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12 January 2018

Our Ref Finance, Audit and Risk Committee/22.1.18
Your Ref.
Contact. Ian Gourlay
Direct Dial. (01462) 474403
Email. ian.gourlay@north-herts.gov.uk

To: Members of the Committee: Councillor Terry Hone (Chairman), Councillor Simon Harwood (Vice-Chairman), Councillor Ian Albert, Councillor John Bishop, Councillor Jim McNally, Councillor Deepak Sangha and Councillor Terry Tyler

Substitutes: Councillor Clare Billing, Councillor John Booth, Councillor Nicola Harris and Councillor Steve Jarvis

You are invited to attend a

MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE

to be held in the

FOUNDATION HOUSE, ICKNIELD WAY, LETCHWORTH GARDEN CITY

On

MONDAY, 22ND JANUARY, 2018 AT 7.30 PM

Yours sincerely,

David Miley

David Miley
Democratic Services Manager

Agenda
Part I

8. **DRAFT REVENUE BUDGET 2018/2019** (Pages 15 - 38)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider the Draft Revenue Budget for 2018/2019.

9. **CAPITAL PROGRAMME 2018/2019 ONWARDS** (Pages 39 - 52)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider the proposed Capital Programme for 2018/2019 onwards.

10. **TREASURY MANAGEMENT STRATEGY FOR 2018/2019** (Pages 53 - 82)
REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY AND GOVERNANCE

To consider the proposed Treasury Management Strategy for 2018/2019.

11. **FUTURE MEETING - POSSIBLE AGENDA ITEMS**
Introduced by the Chairman.

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NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE FOUNDATION HOUSE, ICKNIELD WAY, LETCHWORTH GARDEN CITY ON MONDAY, 18TH DECEMBER, 2017 AT 7.30 PM

MINUTES

Present: *Councillors Councillor Terry Hone (Chairman), Councillor Simon Harwood (Vice-Chairman), Ian Albert and John Booth (substitute).*

In Attendance: *Ian Couper (Head of Finance, Performance and Asset Management), Chris Wood (Audit Manager - Shared Internal Audit Services), Mark Chalkley (Client Audit Manager - Shared Internal Audit Services) and Ian Gourlay (Committee and Member Services Manager)*

Also Present:

50 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors John Bishop, Jim McNally and Terry Tyler. Councillor John Booth was substituting for Councillor Bishop.

51 MINUTES

RESOLVED: That the Minutes of the Meeting of the Finance, Audit and Risk Committee held on 20 November 2017 be approved as a true record of the proceedings and be signed by the Chairman.

52 NOTIFICATION OF OTHER BUSINESS

There was no notification of other business.

53 CHAIRMAN'S ANNOUNCEMENTS

(1) The Chairman announced that Members of the public and the press may use their devices to film/photograph, or do a sound recording of the meeting, but she asked them to not use flash and to disable any beeps or other sound notifications that emitted from their devices. In addition, the Chairman had arranged for the sound at this particular meeting to be recorded; and

(2) The Chairman reminded Members that, in line with the Code of Conduct, any Declarations of Interest needed to be declared immediately prior to the item in question.

54 PUBLIC PARTICIPATION

There was no public participation.

55 SHARED INTERNAL AUDIT SERVICES - UPDATE ON PROGRESS AGAINST THE 2017/18 AUDIT PLAN

The Audit Manager (SIAS) introduced the recently appointed Client Audit Manager (Mark Chalkley) who would in be the SIAS contact going forward for NHDC internal audit matters. The Chairman welcomed Mark to his first meeting of the Committee.

The Client Audit Manager (SIAS) presented an update report on progress against the 2017/18 Audit Plan.

The Client Audit Manager advised that, since the preparation of the report, SIAS had delivered 60% of planned audit days (229 days in total), and had issued a further five draft audit reports.

The Client Audit Manager drew attention to the two medium priority recommendations arising from the Office Accommodation Project audit summarised in Paragraph 2.3. He commented no new high priority recommendations had been made since the last meeting, and that the two high priority recommendations set out in the report had been implemented and would therefore be removed from the next update report. A number of small changes had been made to the budgets of a number of audits to reflect adjustments to the scope of those audits.

In terms of planned projects, the Client Audit Manager reported that SIAS had now achieved 14 out of 36 (39%). He explained that the Tree Strategy & Management and Taxi Licensing audits had moved to draft report stage. The Telephony Review audit was expected to reach draft report stage in the near future. The General ledger, Debtors and Creditors audits had been moved to February/March 2018 as a result of the planned Integra 2 upgrade.

