prolonged time for spare capacity in the economy, created by this downturn, to be used up.
- Public borrowing was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of Gross Domestic Product. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so Public Works Loan Board rates. However, the quantitative easing done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with quantitative easing and debt

issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The Office for Budget Responsibility was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of Gross Domestic Product) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

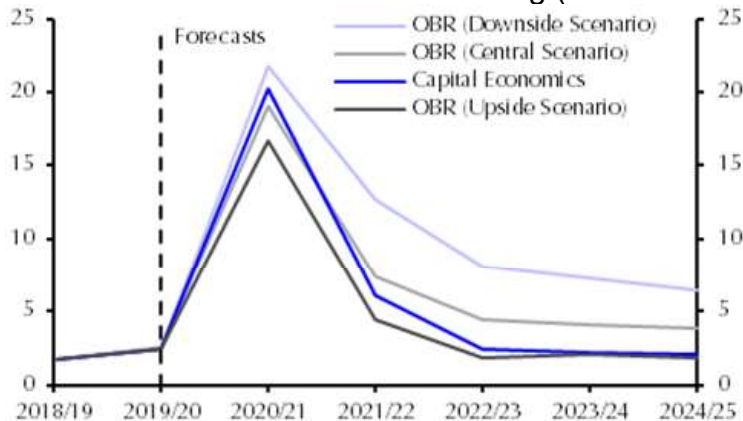
- Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after Quarter 1 saw growth at -3.0% followed by -18.8% in Quarter 2 and then an upswing of +16.0% in Quarter 3; this still left the economy 8.6% smaller than in Quarter 4 2019. While the one month second national lockdown that started on 5th November caused a further contraction of 5.7% m/m in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level.
- Vaccines – the game changer. The Pfizer announcement on 9th November of a successful vaccine has been followed by approval of the Oxford University/AstraZeneca and Moderna vaccines. The Government has a set a target to vaccinate 14 million people in the most at risk sectors of the population by 15th February; as of mid-January, it has made good, and accelerating progress in hitting that target. The aim is to vaccinate all adults by September. This means that the national lockdown starting in early January, could be replaced by regional tiers of lighter restrictions, beginning possibly in Quarter 2. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines have radically improved the economic outlook so that it may now be possible for Gross Domestic Product to recover to its pre-virus level as early as Quarter 1 2022. These vaccines have enormously boosted confidence that life could largely return to normal during the second half of 2021. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for when life returns to normal.
- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant risk is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development, and vaccine production facilities are being ramped up around the world.

Chart: Level of real GDP (Q4 2019 = 100)



This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade, would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of Gross Domestic Product without any tax increases. This would be in line with the Office for Budget Responsibilities most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (as a % of GDP)



- There will still be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.
- Brexit. The final agreement of a trade deal on 24 December 2020 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an

assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- Monetary Policy Committee meeting of 17 December. All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The Monetary Policy Committee commented that the successful rollout of vaccines had reduced the downside risks to the economy that it had highlighted in November 2020. But this was caveated by it saying, “Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger Gross Domestic Product growth in the central case.” So, while vaccines are a positive development, in the eyes of the Monetary Policy Committee at least, the economy is far from out of the woods in the shorter term. The Monetary Policy Committee, therefore, voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30 April 2021 until 31 October 2021. (The Monetary Policy Committee had assumed that a Brexit deal would be agreed.)
- Fiscal policy. In the same week as the Monetary Policy Committee meeting, the Chancellor made a series of announcements to provide further support to the economy: -
 - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
 - The furlough scheme was lengthened from the end of March to the end of April.
 - The Budget on 3 March 2021 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).
- The Financial Policy Committee (FPC) report on 6 August 2020 revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the Monetary Policy Committee’s central projection”. The Financial Policy Committee stated that for real stress in the sector, the economic output would need to be twice as bad as the Monetary Policy Committee’s projection, with unemployment rising to above 15%.
- US. The Democrats gained the presidency and a majority in the House of Representatives in the November elections: after winning two key Senate seats in Georgia in elections in early January, they now also have a very slim majority in the Senate due to the vice president’s casting vote. President Biden will consequently have a much easier path to implement his election manifesto. However, he will not have a completely free hand as more radical Democrat plans may not be supported by all Democrat senators. His initial radical plan for a fiscal stimulus of \$1.9trn, (9% of GDP), is therefore likely to be toned down in order to get through both houses.
- The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with Gross Domestic Product only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. The latest upturn poses a threat that the recovery in the economy could stall. This is the single biggest downside risk to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence,

threatens to overwhelm health care facilities. Under those circumstances, individual states might feel it necessary to return to more draconian lockdowns.

- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and declining in December, and retail sales dropping back. The economy is set for further weakness into the spring. Gross Domestic Product growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.
- After Chair Jerome Powell unveiled the Fed's adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Federal Open Market Committee's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.
- The Fed's meeting on 5 November was unremarkable - but at a politically sensitive time around the elections. At its 16 December meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the Fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.
- EU. In early December, the figures for Quarter 3 Gross Domestic Product confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Quarter 2, Gross Domestic Product was 15% below its pre-pandemic level. But in Quarter 3 the economy grew by 12.5% q/q leaving Gross Domestic Product down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Quarter 4 and in Quarter 1 of 2021, as a second wave of the virus has seriously affected many countries. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With inflation expected to be unlikely to get much above 1% over the next two years, the European Central Bank has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the European Central Bank has stated that it retains this as a possible tool to use. The European Central Bank's December meeting added a further €500bn to the Pandemic Emergency Purchase Programme scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of Targeted Longer-Term Refinancing Operations (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total Pandemic Emergency Purchase Programme scheme of €1,850bn of quantitative easing which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the European Central Bank is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in Quarter 2 of 2021.
- China. After a concerted effort to get on top of the virus outbreak in Quarter 1, economic recovery was strong in Quarter 2 and then into Quarter 3 and Quarter 4; this has enabled China to recover all of the contraction in Quarter 1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.
- Japan. A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus Gross Domestic Product. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of Gross Domestic Product this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Quarter 3 2021 – around the same time as the US and much sooner than the Eurozone.
- World growth. World growth will have been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.
- Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty

years, which now accounts for nearly 20% of total world Gross Domestic Product, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand and the pace of recovery in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further quantitative easing purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.4 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31 December 2020. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term Public Works Loan Board rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to

unexpected domestic developments and those in other major economies, could impact gilt yields, (and so Public Works Loan Board rates), in the UK.

Downside risks to current forecasts for UK gilt yields and Public Works Loan Board rates currently include:

- UK government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand and the pace of recovery of the economy.
- UK - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis. The European Central Bank has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to Gross Domestic Product and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- German minority government & general election in 2021. In the German general election of September 2017, Angela Merkel’s Christian Democratic Union of Germany party was left in a vulnerable minority position dependent on the fractious support of the SPD (Social Democrat Party of Germany) party, as a result of the rise in popularity of the anti-immigration AfD party. Angela Merkel has stepped down from being the Christian Democratic Union of Germany party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- Other minority EU governments. Italy, Spain, Austria, Sweden, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- UK - a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

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TREASURY MANAGEMENT SCHEME OF DELEGATION

APPENDIX: Treasury management scheme of delegation

(i) Full Council

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

(ii) Cabinet

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

(iii) Audit, Governance and Standards Committee

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

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THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

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

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Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 23 March 2021

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

Portfolio Holder: Governance
Councillor Mrs I Sanderson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 The purpose of this report is to give the Committee an opportunity to:
- review the Council's Capital Strategy for the forthcoming financial year 2021/22;
 - review the monitoring of 'separate bodies' that have been set up which is reported to cabinet on a quarterly basis as an Annex to the Capital Monitoring and Treasury Management report;
 - review the Joint Venture Company – Central Northallerton Development Company Ltd – Accounts 2019/20
- 1.2 This Capital Strategy is a key document for the Council and forms part of the authority's integrated revenue, capital, balance sheet and reserves planning and is reported separately from the Treasury Management Strategy Statement. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the non-treasury function where the policy for service, economic development/ regeneration and commercial investments are usually associated with capital expenditure in relation to an asset. It should be noted that Council suspended the Commercial Investment Strategy in September 2020 and that commercial activity will not occur during 2021/22 however it is mentioned to some degree in this capital strategy to provide a complete overview.
- 1.3 The purpose of the Capital Strategy is to give a clear and concise view of how a local authority determines its priorities for capital investment, sets its risk appetite and decides how much it can afford to borrow.
- 1.4 Attached at Appendix 'A' is the "Capital Strategy 2021/22" report which was approved by Cabinet and Council in February 2021. This report contains the Council's Capital Strategy at Annex A.
- 1.5 In the Capital Strategy – Annex A – the following paragraphs include information that will be reported to cabinet and council quarterly when non-treasury capital investment occurs:
- Paragraph 8 details an 'An overview of how associated risk is managed' and the 'Measures to manage risk' are at 8.8.
 - Paragraphs 9 to 112 detail and 'Implications for future financial sustainability'

- 1.6 Included in the Capital Strategy section 'Implications for the future financial sustainability' is the capital plan for non-treasury investment which provides investment for service delivery, economic development and regeneration projects, where capital expenditure is on:
- (i) the enhancement or creation of assets for the future of the service e.g. the crematorium development
 - (ii) loans to third parties which benefit the local area for economic and housing advancement to support the district.
 - (iii) economic development and regeneration projects where the purpose is to regenerate the local area which may result in the generation of income. E.g. the Joint Venture Company – Central Northallerton development Company Ltd – where the former prison site attracts new business into the high street of Northallerton as well as developing the former HMP Prison site
- 1.7 The 'separate bodies' set up by the Council and the monitoring of them are reported to Cabinet and Council on a quarterly basis and the latest update, for information, from the Q3 Capital Monitoring and Treasury Management report Annex F is provided at Appendix B.
- 1.8 Attached at Appendix C, for Members' information, is the Central Northallerton Development Company Ltd.'s Accounts for 2020/21; these are the latest available.

2.0 Risk Management

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

3.0 Recommendation

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

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

Background papers: None
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Hambleton District Council

Report To: Cabinet

Date: 9 February 2021

Subject: **Capital Strategy 2021/22**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 The purpose of the Capital Strategy is to give a clear and concise view of how a local authority determines its priorities for capital investment, sets its risk appetite and decides how much it can afford to borrow.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and Treasury Management Code require from 2018/19 and onwards, local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.
- 1.3 The aim of the capital strategy is to provide an understanding of the Council's overall long-term objectives, governance procedures, allocation and monitoring of capital expenditure, risk appetite and to meet legislative requirements on reporting.
- 1.4 This Capital Strategy is attached at Annex A and sets out the long-term decisions on capital expenditure and capital investments and explains the approach to the:
- High level overview of:
 - Service objectives relating to investments;
 - Corporate governance arrangements for non-treasury investment activities;
 - Overview of how associated risk is managed:
 - Risks associated with treasury investments (treasury management investments) and non-treasury investments (service, economic development / regeneration and commercial investments associated with capital expenditure);
 - Implications for future financial sustainability:
 - Expected income, costs and resulting contribution;
 - Debt related to the activity and the associated interest costs;
 - Payback period (Minimum Revenue Provision (MRP) policy);
 - Other ratio analysis.