The Client Audit Manager referred to Appendix D to the report, which set out the current approach in respect of the definition of High, Medium and Merits Attention audit recommendations, as requested by the Committee at its meeting held in September 2017.

In response to a Member's question, it was confirmed that the two Medium priority recommendations with regard to the Office Accommodation Project audit had been implemented.

At the Chairman's request, the Client Audit Manager undertook to remove the information in the tables set out in Paragraph 2.9 of the report in respect of progress on Audit Plan Delivery, as this was a duplication of the same information set out in Appendix D of the report.

The Chairman asked the Client Audit Manager to update the Committee on audit planning for 2018/19. The Client Audit Manager replied planning had started, and that he and the Head of Finance, Performance and Asset Management had conducted some preliminary discussions. The Client Audit Manager would be attending the NHDC Senior Management Team meeting in January 2018, following which he would meet with each Head of Service individually to identify a long list of potential audits. He and the Head of Finance, Performance and Asset Management would then meet to the review the list and refine it to focus the audit workload on the key financial risks faced by the Council, all leading to the finalised Audit Plan for 2018/19 being presented to the Committee at its March 2018 meeting.

RESOLVED:

(1) That the Internal Audit Progress Report for the period to 1 December 2017 be noted;

(2) That the proposed amendments to the 2017/18 Annual Audit Plan be noted; and

(3) That the implementation status of high priority recommendations be noted.

REASON FOR DECISION: To allow the Committee to review, comment and challenge the current status of the Internal Audit Plan.

56 RISK MANAGEMENT UPDATE

The Head of Finance, Performance and Asset Management presented a report which provided an update on Risk Management. The report also detailed changes to the Council's Risk and Opportunities Management Strategy and Policy.

The Chairman stated that Recommendation 2.2 of the report should be amended so that the Cabinet would be requested to approve the Risk and Opportunities Strategy set out at Appendix B (not A) and the Policy at Appendix D (not B).

The Head of Finance, Performance and Asset Management advised that the Risks summarised in Table 1 of the report had been reviewed by the Risk Management Group and agreed by Senior Management Team. Members were able to view the current risk descriptions on Petana (was Covalent), the Council's performance and risk management software. There had been no changes to the assessment of the current "Corporate" risks.

The Head of Finance, Performance and Asset Management outlined the major changes to the Risk and Opportunities Management Strategy, as set out in Paragraph 8.2.1 of the report. He drew particular attention to the revised Section 4 of the Strategy (Assessing Risks and Opportunities), which had been updated in order to simplify the classifications for the "Likelihood" of risks. The Risk and Opportunities Management Policy had also been reviewed and contained only minor wording changes.

In response to a Member's query, the Head of Finance, Performance and Asset Management explained why there had been no changes to the status of some of the Corporate risks for the past Quarter.

RESOLVED: That it be noted that there were no changes to the Corporate risks for the Quarter.

RECOMMENDED TO CABINET: That the revised Risk & Opportunities Management Strategy (Appendix B to the report) and Policy (Appendix D to the report) be approved.

REASON FOR DECISION: To monitor the effective development and operation of risk management.

57 DRAFT BUDGET 2018/2019

The Head of Finance, Performance and Asset Management presented a report in respect of the Draft Budget for 2018/19, and advised that the report was for consideration prior to presentation to Cabinet on 19 December 2017.

The Head of Finance, Performance and Asset Management advised that the provisional Local Government Finance Settlement had yet to be announced, but was expected during the week commencing 18 December 2017. The Settlement would be definitely containing an announcement on Business Rates Pilot schemes. He felt that there would also be an announcement on New Homes Bonus.

The Head of Finance, Performance and Asset Management referred to the list of specific Government Grants set out in Table 2 of the report. If there were any changes to those Grants then any shortfall would need to be financed through the General Fund.

In respect of Council Tax and Business rates set out in Section 8.2 of the report, the Head of Finance, Performance and Asset Management reiterated that the estimates in that Section were underpinned by a number of assumptions.

The Head of Finance, Performance and Asset Management advised that the Council was expected to still be able to raise Council Tax by £5 for 2018/19 and that the Cabinet would be requested to recommend an appropriate increase to Council, in line with the Medium Term Financial Strategy. It was also expected that the Council Tax Base would increase by 1% per year.