- 1.5 This Capital Strategy is a key document for the Council and forms part of the authority's integrated revenue, capital, balance sheet and reserves planning and is reported separately from the Treasury Management Strategy Statement. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the non-treasury function where the policy for service, economic development/ regeneration and commercial investments are usually associated with capital expenditure in relation to an asset. It should be noted that Council suspended the Commercial Investment Strategy in September 2020 and that commercial activity will not occur during 2021/22 however it is mentioned to some degree in this capital strategy to provide a complete overview.
- 1.6 Both treasury and non-treasury investments are reported in the annual Capital Programme Budget, Treasury Management Strategy Statement and Prudential Indicator report and also during the year, quarterly monitoring updates – quarterly capital monitoring and treasury management reports – are provided to Cabinet where treasury and non-treasury investments are reported through Prudential Borrowing and Investment Indicators.
- 1.7 The non-treasury investments - due to the expenditure being for service delivery, economic development or regeneration projects - do not always give priority to security and liquidity over yield (like treasury investment do). For non-treasury investments, decisions on this capital expenditure will either be approved at Cabinet or Council in individual reports or in the capital programme cycle. For clarity this is where the capital programme is set on an annual basis prior to the beginning of each financial year in February or in quarterly monitoring reports. Individual reports will identify risks and the impact on the financial sustainability of these schemes.
- 1.8 In order to undertake non-treasury investments the appropriate legal powers will be reviewed to ensure they are in place and also reports will include the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources. The Council will use its "power to invest" for the prudent management of the Council's financial affairs.
- 1.9 The Council has considered the Statutory Guidance on Local Government Investments (3rd Edition) (April 2018) in accordance with Local Government Act 2003 and also the CIPFA Prudential Code (amended 2017) when writing the capital strategy for 2021/22. The Council has also considered the corporate governance arrangements under which the Council invests for non-treasury capital expenditure and this is included in Annex A at paragraph 7.0.
- 1.10 The Council's approach to non-treasury investment is that it is affordable, sustainable and prudent and provides value for money. Monitoring of all capital expenditure and investments will be included in the capital monitoring and treasury management reports that go to Cabinet and Council on a quarterly basis.
- 1.11 The Chief Finance Officer – Director of Finance and Commercial (S151 Officer) - will report on the affordability and risk associated with the Capital Strategy when capital expenditure is to occur on non-treasury investments (service and

commercial) and will have access to specialised advice to enable conclusions to be reached, where appropriate.

2.0 Link to Council Priorities

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

3.0 Risk Assessment

3.1 There are no risks associated in approving the recommendation.

4.0 Financial Implications

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

5.0 Legal Implications

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

6.0 Equality/Diversity Issues

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

7.0 Recommendations

7.1 That Cabinet approves and recommends to Council the Capital Strategy 2021/22 attached at Annex A of the report.

Louise Branford-White
Director of Finance and Commercial (S151 officer)

Background papers: 10 Year Capital Programme

Treasury Management Strategy Statement
4 Year Financial Strategy 2021/22 to 2024/25

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Capital Strategy 2021/22

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CAPITAL STRATEGY

1.0 Purpose

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential and Treasury Management Codes require local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability. This requirement was first introduced in 2018/19.
- 1.2 The Capital Strategy is a key document for the Council and forms part of the authority's revenue, capital, balance sheet and reserves planning. It provides;
- a high-level overview of how capital expenditure and capital financing contribute to the provision of services and comments on treasury management activity;
 - an overview of how associated risk is managed; and
 - the implications for future financial sustainability.
- 1.3 The aim of the capital strategy is to provide an understanding of the Council's overall long-term objectives, governance procedures, allocation and monitoring of capital expenditure and risk appetite.

2.0 Scope

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

High level overview:

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

Overview of how associated risk is managed:

- Risks associated with treasury investments (treasury management investments) and non-treasury investments (capital expenditure including service, economic development / regeneration and commercial investments);

Implications for future financial sustainability:

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

- 2.2 The non-treasury investments (see definition below) - due to the expenditure being for valid service delivery, economic development / regeneration - do not always give priority to security and liquidity over yield (like treasury investment do). For non-treasury investments, decisions on this type of capital expenditure will either be approved at Cabinet or Council in the Capital programme or in individual reports. Individual reports will identify risks and the impact on the financial sustainability of these schemes.
- 2.3 All Cabinet reports will ensure that the Council has the appropriate legal powers to undertake such non-treasury investments and will also include the 'proportionality of non-treasury investments' so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.
- 2.4 Monitoring of all investments will be included in the quarterly capital and treasury management monitoring reports which are approved by Cabinet and Council.
- 2.5 The Chief Finance Officer – Director of Finance and Commercial (S151 Officer) - will report explicitly on the affordability and risk associated with the Capital Strategy as detailed below and, where appropriate, will have access to specialist advice to enable conclusions to be reached.

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

3.0 Definitions

- 3.1 The definitions in part 3 will assist the readers understanding of the Capital Strategy and covers (i) capital expenditure, (ii) treasury management investment (iii) non-treasury management investment, which includes (iv) service investment, economic development / regeneration and commercial investment.
- 3.2 **Capital Expenditure** - is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, roads, vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services.

- 3.3 The 10 Year Capital Programme is the authority's plan of capital works for the next ten years, including details on the funding of the schemes. Included are the projects that relate to 'Service Investment' such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment. For 2021/22 and future years the Council has decided not to pursue commercial investments at this time and the Commercial Investment Strategy was suspended at Council in September 2020.
- 3.4 The definition of 'Service Investment' and 'Commercial Investment' which are both types of non-treasury investments, along with the definition of 'Treasury Management Investment', is detailed below. The definition and explanation about the risks of non-treasury investment – service delivery, economic development / regeneration - and implications of financial sustainability are included in this report. Information on commercial investments has not been included for risks and financial sustainability due to the Council suspending the Commercial Investment Strategy in September 2020.
- 3.5 **Treasury Management investment** – is activity that covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.
- 3.6 For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Strategy Statement and the Annual Investment Strategy.
- 3.7 The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These are non-treasury investments and include service and commercial investments.
- 3.8 **Non-Treasury Management Investment** – is the expenditure made on the purchase of a capital asset and are investments for policy reasons outside normal treasury management activity. It is these non-treasury management investments which are the subject of this Capital Strategy and can further be described as Service Investments or Commercial Investments
- 3.9 **Service Investments (Non-Treasury Management Investment)** - These are investments of capital expenditure held clearly and explicitly in the course of the provision, and for the purposes of operational services of the Council and projects including economic development schemes, regeneration projects, ICT schemes, development of Council's assets etc.
- 3.10 **Commercial investments (Non-Treasury Management Investment)** - These are investments that would be taken mainly for financial reasons. These may include:
- expenditure on investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures such as IT providers or building services providers;

- expenditure to third parties where the aim is to enhance and support the local area whilst obtaining generated income through interest;
- expenditure explicitly with the aim of generating income for the prudent management of the Council's financial affairs e.g. fixed assets which are held primarily for financial benefit, such as investment properties;
- this list is not exhaustive.

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

4.0 Council Objectives

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

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

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

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

4.4 The Asset Management Strategy is currently under development and will be reported to Members in due course.

- 4.5 Performance Management of Capital schemes – In order to ensure that capital expenditure (non-treasury investment – service and economic development / regeneration projects) projects are in line with the Council's overall objectives, individual service aims and capital scheme goals should be developed with clear measurable outcomes. These objectives should be documented in a Project Initiations Document (PID). After the scheme has been completed, the outcomes should be evaluated to certify that they have been achieved. Post scheme evaluation reviews should be completed by departments for all schemes; those over £50,000 and also strategic capital projects will be reported to Project Management Board. Reviews should look at the effectiveness of the whole project in terms of service delivery outcomes, design and construction, financing etc. and identify good practice and lessons to be learnt in delivering future projects.
- 4.6 Performance management of capital schemes is considered at Project Management Board to ensure alignment with the Council Plan priority projects. For 2021/22 Directors will take increased responsibility of schemes in their area and the value (currently £50,000) of projects to be reported to Project Management Board will be clarified in the terms of reference revision. This is aimed at increasing the capacity and resources across the Council for improved project performance management.
- 5.0 Capital Expenditure Plans and Capital Financing**
- 5.1 Capital Expenditure Plans and the Budget Setting Process – Part of the Capital Strategy importantly notes that consideration is given to the capital budget setting process. This is provided to Cabinet and Full Council on an annual basis in February proceeding the new financial year. In order for the capital programme to be constructed, consideration is given to schemes across the Council by reviewing option appraisals and feasibility studies which contribute to the construction of individual capital schemes initially in the form of a high level overview which is followed by a more detailed Project Initiation Document (PID).
- 5.2 The capital budget setting processes is designed to ensure the capital programme occurs and contributes to service delivery and commercial investment; this process contains the following items:
- Options Appraisals, Feasibility Studies
 - Key Criteria for capital expenditure
 - Identifying the need for Capital Expenditure/Investment – Project Initiation Document
 - Deciding which schemes are to be put forward
 - Prioritisation of schemes put forward
 - Member Approval Process
 - Monitoring of the Capital Programme Expenditure
- 5.3 Further detail setting out the capital budget setting process is attached at **Annex A**.
- 5.4 Budget Setting Process: 10 Year Capital Programme – Capital expenditure for service and commercial non-treasury schemes often occur over many years,

depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is called a cash flow projection or budget profiling. The length of the planning period is at least 10 years and also considers the risks faced with reference to the life of the project/assets. For example, some schemes may span two or three years (e.g. building an extension to a leisure centre) whereas others may be over much longer timeframes. It should also be noted that some schemes will complete within one financial year.