The Head of Finance, Performance and Asset Management drew attention to the Council's specific reserves set out in Table 5 of the report. He also referred to Paragraph 8.3.3 of the report, which detailed the provisions required to be set aside by the Council for future expected liabilities.

The Head of Finance, Performance and Asset Management commented that the Council's General fund balance was required to be at a minimum level to allow for risks, both of a known and unknown nature. Table 6 set out the headline figures for the Council's known risks.

The Head of Finance, Performance and Asset Management refereed to the savings and investment proposals set out in Appendices B and C to the report. Paragraph 8.4.3 contained a number of updates since the Member Budget Workshops held in November 2017.

As a result of the Waste Contract savings, the Head of Finance, Performance and Asset Management explained that the Council was in a better financial position than originally anticipated. There was a reduced need to deliver savings over the next two years, but towards the end of the current four year period there would still be the need to find at least £500,000 of further savings based on current forecasts. These forecasts could be negatively impacted by changes in funding over that period.

The Head of Finance, Performance and Asset Management concluded by commenting that it was proposed that the Council's Efficiency Sustainability Plan should not be updated at the present time for the reasons set out in Paragraph 8.6.1 of the report.

The Head of Finance, Performance and Asset Management answered a number of Members' questions regarding the covering report.
The Chairman took the Committee through the efficiency and investment proposals set out in Appendices B and C of the report, and a number of comments were made.

RECOMMENDED TO CABINET: That the following comments of the Finance, Audit and Risk Committee be taken into consideration by the Cabinet during its deliberations on the Draft Budget for 2018/2019:

- E9 – Cessation of Area Committee Grants – not totally supported, as the savings figure is shown for 2018/19 onwards, and yet no mechanism is in place to supersede the Area Committee Grants process;
- E11 – Cease the provision of Christmas trees in Town Centres – further discussion should take place with Town Centre Managers with a view to the Town Centre Partnerships/BID organisations taking over this provision;
- ECP12/NCP7/ECP13 – various items relating to or linked to the Lairage Car Park in Hitchin – in view of the relatively low level of use of this Car Park, consideration be given to the completion of the Parking Strategy before (and if) these items were implemented; and
- General – the appendices should be revised at final draft Budget stage to group together the items under common or related themes, rather than being ordered by value.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the Draft Budget for 2018/19.

58 FUTURE MEETING - POSSIBLE AGENDA ITEMS

The Chairman undertook to liaise with the Chairman of the Overview and Scrutiny Committee regarding the process for scrutinising and reviewing the emerging Parking Strategy.

The meeting closed at 8.30 pm

Chairman

FINANCE, AUDIT & RISK COMMITTEE
22 JANUARY 2018

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 7

TITLE OF REPORT: CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2016/17

REPORT FROM ERNST AND YOUNG

The above report is attached.

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Certification of claims and returns annual report 2016-17

North Hertfordshire District Council

15 December 2017

Ernst & Young LLP

Building a better working world

Ernst & Young LLP
1 More London Place
London SE1 2AF
Tel: + 44 20 7951 2000
Fax: + 44 20 7951 1345
ey.com

The Members of the Finance, Audit and Risk Committee
North Hertfordshire District Council
Council Offices
Gernon Road
Letchworth
Herts
SG6 3JF

15 December 2017
Ref: sp/ks/BEN01/17

Direct line: + 44 20 7951 2000
Email: SPatel22@uk.ey.gov

Dear Members

Certification of claims and returns annual report 2016-17
North Hertfordshire District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on North Hertfordshire District Council's 2016-17 claims.

Scope of work

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

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £36.1m. We met the submission deadline. We issued a qualification letter and details of the qualification matters are included in section 1. Some amendments were made to the initial claim however these had a marginal effect on the grant due.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the next meeting of the Finance, Audit and Risk Committee on 22 January 2018.

Yours faithfully

Suresh Patel
Associate Partner
Ernst & Young LLP
Enc

Contents

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£36,175,192
Amended/Not amended	Amended – subsidy increased by £7,114
Qualification letter	Yes
Fee – 2016-17	£5,648 (potentially will reduce by £1,097 subject to the agreement of PSAA Ltd, please refer to section 2)
Fee – 2015-16	£7,524

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

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. We found errors and carried out extended testing in one area.

We asked the Council to amend the claim to exclude amounts that had been included for rent rebates (total subsidy claimed £1,417). Rent rebate expenditure is incurred where a Council has a housing revenue account, which North Hertfordshire District Council no longer has. The amounts on the claim did not represent amounts actually paid out to claimants and therefore were not eligible for subsidy. The Technical Team also identified some manual amendments that were required. The net impact of the removal of the rent rebates and the manual adjustments was an increase in subsidy of £7,114.

We have reported underpayments in a qualification letter. The issue we reported was in respect of the system uprating of State retirement pension amounts giving rise to a higher figure than the amount actually in payment:

- For one case in our initial sample of 20 the Authority had underpaid benefit due to the system using an uprated amount for State retirement benefits resulting in a figure greater than that actually in payment. This meant that the claimant's weekly income shown on the benefits system was a higher figure than it should have been. This resulted in the claimant receiving less benefit than they were entitled to. There is no eligibility for subsidy where the benefit has not been paid out which is the case when claimants are underpaid. The value of the error was (£0.78).

As errors miscalculating the claimant's average weekly income could result in overpayments which do affect the eligibility to subsidy an additional random sample of 40 cases was tested. [For Members' information we also undertook one additional sample of 40 cases in 2015/16 due to errors in the calculation of claimant income but that year we found errors resulting in both under and over payments.]

Testing of the additional sample of 40 cases for 2016/17 identified found a further 2 cases where the same issue arose, ie that State retirement benefits were higher than the actual amounts in payment (value of errors £144.96). Again there was no impact on the Council's claim in respect of these cases as the errors were underpayments. However there are implications for claimants as they received less benefit than they should have done.

2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	4,551	5,648	7,524

The level of fee for the certification of the housing benefits return can fluctuate year on year depending on the level of errors identified during initial testing. The 2016/17 fee was based on the outturn fee for 2014-15.

We agreed with the Council's Strategic Director of Finance, Policy and Governance that if the Council's staff undertook the initial testing of 20 cases that we would seek to reduce the fee by 20% to reflect the lower level of work required from the EY team. This proposed reduction has to be agreed by PSAA Ltd (they also have to agree where there have been proposed increases in fees). We have yet to receive agreement to the reduction of £1,097 which is showing in the above table as the difference between the indicative and annual fee.

3. Looking forward

2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 is £7,524. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:
https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/

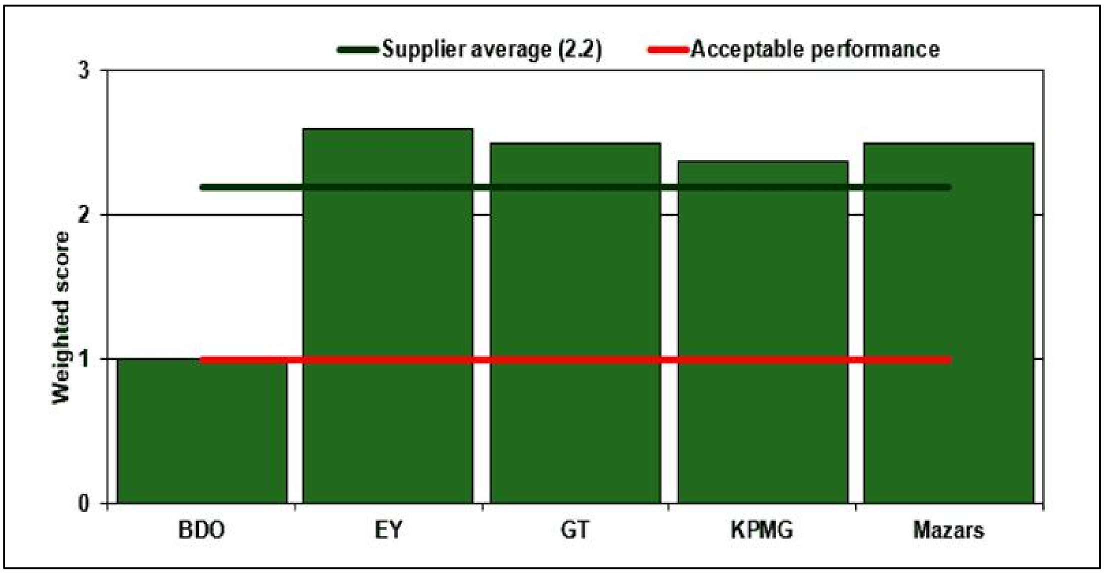
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Chief Finance Officer before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we also expect to be appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

FINANCE, AUDIT & RISK COMMITTEE

22 JANUARY 2018

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. **8**

The following is the report to be considered by the Cabinet at its meeting to be held on 23 January 2018. The Committee is invited to comment on the report.