- 5.5 The approval of a rolling 10 Year Capital Programme assists the Council in a number of ways. It assists service managers, allowing them to develop longer term capital plans for direct service delivery and also corporately for economic development schemes or regeneration scheme in the district which may generate income to support future delivery of services. It allows greater flexibility in planning workloads and more certainty for preparation work for future schemes. It matches the time requirement for scheme planning and implementation since capital schemes have a considerable initial development phase. It will also allow greater integration of the revenue budget and capital programme.
- 5.6 Value for Money and procurement - Prior to expenditure being incurred on any scheme a Value for Money is assessed at Project Management Board where the 10 year capital programme is presented for review prior to the annual Capital Programme being approved at Council before the commencement of the new financial year. Procurement is the purchase of goods and services, with a strategy being developed to assist with the definition of quality standards and securing provision of the best possible services for local people for a given price. The Council has a Procurement Officer that ensures goods and services provide value for money and to see where efficiency savings can be achieved.
- 5.7 It is essential that all procurement activities comply with the Government's Procurement Policy Note 08/20 – Introduction of Find a Tender Action Note – in relation to the UK leaving the European Union on 31 December 2020 for all new procurements. The Policy Note states “At the end of the Transition Period, amendments to the Regulations in relation to the withdrawal of the UK from the EU will come into force. This means that, whilst the framework and principles underlying the public procurement regime (the procurement procedures, financial thresholds, etc.) will not substantially change, contracting authorities will be required to publish public procurement notices for new procurements to the new UK e-notification service, Find a Tender.”
- 5.8 Guidance on this can be sought from the Procurement team. All procurement must also comply with the Councils policies and regulations such as Contract Procedural Rules and Financial Regulations. The main aim is to hold ‘value for money’ as a key goal in all procurement activity to optimise the combination of cost and quality.
- 5.9 Budget Setting Process: In Year Opportunities - these can be put forward for entry into the capital programme in a managed way either when the capital programme is reviewed each quarter and gets reported to Cabinet and Council or outside of this timetable as a separate Cabinet report to seek approval at any other meeting in the

Cabinet cycle. Any other schemes which arise during the year will only be considered for borrowing or funding from central resources if they meet one or more of the following criteria:

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

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

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

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

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

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

6.0 Corporate governance arrangements - Non-Treasury Investment activities

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

6.2 The Council's Programme Management Board - takes a corporate and group view on the capital programme and investment, where this group receives information from the operational Asset Management Working Group. Programme Management

Board will also ensure a corporate and group portfolio perspective to the use and allocation of the Council's capital assets and in planning capital investment on service capital expenditure. The Programme Management Board receives reports on proposed capital projects, as well as monitoring reports for those included in the Capital programme on a regular basis. Post scheme evaluation reviews should be completed by departments for all schemes; those over £50,000 and also strategic capital projects will be reported to Project Management Board. Currently projects of above £50,000 are reported to Project Management Board with Directors taking responsibility for the lower value projects in their area where the Board focuses on the Council Plan projects. The Programme Management Board is key in finalising the Capital Programme for approval at Cabinet and Council every year prior to the beginning of the financial year.

- 6.3 Management Team - receives the minutes from Programme Management Board on a monthly basis focusing mainly on service capital schemes and is also instrumental in the decision making and recommendations to Cabinet and Council around economic development and regeneration projects.
- 6.4 Investment Board – An Investment Board exists for a robust decision-making process for making time restricted decisions on service capital expenditure below £5m which has been approved by Cabinet and Council to provide this ability to the Chief Executive and Leader. This will occur in conjunction with the Investment Board which currently consists of the Chief Executive, the Deputy Chief Executive, the Finance Director (S151 Officer) and the Director of Legal and Governance (Monitoring Officer) to provide oversight and will only occur if it not possible to convene Cabinet and service capital expenditure decisions are required in a tight timescale.
- 6.5 Investment Board and Commercial Activities – the process for making commercial investments has been devised to ensure that appropriate oversight, quality assurance and risk management is in place. In addition to Management Team involvement, this includes the Investment Board (as set out in the Cabinet Report “Commercial Opportunities” on the 9th October 2018) and the role of the Investment Board was reported to Cabinet and Council in September 2019 in the Commercial Property Portfolio Report. This approved the creation of a Commercial Property Portfolio where the Commercial Investment Strategy detailed the process for the purchase of properties and governance arrangements.
- 6.7 Further development has resulted in the Commercial Investment Strategy being suspended by Cabinet and Council in September 2020. The Council had no commercial investments when the strategy was suspended which was due to the
- increase in Public Works Loan Board interest rates on borrowing in October 2019 resulting in the income to be generated from commercial investments being marginal;
 - consultation paper from HM Treasury on ‘Public Works Loan Board: future lending terms’ in March 2020 where the Government has now confirmed in December 2020 that the Public Works Loan Board will not lend to a local authority if they plan to buy investment assets primarily for yield anywhere in their capital plans with the aim solely to generate an income stream and
 - current Covid-19 environment where receipt of rental income is uncertain.

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

- 7.1 CIPFA Prudential Code (amended 2017) and Statutory Guidance on Local Government Investments (3rd Edition) (April 2018) in accordance with Local Government Act 2003 has been taken into account when writing the Capital Strategy and considering the corporate governance arrangements under which the Council invests for non-treasury capital expenditure for service investment, economic development and regeneration projects. The Council notes the Local Government Act 2003 and s12 where it can use its “power to invest” for the prudent management of the Council’s financial affairs.
- 7.2 CIPFA’s Prudential Code and the Statutory guidance on Local Government investments allows the Council to borrow if its capital plans are affordable, sustainable and prudent. The Code states that the Council should not “borrow in advance of need”. The intent of the “borrowing in advance of need” within the revised English Ministry of Housing, Communities and Local Government Investment Guidance (paragraph 46 of the Guidance and 35 of the Commentary) 2018 relates to the borrowing to fund income generating assets, essentially the commercial agenda. In effect a re-working of the “borrowing to on-lend” argument from the then named Department of Communities and Local Government (DCLG) guidance originally issued on 1 April 2004 and the wide acceptance that this was not legal. The expectation within this revised wording is that borrowing to invest in purely income generating assets is to be discouraged and not undertaken and activity should be financed by capital. CIPFA Prudential Code paragraph 45, 62 (and E16), allows borrowing in advance of need against the Capital Financing Requirement (CFR) for the current and next two financial years.
- 7.3 The interpretation of the Code and the Statutory Guidance has varied across organisations. However, a large number of Local Authorities have recently invested in Commercial Property in a bid to generate additional revenue; where some Local Authorities have taken borrowing to do so. This Council has suspended its Commercial Investment strategy in September 2020, has not undertaken any commercial activity and the Financial Strategy reflects that without commercially generated income the financial position remains sustainable.
- 7.4 The Council is mindful of the CIPFA prudential Code and does not propose to borrow more than or in advance of need. The rationale that the Council intends to borrow for non-treasury investments is that the capital expenditure for services delivery, economic development and regeneration projects in the district will all be incorporated into the Council’s capital programme where the borrowing of the Council will be looked at in its totality within its Capital Financing Requirement and the appropriate Authorised Borrowing Limit will be set. This can be seen in the Treasury Management Strategy Statement that is approved by Council every February prior to the beginning of the new financial year. This ensures that capital programme is affordable, sustainable and prudent.
- 7.5 The Council’s view on prudence and its prudent approach to the consideration of its position on the Minimum Revenue Provision is included in the ‘implications for

future financial sustainability' section of this Capital Strategy at paragraph 12.0 - Treasury Management Strategy Statement - Minimum Revenue provision (MRP) Policy Statement.

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

An overview of how associated risk is managed

8.0 Associated Risk

- 8.1 Risk Management Overview - Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.
- 8.2 The aim of risk management is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.
- 8.3 Risk Appetite and Monitoring - To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk by each scheme as well as for the capital programme as a whole.
- 8.4 The appetite for risk associated with treasury investments (treasury management investments) is centred around the security, liquidity and yield and is covered in the Treasury Management Strategy Statement. For completeness of this Capital Strategy risks associated with treasury investments is attached at **Annex C**
- 8.5 The appetite for risk associated with capital expenditure on non-treasury investment schemes can be for service investments and commercial investments.
- 8.6 When the Capital Programme is produced at the beginning of every financial year, the capital budget setting process – as detailed above – includes the requirement for each capital scheme to write a Project Initiation Document. For capital expenditure on service investment this Project Initiation Document includes the risks associated with that scheme; these risks are then captured in each of the Department's Section Service Plans, consolidated in the Corporate Risk Register which are monitored on a quarterly basis being reported to Scrutiny Committee and annual an update on risk is provided to Audit Governance and Standards Committee who have the overall responsibility for risk.

- 8.7 An assessment of risk should therefore be built into every capital project and major risks recorded in the Corporate Risk Register. More information is available in the Risk Management Guide which is approved by Audit Governance and Standards Committee.
- 8.8 Measures to manage risk - The following measures to manage the risks associated with non-treasury investment are listed below and the Director of Finance and Commercial (S151 Officer) will report on the affordability of these risks associated with the capital strategy in the Capital Monitoring and Treasury Management reports:
- (i) Proportionality - Advice from CIPFA is that borrowing for investment should be proportionate to the Council's overall budget and an explanation provided if it is not:
 - a 20% limit is deemed as an appropriate level for investment finance costs to be set at as a proportion of the budget.
 - (ii) Reserves Position - The financing cost is deemed to be affordable as reflected in the four-year financial strategy 2021/22 and the Council's balance on reserves being maintained:
 - the Council's 4-Year Financial Strategy 2021/22 to 2024/25 shows that at the end of 4 years the reserve position remains at £5.05m.
 - (iii) Financial strategy review - It is important to note that some of the Council's economic development projects or regeneration projects generate income and if there was a shortfall in net income this would reduce the funding that supports the budget. The Council's reserves are allocated over 4 years in the Financial Strategy;
 - the 4-Year Financial Strategy would be reviewed along with the budget and reported to Members at the earliest opportunity if there was to be a short fall in income.
 - (iv) Geographical and Sector Diversity - non-treasury investments are made in a variety of assets, in different sectors and across the district to reduce the risks of all capital expenditure being invested in one project.
 - the capital programme is monitored to ensure diversity of projects and locations
 - (v) Income shortfall - The risk profile of assets vary greatly and this is reflected in the yield (the income received) of an asset. The leisure centres yield income along with car parks, the Treadmills site and in 2021/22 the crematorium. These non-treasury investments are for the purpose of delivering services to the resident and communities so it crucial to invest in these assets where a balance is struck between a return but more importantly low risk of income shortfall:
 - All assets that generate income will be sought to be occupied under full repairing and insuring terms.
 - all assets will be risk assessed and monitored on a quarterly basis in revenue monitoring report at Cabinet and Council

- the Financial strategy will over 4 years ensure that the Council remains affordable and sustainable
- (vi) Specialist Advice – service delivery, economic development or regeneration projects may require specialist support. The advisor may assist in the development and / or implementation of a scheme where:
- the proper procurement process has been adhered to
 - the adviser is held to account through the risk register action plans
 - strict monitoring occurs to be able to hold the advisor to account
 - updates will be provided to cabinet and Council as appropriate
- (viii) Decision Making and the Investment Board - A robust process for making time restricted decisions on service capital expenditure below £5m has been devised when Cabinet and Council cannot be convened. This ensures that appropriate oversight, quality assurance and risk management is in place. This was approved by Cabinet and Council in September 2019.
- Investment Board meets to make time restricted decisions on service capital expenditure below £5m

8.9 Due Diligence - For all non-treasury capital investments the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered. Due diligence process and procedures will include:

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

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

8.11 The Director of Finance and Commercial (S151 Officer) will report explicitly on the affordability and management of these risks when appropriate, listed above, associated with the Capital Strategy which will be included in the quarterly monitoring finance reports - Capital Programme and Treasury Management Strategy Statement - to Cabinet as well as reporting risks through the risk management process to Scrutiny Committee and Audit, Governance and Standards Committee. Where appropriate the Director of Finance and Commercial (S151 Officer) will have access to specialised advice to support conclusions reached and will also ensure that due diligence is undertaken where appropriate.