TITLE OF REPORT: DRAFT REVENUE BUDGET 2018/2019

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT
EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM
COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 To consider the draft budget for 2018/19 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Council Tax level. To recommend the appropriate level of Council Tax to the meeting of the Council on the 8 February 2018.

1.2 To consider the key factors, both of known and unknown amount, which could impact on NHDC finances within the period of the medium term financial strategy (2018-23).

2. RECOMMENDATIONS

2.1 That Cabinet notes the expected Central Government funding levels.

2.2 That Cabinet notes the estimated position on the Collection Fund and how this will be funded.

2.3 That Cabinet provides a view on the appropriate level of Council Tax for 2018/19.

2.4 That Cabinet notes the position relating to the General Fund balance and that due to the risks identified a minimum balance of £2.15 million is recommended.

2.5 That Cabinet approves the reduction in the 2017/18 working budget of £682k, and to note the expected impact in 2018/19 of a £82k reduction in budget.

2.6 That Cabinet notes and comments on the requests for the carry-forward of budgets that total £198k from 2017/18 to 2018/19.

2.7 That Cabinet approves the inclusion of the efficiencies and investment proposals at Appendix 2 in the General Fund budget estimates for 2018/19.

2.8 That Cabinet makes recommendations to Council on any changes to previous efficiencies.

2.9 That Cabinet notes the proposal that any revenue savings arising from the capitalisation of waste vehicle costs are transferred to a specific reserve.

2.10 That Cabinet notes the savings target in future years.

2.11 That Cabinet notes the estimated 2018/19 net expenditure of £14.6m, as detailed in appendix 1, and recommends this budget to Council.

3. REASONS FOR RECOMMENDATIONS

3.1 To ensure that all relevant factors are taken into consideration when arriving at the proposed Council Tax precept for 2018/19.

3.2 To ensure that the Cabinet recommends a balanced budget to Council on 8 February 2018.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 During the Autumn, Political Groups were asked for savings ideas that they wanted Officers to investigate further. These have been combined with ideas generated by Officers. The total value of the ideas presented is less than the funding gap that needs to be met over 4 years. This means that currently there are not any alternative options available.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 All Councillors were given opportunity to comment on the efficiency and investment proposals at the Budget Workshops.

5.2 The Cabinet will consult on the proposals in this report with the Business Rate Payers Group in January 2018. This is the only statutory consultation that is required.

5.3 If any savings that have an impact on a specific area (or areas) will be referred to that Area Committee(s) during January. This is not considered to be the case for any savings included within the proposals.

6. FORWARD PLAN

6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 28th July 2017.

7. BACKGROUND

7.1 The Medium Term Financial Strategy (MTFS), which provides the financial background to the Corporate Business Planning process for 2018-2023, was adopted by Full Council on the 31 August 2017 following recommendation by Cabinet.

7.2 The MTFS included a number of assumptions, which will be updated as better information becomes available. The final budget will still contain some assumptions, and this is why monitoring reports are provided to Cabinet on a quarterly basis.

7.3 In anticipation of the decline in future funding, NHDC has increased the level of general fund reserves. This allows for some cushioning in the delivery of savings.

7.4 Significant savings have been delivered in recent years, over £6 million since 2011/12. This means that the opportunity for savings from reducing resources and staffing levels is getting more limited. Instead the focus is now on service transformation, joint working, making best use of capital assets and justifying delivery of services above statutory levels.

7.5 NHDC's funding is split between revenue (i.e. the day-to-day running costs) and capital (i.e. creating and improving assets). The general rule is that capital funding can not be used for revenue expenditure. However in the 2015 Spending Review, the Chancellor announced the "flexible use of Capital Receipts direction". Subject to certain conditions this allows Local Authorities to use Capital Receipts to fund the revenue costs of reform projects.

8. RELEVANT CONSIDERATIONS

8.1 Central Government funding

8.1.1 On the 22 November 2017, the Chancellor made his Budget Statement. This Budget Statement, which has now moved to November, replaces the previous Autumn Statement. The Budget included an update on the current state of public finances and the latest economic forecasts.

8.1.2 The main change announced in the provisional settlement (announced on 19 December 2017) related to Council Tax flexibility (see 8.2.5 below).

8.1.3 It was also announced in the provisional settlement that there will be no changes to the way that New Homes Bonus is calculated for 2018/19. It was expected that there could either be a change in the baseline or that new homes built on appeal would be excluded from the bonus calculation. As a result the Council's provisional allocation for 2018/19 has been confirmed as £1.264 million.

8.1.4 Furthermore, it was announced that the Department for Communities and Local Government would look at "fair and affordable" options for dealing with negative Revenue Support Grant (RSG). There will be an announcement on this in the spring. The negative RSG is an additional amount of Business Rates that the Council has to pay to Central Government, and is currently expected to be £1.07 million in 2019/20. It is very unlikely that all negative RSG amounts could be eliminated and this could be made affordable for Central Government, so current prudent assumptions are that the negative RSG will continue.

8.1.5 The current estimates of non-specific Central Government funding are detailed in table 1 below. The amounts in relation to Business Rates in 2018/19 and 2019/20 are as per the DCLG Settlement Funding Assessment, and it is then assumed that they will increase by 3% per year in the following 2 years. New Homes Bonus has been confirmed for 2018/19 and is estimated for the following 3 years.

Table 1: Estimated Central Government Funding (All amounts in £ millions)

2017/18		2018/19	2019/20	2020/21	2021/22
0	Revenue Support Grant	0	(1,071)	(1,103)	(1,136)
140	Transitional Funding	0	0	0	0

2,557	Business Rates Baseline (share income less tariff)	2,622	2,680	2,761	2,844
2,697	**Funding Assessment**	**2,622**	**1,609**	**1,658**	**1,708**
1,992	New Homes Bonus	1,265	1,119	1,252	1,252
4,689	**Total non-specific funding**	**3,887**	**2,728**	**2,910**	**2,960**
	Change on previous year	(802)	(1,159)	182	50

8.1.6 Hertfordshire was unsuccessful in its application to become a Business Rates Pilot area for 2018/19. There may be an opportunity to apply again for 2019/20. Instead it is expected that North Hertfordshire will be part of a Hertfordshire Business Rates pool in 2018/19. This will be subject to a final assessment of the forecasts and risks across the applicant Authorities. As in previous years, whilst it is expected that there will be a financial benefit from being part of the pool, this will not be built in to the budget.

8.1.7 Cabinet is asked in Recommendation 2.1 to note the expected Central Government funding levels.

8.1.8 NHDC also receives grants for specific purposes. These grants are built in to service budgets and have therefore already been taken in to account when determining spend forecasts, so can not be used towards funding the base budget. However, as detailed in table 2 below, some of the amounts are uncertain. Therefore any reductions in the amounts received are likely to create a spending pressure that would need to be met from general base budget funding.

Table 2: Forecasts in relation to Specific Government Grants

	2017/18 amount £'000	**Expectation for 2018/19**
Housing Benefit Subsidy	33,361	Initial Estimate will be available late January 2018, so current budget level in 2018/19 will be based on the 2017/18 mid year estimate - £33,361k
Discretionary Housing Payments	283	Not expecting announcement until January 2018, however expectations are that the grant level will be similar to 2017/18 so £283k.
Benefits Administration and Fraud Initiative	513	The announcement for the grants will be made in December. However expectation is that there will be at least a 5% reduction in both, plus an additional adjustment for universal credit. Assume 5% reduction on 17/18 grant = £487k
Section 31 Grants to reimburse the impact of Business Rate reliefs and caps.	810	The amount received in 2018/19 will depend on the changes announced in the budget in November 2018. However expectation is that the level of grant will be similar to 2017/18. A second discretionary scheme has been set up to help mitigate the effects on businesses from the 2017 revaluation. The Council will receive £77,500 in S31 grant in 2018/19 for this scheme.
Waste minimisation – HCC contribution via the Alternate	391	While the total funding 'pot' is planned to reduce the actual AFM funding received depends on the annual recycling performance of NHDC relative to

	2017/18 amount £'000	Expectation for 2018/19
Financial Model.		the corresponding performance of the other Hertfordshire waste collection authorities.
NNDR Administration Grant	184	Will not know the cost of collection until the NNDR1 is completed in January 2018. Assume similar level to 2017/18 of £180k.
Flexible homelessness support grant	124	Allocation of £141k
Syrian refugee resettlement grant	125	Estimated to be £125k based on North Herts quota of 10 families per year. There is a set allocation per family member.
Homelessness Reduction Act - New Burdens Funding.	35	Allocation of £32k in 2018/19 (£37k in 2019/20)
Total Revenue Grants	**35,826**	

8.2 Council Tax and Business Rates

8.2.1 NHDC is required to maintain a Collection Fund to account for the income received and costs of collection for Council Tax and Business Rates. Estimates of the net income are made at the start of the year and based on this money is transferred out of the Collection fund to the NHDC General Fund and other precepting bodies. The Fund is required to break even over time and any surplus or deficit is transferred to the NHDC General Fund and other precepting bodies.