- 8.12 The Director of Finance and Commercial (S151 Officer) will ensure that Members are adequately informed and understand the risk exposures being taken on.

Implications for future financial sustainability:

9.0 Financial Sustainability

- 9.1 The Capital Strategy, in conjunction with the 10 Year Capital Programme, sets out the long-term decisions on capital expenditure and capital investments and ensures that implications for future financial sustainability are transparent.
- 9.2 The current decisions on capital expenditure and capital investment are considered in the 10 Year Capital Programme covering the financial years 2021/22 to 2030/31. The 10 Year Capital Programme is set within the fiscal parameters of the Financial Strategy, a key feature of which is to ensure that at the end of the 4 year Financial Strategy reserve funds – grants, contribution and capital receipts – remain available to support the capital programme. The 4-year Financial Strategy also includes the finance costs associated with the borrowing required to support the capital programme.
- 9.3 The 10 Year Capital Programme and the 4-year Financial Strategy ensure that the Council's capital plans are affordable, sustainable and prudent.
- 9.4 Future capital plans out to 30 years are a consideration however due to the uncertainty of Local Authority funding support from Government as detailed in the Financial Strategy, the 10-year capital programme ensures that capital expenditure continues to invest in:
- service assets - to maintain the long-term fabric and delivery of services in line with Council Plan objectives to the residents, businesses and communities of Hambleton; and
 - economic development and regeneration schemes - to deliver services in line with Council Plan objectives to the residents, businesses and communities of Hambleton whilst providing income
- 9.5 The Council's Commercial Investment strategy was suspended by the Council in September 2020 and therefore is not included in the financial sustainability section of this capital Strategy.
- 9.6 In order for the Council to ensure future capital plans are financial sustainability the Capital Strategy indicators are classed into the following four areas and these will be monitored on a quarterly basis in the Capital Programme and Treasury Management reports to Cabinet and Council:
- Expected income, costs and resulting contribution;
 - Debt related to the activity and the associated interest costs;
 - Payback period (Minimum Revenue Provision (MRP) policy); and
 - Other Ratio analysis.

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

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

- (i) enhancement or creation of assets for the future of the service
- (ii) loans to third parties which benefit the local area for economic and housing advancement to support the district.
- (iii) economic development and regeneration project investments where the purpose is to regenerate the local area and bring new businesses into the district which may result in the generation of income.

10.2 Capital programme expected income, costs and resultant contribution - The ratio of finance costs to net revenue streams prudential indicator also included in the Treasury Management Strategy Statement details the expected income, costs and resultant contribution; it identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream.

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

10.3 This shows the proportion of finance costs in relation to the Council's total net income position; where the finance costs are the interest on borrowing and the minimum revenue provision set aside to repay that borrowing and where the total net income position is the net funding position of the council – Council tax, business rates, grant funding and income generated. Income generated includes fees and charges as well as income from economic development / regeneration projects and income generated from the loan to the local housing association. The proportion of finance costs of borrowing in relation to the total net revenue stream (net income position) is deemed appropriate if it is within 20%; the table above clearly shows this is the case.

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

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

10.5 The table above details the expected income to be generated from the local housing association using current information available on the interest to be received. The costs of borrowing, in relation to the investment in the local housing association, are included in paragraph 10.2 above as part of the whole of the capital programme which is expressed as a percentage of the net revenue streams of the Council. Borrowing and related finance costs, in accordance with the CIPFA Prudential Code, are not allocated to individual schemes rather borrowing occurs for the entire capital programme.

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

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

11.0 Debt related to the activity and the associated interest costs

11.1 Debt related to non-treasury investment activity and the associated interest costs – is illustrated using information from the Treasury Management Strategy Statement which details the capital expenditure, financing costs, capital financing requirement (the borrowing need of the Council to support capital expenditure) and the estimated level of debt:

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

11.2 The table above highlights:

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

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

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

12.2 The Minimum Revenue Provision Statement is included in the Treasury Management Strategy Statement but also in this Capital Strategy due to its relevance and is detailed below.

12.3 It is a statutory requirement that the Council reports on the Minimum Revenue Position and explains this policy. The Minimum Revenue Provision Policy describes that the Council is required to pay off an element of the accumulated General Fund capital spend each year, the Capital Financing Requirement (CFR) through a

revenue charge known as the Minimum Revenue Provision (MRP). The Council is also allowed to undertake additional voluntary payments if required. This is known as the Voluntary Revenue Provision (VRP).

- 12.4 This Council in 2021/22 will have a Capital Financing Requirement of £67,361,062 to support the total capital programme and this is the potential amount of borrowing that may be required in 2021/22.
- 12.5 Ministry of Housing, Communities and Local Government (MHCLG) regulations have been issued which require the Full Council to approve a Minimum Revenue Provision (MRP) Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following Minimum Revenue Provision Statement which includes four different approaches for:
1. Capital expenditure on supported and unsupported borrowing
 2. Commercial Investment Property portfolio
 3. Loan to Third parties
 4. Voluntary Revenue Provision
- 12.6 For capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, the Minimum Revenue Provision policy will be:
- Based on Capital Financing Requirement (CFR) – Minimum Revenue Provision (MRP) will be based on the Capital Financing Requirement. This option provides for an approximate 4% reduction in the borrowing need (Capital Financing Requirement) each year.
- 12.7 From 1 April 2008 for all unsupported borrowing (including Private Finance Initiative and finance leases) the Minimum Revenue Provision policy will be:
- Asset Life Method – Minimum Revenue Provision will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life. There are two main methods that will be considered to achieve this either the Equal Instalment method or the Annuity method. The estimated life of the asset would usually not exceed the useful life of 50 years but consideration will be given to exceed this in the following two scenarios: an appropriately qualified professional advisor's opinion is that an asset will deliver service functionality for more than 50 years then the use the life suggested by its professional advisor will be used or for a lease or PFI asset, where the length of the lease/PFI contract exceeds 50 years, the length of the lease/PFI contract will be used
- 12.8 In using the Asset Life Method for the prudent provision for the Minimum Revenue Provision the following can be noted:
- There are two methods of calculation and the Council reserves the right to select the most appropriate method, depending on the type of project: Equal instalment which normally generates a series of equal annual amounts over the estimated

life of the asset, where there are equal instalments of interest and principle charged on the annuity method which has the advantage of linking Minimum Revenue Provision to the flow of benefits from an asset where the benefits are expected to increase in later years. It is attractive in connection with projects promoting regeneration or schemes where revenues will increase over time.

- Freehold land cannot properly have a life attributed to it, so it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.
- Timing of the Minimum Revenue Provision - Provision for debt will normally commence in the financial year following the one in which the expenditure is incurred, however in the case of the provision of a new asset, Minimum Revenue Provision would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This “Minimum Revenue Provision holiday” would be perhaps 2 or 3 years in the case of major projects, or possibly longer for some complex infrastructure schemes; this could make projects more affordable

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

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

12.11 The Capital Financing Requirement for the loan to the local Housing Association at the beginning of 2021/22 is £34,000,000. The agreement with the local Housing Association states they will make bullet repayments to the Council at years 5, 10, 15, 20 and 25. The bullet repayments made throughout the life of the loan will be set aside by the Council when received to ensure that prudent provision is made for regular repayment. These regular bullet points will be earmarked and used as the Minimum Revenue Provision that the Council needs to make on a regular basis to reduce the Capital Financing Requirement.

12.12 Therefore, it can be noted in 2020/21 £1,000,000 was repaid from the local Housing Association which reduced the level of the Capital Financing Requirement and this will continue when the Council investment is repaid from the local Housing Association at regular intervals thereafter. It should be noted that if no borrowing has been taken to support the capital financing requirement and instead the Council’s surplus funds have been used then no Minimum Revenue Provision charge will be made.

12.13 Finally Voluntary Revenue Provision is where the Council believes it is prudent to set aside an increased amount to repay the Capital Financing Requirement during the year. Any charges made over the statutory Minimum Revenue Provision i.e. voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for

use in the budget, the cumulative overpayment made each year must be disclosed. Up until the 31 March 2020 the total Voluntary Revenue Provision overpayments were £0m. This Council has never overpaid Minimum Revenue Provision so this does not apply; however it is noted here for future reference if ever needed.

13.0 Other Ratio Analysis

- 13.1 Proportionality and Reserves Position - A particular aspect of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance is proportionality, in effect gearing. Proportionality is a concept that is related to the level of investment asset activity, the risks and how much an individual authority can afford to lose. The General Fund Balance or other usable unallocated available reserves provide a base of the total amount that can be put at risk. Below shows the capital and revenue exposure to the Council and the associated potential loss compared to the reserves of the Council and the budget position.
- 13.2 The ratio of finance costs to net revenue stream for the total capital programme is detailed at paragraph 10.2 where this shows the proportion of finance costs in relation to the Council's total net income position. The ratios are 7.41% in 2021/22, 9.15% in 2022/23 and 10.78% in 2023/24. The Council assess that a proportion of 20% finance cost to net budget is deemed prudent and a level of risk it is willing to accept as detailed in paragraph 8.8.
- 13.3 The intent of proportionality within the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance seems to point to what degree the example activity above is reasonable against the available resources. It is a balance of risk and what is deemed to be excessive risk. For this Council with estimated reserves of £5.05m at the end of the 4-year strategy, expected losses may be politically unpleasant, but could be contained within the available resources.
- 13.4 Asset Cover for Debt (loan to value cover) - Indebtedness (Capital Financing requirement- CFR) and external debt compared against the asset valuations may provide some support. For example, £10m of debt with assets valued at £12m may suggest asset cover with acceptable risk; assets valued at £8m may suggest disproportionate risk. A higher debt/indebtedness of commercial activity compared with its valuation, may prompt consideration within the Minimum Revenue Provision and additional Voluntary Revenue Provision being required.
- 13.5 At this Council when the capital programme 2021/22 at £26.1m proceeds, the Capital Financing requirement is £15.4m and if it is financed using borrowing then the extremal debt would be £15.4m. The Minimum Revenue Provision Policy describes the amount of funding to be set aside in relation to this debt as described in paragraphs 12.7, 12.8 and 12.13 above. When the capital programme assets are completed, the Council monitors the debt position against the asset value; this occurs every year on a 5-year rolling programme. This will enable the Council to judge whether further minimum revenue provision is needed.
- 13.6 Valuations against cost – In accordance with the guidance it is necessary to report to Members on valuations against cost for any commercial activity. This Council

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

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

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

14.0 Other Considerations

- 14.1 Partnerships and Relationships with other Organisations - wherever possible and subject to the usual risk assessments, services should look to continue to work on a partnership basis and continually look for areas where joint projects can be implemented.
- 14.2 Fraud, Error and Corruption - financial losses could occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the Council's policies and procedures. At the core of the Council is 'our values' and these instil through the organisation principles and appropriate behaviour. This is supported by the Employee Code of Conduct and detailed policies such as Anti-Fraud and Corruption, Anti Money Laundering, Whistle Blowing and Declaration of Interests.