8.2.2 The total amount of Council Tax that is collected is dependent on the actual number of properties, eligibility for paying a reduced amount (Council Tax Reduction Scheme) and the success in collecting what is owed. The amount of Business Rates that are collected is dependent on the number and type of business premises in the area, the success in collecting what is owed, eligibility for relief and the number and value of successful appeals. Assumptions on these factors are made in forecasting the level of income from Council Tax and Business Rates in future years.

8.2.3 Current forecasts are that the Business Rates collection fund will have a deficit at the end of the year. This is due to the level of appeals and rate reliefs. NHDC will need to fund its share of the deficit. The section 31 grant that NHDC receives for business rate reliefs and caps will be used for this purpose (see table 2). It is expected that the Council Tax collection fund will have a small surplus.

8.2.4 **Cabinet is asked in recommendation 2.2 to note the estimated position on the Collection Fund and how this will be funded.**

8.2.5 The main change announced in the provisional settlement was to allow Councils to increase their Council Tax by an additional 1% without the need for a local referendum in 2018/19 and 2019/20. This means that NHDC can raise its portion of the Council Tax by up to 3% (i.e. 2.99%). The Medium Term Financial Strategy agreed by Council in August stated that "the Council will continue to raise Council Tax by as much as it is allowed to without triggering a local referendum". It is assumed that the maximum increase will revert to being 2% or £5 (band D equivalent) from 2020/21. The impact of this is shown in Table 3, along with a comparison with the previous assumption (i.e. a £5 increase in each year).

Table 3: Council Tax forecasts

2017/18		2018/19	2019/20	2020/21	2021/22
216.96	Band D Council Tax (£), increasing at 2.99% in 2018/19, and then £5 per year from 2019/20	223.45	230.13	235.13	240.13
	Increase as a %	2.99%	2.99%	2.17%	2.12%
48,649	Estimated Council Tax Base	49,119	49,610	50,106	50,607
	Increase as a %	1%	1%	1%	1%
10.555	Council Tax income to NHDC (£m)	10.976	11.417	11.782	12.152
216.96	Band D Council Tax (£), increasing at £5 per year	221.96	226.96	231.96	236.96
	Increase as a %	2.30%	2.25%	2.20%	2.16%
10.555	Council Tax income to NHDC (£m)	10.902	11.259	11.623	11.992
0	Additional Council Tax income (£000)	74	158	159	160

8.2.6 It should be noted that this only represents the District Council element of the Council Tax bill for households. Table 4 below shows the constituent elements of the 2017/18 Council Tax bill for a Band D property (excluding any Parish precept). The additional flexibility 1% also applies to County Councils, who can also increase their Social Care precept in line with previously announced limits. Police and Crime commissioners are able to increase their precept in 2018/19 by up to £12.

Table 4: Band D Council Tax 2017/18 (excluding Parish precepts)

	2017/18	**Share of bill**
	£	
District	216.96	13%
County Council	1,187.41	74%
County Council- Social Care Precept	58.42	4%
Police and Crime Commissioner	152.00	9%
Total	**1,614.79**	

8.2.7 Cabinet is asked in recommendation 2.3 to provide a view on the appropriate level of Council Tax for 2018/19.

8.3 Balances and Reserves

8.3.1 Before setting the budget, it is necessary to review the position of balances and reserves. This determines the extent to which the current budget can be supported by the use of reserves, or requires a budget to be set that includes an allowance for increasing reserves. In addition to the General Fund balance, NHDC has specific reserves and provisions. Specific reserves are amounts that are set aside for a determined purpose.

This purpose can arise from a choice made by the Council, or where it is felt that there is an obligation. Provisions are where there is a requirement on the Council to meet future expenditure, and a reasonable estimate can be made of the amount and timing. In determining the risks that may need to be met from the General Fund, it is important to know which risks will already be covered by amounts that are set aside as a specific reserve or provision.