ANNEX A

Capital Expenditure Plans and the Budget Setting Process

The following capital budget setting processes are designed to ensure the Council Capital Expenditure plans follow this process:

- i. Key Criteria for capital expenditure
- ii. Identifying the need for Capital Expenditure/Investment
- iii. Deciding which Schemes are to be put forward
- iv. Prioritisation of Schemes put forward
- v. Member Approval Process
- vi. Options Appraisals, Feasibility Studies and Project Management process
- vii. Monitoring of the Capital Programme Expenditure

Key Criteria

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

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

Identifying the need for Capital Expenditure/Investment

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

- Services annually prepare Service Plans for the improvement of their areas (ensuring that their objectives meet the overall aims and objectives of the Council); these can identify any capital investment needed to meet future service demands. This is a good method to identifying and planning for service's capital requirements;
- Condition Surveys prepared by Design & Maintenance in consultation with Premises Managers 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 be given to the key criteria identified earlier in the year. Additionally, consideration should be given to:

Prudence:

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

Affordability:

- Revenue impact of the proposals on the 4-year financial strategy;
- The borrowing position of the Council, projections of external debt and the use of internal borrowing to support capital expenditure;
- The authorised limit and operational boundary for the following year;
- Whether schemes are profiled to the appropriate financial year.

Sustainability:

- A long-term view of capital expenditure plans, where long term is defined by the 4 - year financial strategy and 10 Year Capital Programme and consideration is given to risks faced with reference to the life of the project/assets;
- Provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy;
- An overview of asset management planning including maintenance requirements and planned disposals.
- All bids are produced in line with the appropriate timetable with consideration for the financial information contained within the bid.
- Project Management Board is briefed and understand the service need and the budget consequences, both revenue and capital, of completing the scheme.
- Possible sources of funding are considered for each of the proposed capital
- Schemes - each project will be considered in terms of revenue funding to cover the operational running costs of the asset and any borrowing repayment costs, and also how the asset will be funded in terms of capital expenditure.
- The proportionality of the proposals as a whole will then be considered in respect of overall resources and longer-term sustainability and risk. The Director of Finance

and Commercial (Section 151 Officer) will take an overall view on the prudence, affordability and sustainability of the overall borrowing level if all bids are accepted.

- Project management board will then consider the bids from a corporate priority perspective.

Prioritisation of Schemes put forward

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

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

Member Approval Process

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

Options Appraisal, Feasibility Studies and Project Management Process

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

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

Stage One – Project Initiation

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

Stage Two – Project Development

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

Stage Three – Project Implementation

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

Stage Four – Project Review

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

Monitoring of the Capital Programme Expenditure

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

ANNEX B

Capital Financing / Funding

External Funding

- Services must seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government. However, services must underwrite any cost overruns on externally funded schemes. If services bid for external funding for schemes and say at tender or during construction or procurement, costs exceed the available funding, then services must fund any shortfall from their existing resources (either revenue or capital) or raise the matter at Programme Management Board.
- Prior to submitting bids for grant funding, an assessment of the risk of a contract price increase, associated with market conditions or abnormal building plan demands attached to some grants, must be completed to estimate the likelihood of additional funding being needed. This is carried out between the service manager or premises manager and Design & Maintenance.
- In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing service budgets or raise the matter at Programme Management Board prior to submitting any bid for funding.

Capital Receipts

- A capital receipt is an amount of money received from the sale of an asset. They cannot be spent on revenue items.
- Programme Management Board, along with the Director of Finance and Commercial (S151 Officer), will review all of the Council's property annually against the aims and objectives the Council Plan and Asset Management Strategy.
- The general policy is that any capital receipts are pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from loans, as permitted by the regulations.

Revenue and Reserve Funding

- Services may use their revenue budgets to fund capital expenditure. In addition, specific reserves – economic development fund or the computer fund - which are internal funds set up to finance capital expenditure as an alternative to external borrowing, can be used

- The Director of the service and the Director of Finance and Commercial (S151 Officer) along with Project Management Board will take an overview and decide the most appropriate way of funding capital expenditure

Prudential/Unsupported Borrowing

- Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.
- Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. The costs of borrowing must be affordable and the borrowing repayment and interest charges on the loan must be included in the Council revenue budget; it must also be factored into the medium-term financial strategy accordingly.
- The Director of Finance and Commercial (S151 Officer) will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.
- The view of the Director of Finance and Commercial (S151 Officer) will be fed into the corporate bidding process so that, should the borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing using the corporate prioritisation system.
- The Director of Finance and Commercial (S151 Officer) will also determine whether the borrowing should be from internal resources such as reserves or whether to enter into external borrowing.

Invest to Save Schemes

- Occasionally projects arise for which services require assistance with meeting the set-up costs of projects which may bring long term service delivery improvements and/or cost savings. The initial set up costs may be of a revenue or capital nature. Assistance for these schemes must be considered on an individual basis by the Project Management Board then the Cabinet (at quarterly reporting time) with consideration to the Council's overall priorities and resources.
- For 'invest to save' schemes assistance may be given for initial set up costs, but it is expected that in the longer term these schemes will produce savings and/or

additional income that will as a minimum fund any additional operational or borrowing costs. If the additional savings/income does not cover the additional costs incurred, then the service will be required to fund the gap from their existing budgets (i.e. they will underwrite the savings/income).

Leasing

- The Director of Finance and Commercial (S151 Officer) may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Director of Finance and Commercial (S151 Officer) must be certain that leasing provides the best value for money method of funding the scheme.
- Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

ANNEX C

An overview of risks associated with treasury investment

Credit Risk

This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot pay us our investment returns or complete the agreed contract. Accordingly, the Council will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

Liquidity Risk

This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur 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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Third Party Companies Update at Quarter 3 2020/21

1.0 Introduction

- 1.1 The purpose of this Annex is to provide information in line with the Local Government Ethical Standards and The Review undertaken by the Committee on Standards in Public Life. This identified areas of 'best practice' for local authorities which represent a benchmark for ethical practice. It recommends that the Council should report on separate bodies they have set up / created or which they own and publish the separate bodies annual reports and minutes in an accessible place. Reporting on the separate bodies will also be included in the Council's annual governance statement which is presented to the Audit Governance and Standards Committee on an annual basis usually in July each year.
- 1.2 In order for the Council to provide a full picture of the relationship with separate bodies and abide by the Nolan principle of openness and to be transparent the information included here reports on the financial position of the Council's third party bodies and also provides information on the location of the annual reports.
- 1.3 The Council has set up third party bodies, in line with legal requirements, as set out in the Council Plan to ensure ongoing financial sustainability and further information is included below. The Council creates and supports new opportunities and new income streams to ensure the on-going affordability of council services.

2.0 Third Party Companies

- 2.1 The Council currently has a Joint venture Partnership with Wykeland – Central Northallerton Development Company Ltd - that was formed in October 2017. Further information is detailed below.
- 2.3 In addition, two further companies limited by shares have been set up in line with the September 2019 Council approval of the Commercial Property Investment Portfolio and delegated authority given to the Chief Executive to set up a further wholly owned company for the purpose of acquiring and managing investment properties. The two companies are:
- Hambleton District Holdings
 - Hambleton Property Limited
- 2.4 At Quarter 2, 30 September 2020 no investment had occurred and the Commercial Investment Strategy report approved at Council in September 2020 suspended the Commercial Investment Strategy.
- 2.5 One of the reasons for the suspension of the Commercial Investment Strategy was the awaited comments from the government on the consultation paper from HM Treasury on 'Public Works Loan Board: future lending terms' support. These comments have now been provided and these confirm that the future lending terms from the government will be that interest rates will remain low where Councils do not invest for a commercial purpose.

3.0 Central Northallerton Development Company Limited

- 3.1 **Annual Accounts 2019/20** – Central Northallerton Development Company Limited has produced final accounts for three years where the annual report and financial statements 31 March 2020 are published at Companies House and are also available on the Council's website. The link is as follows:
https://www.hambleton.gov.uk/info/20257/council_budget_and_spending/267/statement_of_accounts/4

3.2 **Quarter 3 2020/21 as 31 December 2020** - Attached at Appendix A is Central Northallerton Development Company Limited's financial position at Quarter 3 2020/21, which is supplied for transparency purposes. The following highlights information from the accounts:

- The accounts show a profit for the financial period from 1 April 2020 to 31 December 2020 of £1,717,252 due to the sale of Phase 1 to Hambleton District Council.
- The 'Turnover' includes the rent received from Crosby Road Car Park of £59,781 where HDC receives 100% of the initial £55,000, £55,000 to £70,000 goes to CNDCL (of which HDC will receive 50%) and then after £70,000 HDC receives 60% and Wykeland 40%. This is detailed in the 4 September 2018 Cabinet report. Furthermore £2,040,546 is from the sale of Phase 1 back to Hambleton District Council.
- The 'Investment Properties' detailed in the balance sheet mainly relate to the Crosby Road Car park, where there is also a small amount of 'Plant' at £2,172.
- The 'Inventories' figure £591,351, in the balance sheet mainly relates to the development of the south side of the Treadmills site where the historic buildings are located; the site is due to complete in Autumn 2021. The expenditure has been funded by Hambleton District Council in line with Council approval of the process to purchase the south side of The Treadmills site in July 2018. The site has opened with Lidl and Iceland in November 2020.
- The 'Creditors: amounts falling due after more than one year' in the balance sheet of £2,415,248 is the loan from Hambleton District Council in relation to the land transfer of the former prison site for the development of Treadmills Phase 1 and 2 along with Wykeland.
- The loss brought forward from previous years is £76,356, on completion of the south side of the Treadmills site the accounts are now in profit with the total profit standing at £1,640,896.

Appendix A

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

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

Balance Sheet for the for the period ending 31 December 2020

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

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

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

REGISTERED NUMBER: 09730539

**CENTRAL NORTHALLERTON DEVELOPMENT
COMPANY LIMITED**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

Central Northallerton Development Company Limited

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

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Central Northallerton Development Company Limited

Directors

D A Gibbons
Dr J Ives
J D Stubbs
P Wilkinson

Secretary

I C Franks

Independent Auditors

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

Bankers

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

Registered Office

Wykeland House
47 Queen Street
Hull
HU1 1UU

Central Northallerton Development Company Limited

Directors' Report

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

Principal activity, review of business and future prospects

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

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

Results and dividend

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

Directors

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

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

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

Central Northallerton Development Company Limited

Director's Report (continued)

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

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

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

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

Directors' confirmations

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

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

Auditors

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

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

By Order of the Board



I C Franks
Secretary

3 June 2020

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

Report on the audit of the financial statements

Opinion

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

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

- We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where: the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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

Reporting on other information

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

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

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

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

Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

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



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

Central Northallerton Development Company Limited

Statement of comprehensive income for the year ended 31 March 2020

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

All amounts relate to continuing operations.

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

Central Northallerton Development Company Limited

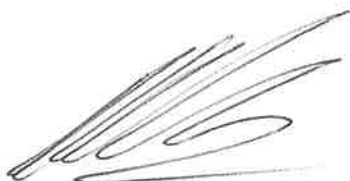
Balance Sheet at 31 March 2020

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

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

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

D A Gibbons
Director



Central Northallerton Development Company Limited
Company Number: 09730539

Central Northallerton Development Company Limited

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

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

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

1 General Information

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

2 Statement of Compliance

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

3 Accounting Policies

Basis of Preparation

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

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

- valuation of investment properties
- valuation of inventories

The financial statements are presented in Sterling (£).

Going Concern

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

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

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

3 Accounting Policies (continued)

Revenue recognition

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

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

Borrowing costs

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

Investment properties

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

Inventories

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

Cash and cash equivalents

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

Share capital

Ordinary shares are classified as equity.

4 Staff Costs, Directors' Emoluments and Auditors' remuneration

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

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

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

5 Tax on loss on ordinary activities

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

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

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

6 Investment properties

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

Central Northallerton Development Company Limited

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

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

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

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

Central Northallerton Development Company Limited

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

10 Creditors: Amounts falling due after more than one year

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

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

11 Called Up Share Capital

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

	Allotted and fully paid £
Ordinary shares of £1	4

12 Capital commitments

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

Central Northallerton Development Company Limited

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

13 Related Party Transactions

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

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

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

- (b) On 29 March 2019 the Company sold a portion of land to one its shareholders, Hambleton District Council, for its fair value of £1,500,000. This amount (and related VAT) was included in trade debtors in the financial statements at 31 March 2019, and was paid shortly after the year end.
- (c) Hambleton District Council is funding the development of the Phase 1 of the site, having bought the land from the Company in March 2018. Hambleton District Council have paid the Company £2,201,880 during the year towards the cost of this development.

14 Ultimate Holding Company

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

15 Post Balance Sheet Events

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

Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 23 March 2021

Subject: **Statutory Auditor Report on the 2019/20 Audit and the Council's Financial Report – Statement of Accounts - 2019/20**

Portfolio Holder: Governance
Councillor Mrs I Sanderson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 The purpose of this report is to update Members on the position of the
- statutory auditor report – Audit Results Report – and the Council's financial report for 2019/20.
 - external audit scale fees and fee variations
- 1.2 In October 2020 the Statutory External Auditors report on the 2019/20 Audit and the Council's Financial Report were presented to Audit, Governance and Standards Committee where at that stage Members approved that the Chairman of the Committee be given delegated authority to:
- (1) accept the 'Audit Results Report – IAS 260' presented to the Audit, Governance and Standards Committee for the 2019/20 audit as prepared by Ernst & Young LLP (EY) attached at Annex A to the report;
 - (2) approve the Management Representation Letter which is required to be signed by the Council's Director of Finance and Commercial, acting in the capacity of s151 Officer; and
 - (3) approve the audited Statement of Accounts for 2019/20 at Annex C of the report
- 1.3 However, the Council's Statement of Accounts were never signed off due to a significant change that External Audit requested during November 2020, which has resulted in this report and the Statement of Accounts – 2019/20 being brought back to this meeting.

Change to the Statement of Accounts 2019/20

- 1.4 External Audit – Ernst and Young LLP (EY LLP) - raised that Thirsk & Sowerby Swimming Baths Charity (TSSBC) should be accounted for as a separate entity and not be included in the transactions of the Council's Accounts. The Council has agreed that this is the correct approach and therefore the accounts have been revised to include TSSBC in Group Accounts and the Prior Year Adjustment statements have been completed
- 1.5 Members should note that Statement of Accounts 2019/20 have been prepared on the same consistent basis in previous years and it has not previously been recognised that Group Accounts were required for Thirsk & Sowerby Swimming Baths Charity.

1.6 In October 2020, the External Auditor had until 30 November 2020 to finalise the Council's accounts in line with the change in the regulations due to the Covid-19 pandemic. For transparency purposes, the Council has clearly indicated on its website that further work is ongoing in relation to the accounts and that the audited 2019/20 final Statement of Accounts will be finalised at this committee. The wording on the website is as follows:

"External auditors are responsible for carrying out an audit of our annual statement of accounts and reporting whether, in their opinion, they present a "true and fair view" of the financial position of the Council and provides a summary of the principal matters arising from the audit.

The external audit of the draft statement of accounts for the year ended 31 March 2020 has not yet been completed by our external auditors, EY LLP, due to the finalisation of their audit work in relation to Group Accounts and the associated prior year adjustments. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, both can be found here:

- [Accounts and Audit Regulations 2015 Regulation 10, paragraph \(2a\)](#)
- [Accounts and Audit \(Coronavirus\) \(Amendment\) Regulations 2020 No. 404](#)

Therefore, this notification explains, as per Regulation 10 paragraph (2a), that we are not yet able to publish our audited 2019/20 final statement of accounts in line with publication date of 30th November 2020, as per paragraph (1). The Audit, Governance and Standards Committee will consider the results of the 2019/20 audit at its meeting on Tuesday 23 March 2021, after which we will publish the final audited accounts."

1.7 At this stage the Statutory Auditor Report - EY's Audit Results Report - is not yet complete due to EY LLP requesting, as a result of their final internal consultation process, the Council to carry out a further independent review in relation to the Value for Money Opinion. Therefore, the Statement of Accounts 2019/20, the Annual Governance Statement along with the Audit Results Report and Letter of Representation will be brought back to the next meeting of Audit, Governance and Standards Committee when the independent review has been concluded and the Audit Results Report finalised.

1.8 The Council's website will be updated to reflect the revised date when the Committee will receive the final audit opinion on the 2019/20 Statement of Accounts and the Council's arrangements on Value for Money (to secure economy, efficiency and effectiveness in the use of resources) which will be at the next appropriate meeting.

1.9 The Statement of Accounts 2019/20 can be viewed on the website at the following link:
<https://www.hambleton.gov.uk/downloads/file/104/statement-of-accounts-2019-20>

External Audit scale Fees and Fee Variations

- 1.10 National audit appointment arrangements were used to appoint EY as the Council's external auditors as a result of a national tender exercise. EY LLP was appointed Hambleton District Council's auditor for £31,381 per annum where the contract is from 2018/9 for 5 years. In 2017/18 the cost was £40,754. It has become apparent during 2019/20 that due to the multiple pressures and challenges which have arisen nationally in 2018/19 audits an increase in the number of proposed fee variations required for additional audit work has occurred. Fee variations occur due to the increased complexities of the activities that Councils are undertaking e.g. the creation of third-party vehicles that involves group account resulting in audits taking more time and hence the increased cost.
- 1.11 The 2019/20 audit fee has been set by the Public Sector Audit Appointments and hence due to the current national issues that are arising the Audit, Governance and Standards Committee needs to be aware that the Public Sector Audit Appointments Limited are working with the auditors to address the issues of a planned timetables and any likely fee variations. EY LLP 'UK Government and Public-Sector Assurance Leader' wrote to the Council during February 2020 on this issues and therefore local discussions have occurred where EY have proposed a fee increase for 2019/20 of £57,125.
- 1.12 The Council did not accept this fee increase based on the fact that the appointment was made as a result of the Public Sector Audit Appointments tender process. EY LLP provided the Public Sector Audit Appointments with their assessment of the fee at £57,125, however since then it should be noted that there have been further changes to the audit scope because of Covid-19 and additional work in response to issues arising during the audit. This increase of work on the proposed fee, EY LLP will raise with management before agreeing the final position. The Council will consider this in due course at the appropriate time.
- 1.13 In February 2021, Public Sector Audit Appointment wrote to the Council and confirmed that fee variations (i.e. additional fees payable for additional audit work) have been more prevalent in recent years reflecting the increasingly challenging regulatory requirements placed on all auditors. They carried out a review of 2018/19 approved fee variations at £47,933 with a view to identifying work/fees which represent ongoing audit requirements. It is timely for additional fees relating to recurrent work to be reflected in the scale fee of the audited body concerned at the earliest opportunity.
- 1.14 Following the review, Public Sector Audit Appointments propose that the scale fee for 2021/22 for this Council will remain the same as the scale fee for 2020/21 at £31,381. This conclusion was reached by Public Sector Audit Appointments as they "...are satisfied that there was no recurring element to any fee variations that were approved."
- 1.15 Public Sector Audit Appointments will be undertaking a similar exercise to assess 2019/20 approved fee variations when sufficient information is available. At that time the Council will be informed whether or not there is a proposal to incorporate ongoing elements of any fee variations into the Council's scale fees at the earliest opportunity.

- 1.16 At this stage it should be noted that the Redmond Review was published on 8 September 2020, which is an independent review, led by Sir Tony Redmond at the invitation of the Ministry of Housing, Communities and Local Government. It considered the effectiveness of external audit and transparency of financial reporting in local authorities. The final report makes a number of recommendations.
- 1.17 Ministry of Housing, Communities and Local Government (MHCLG) has recently indicated in its response to the Redmond Review on 17 December 2020 that it may amend the local audit regulations to provide more flexibility for setting and amending fee scales for opted-in bodies. This may allow Public Sector Audit Appointments to incorporate 2019/20 additional fees for ongoing audit requirements into scale fees more quickly than is possible currently, enabling scale fees to be more up-to-date and reducing the variable element of audit fees.
- 1.18 Therefore, in the middle of February 2021, Public Sector Audit Appointments has consulted recently on changes to fee variations arrangements, with proposals for introducing a new approach for national variations where changes in audit requirements relate to the conduct of all or most audits and where a standard cost can reasonably be estimated across groupings of bodies. The consultation also set out a proposed increase in the fee rates for additional work.
- 1.19 Given the overall positive response to the consultation, Public Sector Audit Appointments has resolved to implement the proposed changes. As a result:
- a programme of research is under way to consider the likely impact on audit work and fees of some expected changes in audit requirements. They will consult opted-in bodies and other stakeholders on proposals where we identify changes for which a national approach would be appropriate;
 - the new approach to national variations will apply for the first time in relation to audits of 2020/21 financial statements and value for money arrangements; and
 - all variations - both national and local - arising in relation to audits of 2020/21 financial statements and value for money arrangements will be calculated in accordance with a new rate card reflecting increased hourly rates for different categories of audit staff.
- 1.20 Public Sector Audit Appointments are very conscious that fee variations pose a number of challenges for audited bodies and hope that the new approach outlined will make a positive and welcome difference compared to current arrangements. The implication for the Council is therefore that the fees for the external audit may vary for the 2020/21.

2.0 Risk Analysis

- 2.1 There are no risks associated with approving this report.

3.0 Recommendations

- 3.1 It is recommended that the Committee: -
- 1) notes the statutory auditor report on the 2019/20 audit and the Council's financial report – Statement of Accounts – 2019/20 will be presented at the next appropriate meeting; and

2) note the external audit scale fees and fee variations.

Louise Branford-White
Director of Finance & Commercial (s151 Officer)

Background papers: None

Author ref: LBW

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Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 23 March 2021

From: Director of Finance and Commercial (s151 Officer)

Subject: **CIPFA Financial Management Code**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 In recognition of the financial pressures that Councils are facing, the Chartered Institute of Public Finance and Accountancy (CIPFA) has developed the Financial Management Code.
- 1.2 The intention of the Financial Management Code is to provide guidance to Local Authorities to create a culture of strong, sustainable financial management giving assurance that authorities are managing resources effectively. A self-regulation approach will be taken which should prevent any need for external control or reductions in current powers.
- 1.3 A report was brought to Audit, Governance and Standards Committee on 20 October 2020 which described the Financial Management Code and the six principles which it is based on - Organisational Leadership, Accountability, Transparency, Professional Standards, Assurance and Long-Term Sustainability. The report also detailed that the Council need to be compliant by 2021/22.
- 1.4 In February 2021, CIPFA clarified the required compliance in relation to the Financial Management Code due to the pressure of the Covid-19 pandemic. The objective of the Financial Management (FM) Code was to enhance standards of financial management across the sector and this aim is still fully supported by the profession. CIPFA considers good financial management to be even more essential during the current challenge, but acknowledge the additional extraordinary burdens being faced by local authorities. Therefore, CIPFA has reflected on the extent to which it is appropriate to introduce the Financial Management Code at the current time.
- 1.5 CIPFA has concluded that whilst the first full year of compliance can remain as 2021/2022, it can do so within a more flexible framework where a proportionate approach is encouraged. Therefore, this Council adheres to some parts of the Financial Management Code as well as demonstrates a direction of travel where further work is required.

2.0 The Report

- 2.1 Complying with the standards set out in the Financial Management Code is the collective responsibility of elected members and Management Team.
- 2.2 Explicit standards of financial management are set out by the Financial Management Code. These are the minimum standards which have to be adhered to for the Council to demonstrate its compliance with the Financial Management Code. The standards articulate the practical application of the principles of financial management based on the requirements of primary legislation, associated CIPFA codes and guidance on professional codes of practice and ethics. Whilst compliance with the standards is mandatory, the Financial Management Code does not prescribe how they should be achieved.
- 2.3 There are 17 CIPFA Financial Management Standards which are set out in the Code under seven sections and labelled A to Q. To demonstrate conformity with the Financial Management Code's standards, the Council has reviewed its current processes, procedures and governance arrangements to understand where the Council is already compliant with the standards and where further work is required. Attached at Annex A is the Council's Financial Management Code Action Plan showing the Council's current position under the 17 Standards described above.
- 2.4 Audit, Governance and Standards Committee will be updated with regards to progress towards achieving the Financial Management Code in accordance with the Action Plan during 2021/22.

3.0 Link to Council Priorities

- 3.1 Compliance with the standards supports the Council's overall aims and priorities by promoting probity, integrity and honesty and by helping to 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 The Financial Management Code does not currently have any specific statutory backing. However, CIPFA reference that compliance with the Financial Management Code should be linked to the (s151) of the Local Government Act 1972. There is also an obligation upon members to adhere to the Financial Management Code.

7.0 Equalities and Diversity Issues

7.1 Equality and Diversity issues have been considered. There are no issues associated with this report.

8.0 Recommendation

8.1 That the Committee notes the content of this report.

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

Background papers: None

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SECTION 1 – THE RESPONSIBILITY OF THE CFO AND LEADERSHIP TEAM

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
A	The leadership team demonstrates that the services provided by the authority provide value for money.	No concerns	VFM assessment undertaken by external auditors as part of their annual review.	Greater use of benchmarking to demonstrate VfM (via, for example, the use of the new CFO Insights product)	
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer (CFO) in Local Government	No concerns	The s151 (Director of Finance and Commercial) has reviewed their role as specified within the document and is satisfied that the requirements are met	Refresh knowledge of the document and ensure that requirements continue to be fulfilled	
B1	The CFO is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver strategic objectives sustainably and in the public interest	No concerns	The s151 is an active member of the Council's Management Team and attends Cabinet and Council meetings in a formal capacity		
B2	The CFO must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and aligned with the Financial Strategy.	No concerns	The s151 Officer is actively involved through the decision-making process. All reports require the approval of the s151, via their role on Management Team, and the s151 Officer ensures that financial risks and implications are considered for all reports		
B3	The CFO must lead the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.	No concerns currently, however work required	Financial training is offered to all new members and Cabinet Members are trained on the Financial Strategy on an annual basis. Refresher training on financial management at Service Manager level might be beneficial.	Carry out an audit of skillsets at both member and senior manager level and organise financial refresher training if appropriate	
B4	The CFO must lead and direct a finance function that is resourced to be fit for purpose and regularly review the skill sets of all finance staff with senior budget / financial management responsibility	No concerns	Addressed through the individual performance management process and compliance with Continuing Professional Development requirements. The Finance team are fully CCAB qualified accountants or AAT qualified.		
B5	The CFO must be professionally qualified and suitably experienced and be able to demonstrate adherence to CPD requirements on an annual basis	No concerns	Both the s151 (FCCA) and Deputy s151 (ACCA) (Corporate Finance Manager) have the required professional qualifications. Compliance with Continuing Professional Development requirements is addressed through the annual ACCA process.		

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
B6	The CFO should promote the highest standards of ethical behaviour in the conduct of financial management.	No concerns currently, however work required	<p>The financial procedure rules and internal controls ensure that ethical and other standards of behaviours are in place.</p> <p>The financial procedure rules have not been reviewed recently and may require updating</p>	Review financial procedure rules to ensure that they reflect current need and are still fit for purpose	
B7	The CFO should be able to provide the leadership team with sound advice on the key principles of local government finance and ensure that the authority has access to high standards of technical financial advice	No concerns	<p>All senior members of the finance team are long standing employees of the Council therefore have sound knowledge of local government finance.</p> <p>External technical advice is sought when deemed to be required</p>		
B8	The CFO should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialist advice to enable them to reach their conclusions	No concerns	<p>The Council uses Link Asset Management for specialist treasury advice.</p> <p>The Council's capital strategy has been approved for the three years that the guidance has required and incorporates the affordability and associated risks.</p>		
B9	The CFO must establish the reporting and monitoring processes and integrate the treasury indicators into the overall financial planning process.	No concerns	Long standing reporting and monitoring processes are embedded within the Council.		

SECTION 2 – GOVERNANCE AND FINANCIAL MANAGEMENT STYLE

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
C	The leadership team demonstrates its actions and behaviours responsibility for governance and internal control	No concerns	The Council's governance arrangements include a framework of assurance, as detailed within the Annual Governance Statement. The Annual Governance Statement is reviewed on an annual basis and approved at Audit Governance and Standards Committee along with the Statement of Accounts and Value for Money audit opinion.	The Audit Results Report, Statement of Accounts opinion and Value for Money opinion are yet to be finalised for 2019/20 and will be presented at Committee in July 2021.	
D	The authority applies the CIPFA / SOLACE Delivering Good Governance in Local Government: Framework (2016)	No concerns	The Council has adopted these principles, as demonstrated within the Annual Governance Statement.		
D1	The authority maintains an effective audit committee	No concerns	Audit, Governance and Standards Committee is well established and reviews its effectiveness		
D2	The Audit, Governance and Standards Committee receives and monitors the implementation of internal and external audit recommendations. When threats to the financial sustainability of the authority are identified by auditors the audit committee should ensure that the recommendations are communicated to the leadership team and that the committee are informed of the effectiveness of the leadership team's response	No concerns	Audit Committee receives regular reports on internal and external audit recommendations. Risk management is reviewed on an annual basis and Scrutiny Committee scrutinises risk quarterly.		
E	The Financial Management Style of the authority supports financial sustainability	See below			

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
E1	The organisation has an effective framework of <u>financial accountability</u> that is clearly understood and applied throughout, from the political leaders, elected members to directors, finance officers and front-line service managers	No concern	<p>There is a clear framework for financial accountability across the Council. Service Mangers are responsible for their budgets liaise with the Finance Team on a monthly / quarterly basis. The implementation of the new finance system on 01/04/2020 has raised awareness to segregation of duties and control of budget authorisation.</p> <p>Budget Outlook is presented to Management Team monthly where the financial position can be scrutinised and challenged.</p> <p>Management Team have a culture of collective responsibility for financial matters and decision are made as group.</p> <p>s151 meets with the Deputy leader Portfolio Holder for Economic Development and Finance every 2 weeks and the Chief Executive and Deputy Chief Executive meet with the Leader and Deputy Leader weekly.</p>		
E2	Finance teams and the areas they <u>support</u> are actively committed to continuous improvement focused on efficient and effective delivery and organisational <u>performance</u> .	No concern	<p>A dedicated finance representative is attached to each service manager and the finance team are committed to continuous improvement, challenge, and advice.</p> <p>This performance will be even more important going forwards where there are increasing levels of budget pressures / priorities and issues around the delivery of savings.</p>		
E3	<u>Enabling transformation</u> ; the finance team have input into strategic and operational plans taking into account proactive risk management, clear strategic directions and focus-based outcomes	No concern	The Council is ambitious as the Council Plan portrays numerous far reaching key projects. Corporate Finance input into strategic project plans through the Financial Implications of Cabinet reports which are approved at Council.		
E4	The financial management of the authority has been critically evaluated	No concern	A three-day peer review took place in 2017 when the Local Government Association came on site with peers from other councils	To consider how a critical evaluation can be undertaken	

SECTION 3 – LONG TO MEDIUM TERM FINANCIAL MANAGEMENT

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
F	The authority has carried out a credible and transparent Financial Resilience Assessment	See below			
F1	Financial resilience is stress tested against best- and worst-case scenarios which cover a wide range of financial, demographic and social challenges	Work Required	The CIPFA Resilience Index will be reported to Audit, Governance and Standards Committee at the next available opportunity.	The CIPFA Resilience Index will be reported to Audit, Governance and Standards Committee at the next available opportunity.	Director of Finance and Commercial (S151 Officer) / Management Team
F2	The authority uses independent objective quantitative measures to assess the risks to its financial sustainability	No concerns	The Financial strategy 2021/22 to 2024/25 contains Financial Risk Analysis		
F3	Decision making by the authority demonstrates a sound understanding of its risks and the risks of its strategic business partners	No concerns	The Council Plan sets out the vision and shapes the Services provided which is supported by the Risk Register reported to Audit, Governance & Standards Committee annually and quarterly to Scrutiny Committee.	Ensure service risk registers identify the implications of potential failure and failure of significant partners.	
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	No concerns	The Council has a 4 years Financial Strategy due to the impact of Covid-19 and with Local Government Reorganisation on the horizon. Prior to this a 10-year financial strategy has been in place and this is supported by the 10-year capital programme and the 4-year Council Plan. The Financial Strategy, Capital Programme and Council Plan are reported to Members annually.		
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities	No concerns	The Council complies with this Code and reports to Cabinet and Council on an annual strategy and outturn basis as well as quarterly monitoring reports.		
H1	The authority has a capital strategy aligned to its long-term financial strategy	No concerns	The Capital Strategy is approved at Council every year for the last three years. This supports the 10-Year Capital Programme and the funding implications are included in the budget and Financial Strategy.		

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
H2	<p>The authority has an asset management plan that reviews the condition, sufficiency and sustainability of assets in the light of business needs which links to the Financial Strategy</p> <p>The plan should evidence rigorous assessment of the asset portfolio in relation to service delivery</p>	Work required	<p>The Council has an asset management plan that needs to be updated, where complete data to fulfil this requirement is currently not available.</p> <p>Improvements are being made through the Programme Management Board and Asset Management Working Group. The implementation of an asset management plan is an extensive piece of work.</p> <p>Once information is available this will inform an asset challenge process</p>	<p>Continue compiling the relevant data through the Project Management Board and Asset Management Working Group</p> <p>Once required data is available pull together a comprehensive asset management plan</p>	Management Team / Project Management Board
H3	The authority maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action	No concerns	Key areas of the balance sheet are monitored on a regular basis		
I	The authority has a rolling multi-year Medium Term Financial Plan consistent with sustainable service plans	See below			
I1	The authority has a rolling multi-year Medium Term Financial Plan	No concerns	The council has a four-year rolling Financial Strategy 21/22 to 24/25 and for the last 10 years has had a 10-year long term strategy		
I2	The authority has sustainable service plans that are consistent with its Financial Strategy	No concerns	The Council has Service Plans, monitored on a quarterly basis to Scrutiny Committee. The Services Plans relate directly to the Council Plan which includes a section on financial sustainability.		
I3	The Medium-Term Financial Plan should refer to other organisational plans and service plans	No Concerns	The 4-year financial strategy links to the service plans through the budget and the reserves in the financial strategy align with some of the Council's organisational plans (e.g. Economic Development fund, Computer fund, Income Generating fund)		
I4	To inform the Leadership Teams decisions, the authority has a single document tracking progress in the delivery of planned savings over the period of the MTFP	Work required	New savings plan for 2022/23 to 24/25 to be developed and linked to service plans and the Financial Strategy	Savings Programme to be launched in July 2021	Director of Finance and Commercial (S151 Officer)

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
15	<p>The authority publishes its plans for the use of reserves over the period of the Medium-term Financial Plan.</p> <p>The level of reserves at 31st March in any one year should not fall below the level previously agreed.</p> <p>The authority should demonstrate adherence to the most recent guidance on reserves from CIPFA's Local Authority Accounting Panel</p>	No concerns	<p>Reserves are regularly monitored, as evidenced in the quarterly monitoring reports and the planned use of reserves is set out in the Financial Strategy.</p> <p>Reports would indicate where the criteria for minimum reserve balances have been breached.</p>		

SECTION 4 – THE ANNUAL BUDGET

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
J	The authority complies with its statutory obligations in respect of the budget setting process	No concerns	All statutory obligations are met		
J1	The budget report is consistent with the current Medium-Term Financial Plan	No concerns	The budget report states it is produced within the constraints of the Financial Strategy.		
J2	The annual report proposing the budget is reviewed by the leadership Team before being presented for approval and it also details the position on reserves	No concerns	Management Team approve the budget prior to it being presented to Cabinet and the outturn report and quarterly monitoring reports detailed the movements on reserves.		
K	The budget report includes a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves	No concerns	A statement is produced annually and is presented as part of the Council Tax report.		

SECTION 5 – STAKEHOLDER ENGAGEMENT AND BUSINESS CASES

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
L	The authority has engaged with key stakeholders in developing its long-term financial strategy, MTFP and annual budget	No Concerns	The Council consults on its budget proposals annually through a questionnaire which is reported to Cabinet and Council in February. The s151 Officer liaises with business leads across the District and presents to them annually in line with the budget consultation process. For 2021/22 a questionnaire for business is being considered to further engage them in the process.		
M	The authority uses a documented option appraisal methodology to demonstrate VFM of its decisions	Work required	Options appraisals are undertaken on some projects across the council. Project Management Board meets monthly to hold project managers to account This area could be improved with the development of a project management system including the use of option appraisals.	To review project documentation templates to ensure that a requirement for evidence of option appraisals is included where appropriate	Head of Commercial and Programme Management
M1	Option appraisal is compliant with the principles of "IFAC/PAIB and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal"	Work required	As above. Where options appraisals have been undertaken, they have complied with the requirements. Post completion reviews are a particular weakness	As above Increase the use of post completion reviews to ensure value for money.	Director of Finance and Commercial (S151 Officer)
M2	The accounting treatment of material decisions is considered and demonstrated as part of the formal option appraisal process	No concerns	Financial advice is provided on the accounting treatment as part of any project. Project leads liaise with Finance team and Financial Implications are reported to Management Team in all reports and at Cabinet.		
M3	The authority applies the principles contained in the CIPFA Service Reporting Code of Practice and utilises appropriate costing techniques in the development of business cases	No concerns	The Council fully complies with SERCOP requirements.		

SECTION 6 – PERFORMANCE MONITORING

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
N	The leadership takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability	See below			
N1	Timely financial and performance information is available to services managers. The organisation ensures that information is appropriately tailored and streamlined to avoid the risk of 'data overload'	No concerns	Financial monitoring reports are discussed with budget holders on a regular basis and at least quarterly. This provides a summary of the service, and full details of each of the cost centres under their control. Performance information is provided separately through the quarterly performance monitoring.	Consider how to automate information and also align performance and financial information better.	
N2	All financial monitoring reports include:				
	<ul style="list-style-type: none"> The name of the budget holder responsible for the information presented 	No concerns	The budget information includes the Director and the Budget Manager responsible for the areas.		
	<ul style="list-style-type: none"> Commitment accounts 	No concerns	Commitments are shown where the data is available.		
	<ul style="list-style-type: none"> Include the approved budget against which monitoring is taking place 	No concerns	The monthly, year to date and full year budget is shown on the budget manager reports.		
	<ul style="list-style-type: none"> A forecast for the remainder of the budget period 	No concerns	These are processed following budget manager meetings and are shown on the next set of reports.		
N3	Financial monitoring reports for high risk budgets are scrutinised by members of Management Team on a regular basis.		Budget updates for key projects e.g. Crematorium, Treadmills, etc are reported to Board meetings on a regular basis. Budget Outlook is presented to Management Team monthly Financial monitoring is a standing item on the Cabinet forward plan on a quarterly basis and the Portfolio Holder is regularly updated by the s151		

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
N4	The authority has arrangements which allow annual service budgets to be recalibrated in response to unforeseen developments.	No concerns	Budget managers can liaise with Corporate Finance to put through forecast adjustments at any point during the year and can also submit on-going growth if the issue is likely to recur. The Council's budget allows flexibility but ensures that the budget is tightly controlled so as to not overspend.		
N5	At the financial monitoring Quarter end the leadership team receives the actual budget position with forecast outturn for the year ahead.	No concerns	Quarterly reports are reviewed by Management Team prior to going to Cabinet and Council.		
N6	There are appropriate arrangements in place for the project management and cost control of capital projects.	No concerns	Project Management Board receives monthly and quarterly reports on capital projects		
O	The authority monitors the elements of its balance sheet which pose a significant risk to its financial stability	See below			
O1	Unplanned and planned use of reserves are reported (quarterly) to the management team of the organisation and to Council.	No concerns	Financial monitoring on a quarterly basis is a standing item on the Cabinet forward plan – Revenue Monitoring and Reserves - and this report includes a section on reserves. Any reports that include the use of reserves or borrowing are detailed in the Financial Implication section of the Cabinet report		
O2	Cash flow is managed through application of Treasury Management in the Public Services: Code of Practice and Cross- Sectoral Guidance Notes (CIPFA, 2017).	No concerns	The Council receives annually the Treasury Management Strategy Statement prior to the beginning of the financial year and the cashflow is monitored quarterly through the Capital and Treasury Management report with the outturn being reported annually every year.		

SECTION 7 – EXTERNAL FINANCIAL REPORTING

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
P	The CFO has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom	No concerns	The statutory financial statements are approved by the s151 officer prior to their publication		
Q	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions	No concerns	Outturn report is produced for Management Team and shows all variations between budget and outturn		

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Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 23 March 2021

From: Director of Finance and Commercial (s151 Officer)

Subject: **Audit, Governance and Standards Committee - Report Programme 2021/22**

Portfolio Holder: Governance
Councillor Mrs I Sanderson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 The purpose of this report is to identify those reports which the Committee wishes to receive on a structured basis.
- 1.2 The Committee usually 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 of the report.

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

Background papers: None
Author ref: LB-W
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Report Programme for Audit, Governance and Standards Committee 2021/22

June - 1st Quarter

1. Annual Internal Audit and Counter Fraud Report 2020/21
2. Annual Report to Cabinet on the Committee's Activities for 2020/21
3. Statutory Auditor – Quarterly Update
4. Politically Restricted Posts
5. Annual Review of the Audit Vision and Charter

September - 2nd Quarter

1. RIPA Update
2. Annual Review of Audit and Governance Committee's Terms of Reference
3. Annual Review of Risk Management
4. Internal Audit and Counter Fraud Q1 Report 2021/22
5. Counter Fraud Framework Update
6. Statutory Auditor – Quarterly Update
7. Annual Governance Statement for 2020/21
8. Statutory Audit Report on 2020/21 Audit and the Council's Financial report – Statement of Accounts 2020/21

January - 3rd Quarter

1. Internal Audit and Counter Fraud Q2 Report 2021/22
2. Statutory Auditor – Quarterly Update
3. Statutory Auditor – Annual Audit and Inspection Letter 2020/21

March - 4th Quarter

1. RIPA Update and Policy Review
2. 2022/23 Internal Audit, Counter Fraud and Information Governance Plan
3. Statutory Auditor – Audit Plan 2022/23
4. Internal Audit and Counter Fraud Q3 Report 2021/22
5. Review of Annual Treasury Management Strategy 2022/23
6. Review of the Capital Strategy 2022/23
7. Annual Report on Code of Conduct Complaints
8. Report Programme for 2022/23