8.3.2 A full list of specific reserves and forecast balances is shown in table 5.

Table 5: Specific Reserves

	Balance at 1 April 2017 £000	**Forecast balance at 31 March 2018 £000**
Cemetery Mausoleum	129	129
Children's Services	8	8
Climate Change Grant	30	30
Community Development	1	0
Community Right to Bid	45	45
DCLG Grants	489	519
DWP Additional Grants	3	143
Environmental Warranty Reserve	209	209
Growth Area Fund	53	53
Homelessness	42	192
Housing Planning Delivery Reserve	368	367
Information Technology Reserve	82	82
Insurance Reserve	32	34
Leisure Management Reserve	89	89
Local Authority Mortgage Scheme	107	0
Museum Exhibits Reserve	13	13
Neighbourhood Plan Reserve	21	21
Office Move IT Works	7	7
Paintings Conservation	11	11
Personal Search Fees	161	159
Property Maintenance	67	77
Syrian Refugee Project	19	111
S106 Monitoring	68	190
Special Reserve	1,720	1,720
Street Furniture	10	14
Street Name Plates	38	17
Taxi Licences Reserve	13	13
Town Centre Maintenance	39	46
Town Wide Review	222	256
Waste Reserve	513	528
Total Specific Reserves	**4,609**	**5,083**

8.3.3 As at the 31 March 2017 there was a total of £966k held as provisions. These comprised of:

- Business Rates appeals- the NHDC share of outstanding business rates appeals. This makes up £928k of the total.
- Insurance- covers the uninsured aspect of outstanding insurance claims

8.3.4 NHDC operates with a reserve balance for General Fund activities in order to provide a cushion against unexpected increases in costs, reductions in revenues and expenditure requirements. Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) suggests that the revenue balances should be set at no less than 5% of net revenue expenditure, having taken account of the risks faced by the Authority in any particular year. As net expenditure is anticipated to be around £14.6 million, this means a minimum balance of about £730k. The minimum figure represents the cushion against totally unforeseen items. When setting the level of balances for any particular year, known risks which are not being budgeted for should be added to this figure, according to risk likelihood.

8.3.5 An assessment of the risks has been compiled for the coming year based on risks identified by each Head of Service/ Corporate Manager and cross-referenced to the risk register. The identified areas are where the financial impact is not wholly known, but an estimate can be made. The amount allocated is based on the forecast likelihood of occurrence. Where there is a high likelihood, 50% of the estimated financial impact is allowed for. For medium likelihood, it is 25%. For low likelihood, it is 0%. Table 6 summarises the risks, the forecast impact and the risk allowance to be made. A full list of these risks is shown in Appendix C.

Table 6: Budget risks 2017/18

Category	**Number of risks**	**Forecast value of impact £000**	**Risk Allowance £000**
High	10	1,780	890
Medium	26	2,135	534
Low	20	3,954	0
Total	**56**	**7,469**	**1,424**

8.3.6 Combining the risk allowance for specific risks and unknown risks means that a General Fund balance of at least £2.15 million should be maintained.

8.3.7 Cabinet is asked in recommendation 2.4 to note the position relating to the General Fund balance and that due to the risks identified a minimum balance of £2.15 million is recommended.

8.4 Month 8 (November) Budget Review

8.4.1 A review of budgets as at the end of November has been carried out. Table 7 below provides explanations for the variances that are greater than £25k, as well as any budgets where there are carry-forward requests. All other variances are included within the 'other minor variances' line at the bottom of the table.

Table 7- Summary of forecast variances

Budget Area	**Working Budget £k**	**Forecast £k**	**Difference £k**	**Reason for difference**	**Carry-forward requested £k**	**2018/19 Impact £k**
Investment Interest	(320)	(444)	(124)	The interest received from the Local Authority Mortgage Scheme was being held in a reserve in case of default. This will now be transferred to the General Fund and covered by a	0	(50)

Budget Area	Working Budget £k	Forecast £k	Difference £k	Reason for difference	Carry-forward requested £k	2018/19 Impact £k
				financial risk. Due to the reprogramming of capital schemes during the year, the balances available for investment in 2018/19 are expected to be higher and therefore additional investment interest income is anticipated.		
Apprenticeships	79	1	(78)	Of the total apprentice budget of £144k, £78k has not been allocated. This reflects changes being made to the scheme to make best use of the apprentice levy and facilitate career development within the scheme.	0	0
Vacancy Control Target Savings	258	(394)	(136)	Over achievement due to posts being vacant during the year, with 20 posts expected to be held vacant for the remainder of the year.	0	0
Off-street car parking- RingGo	(137)	(169)	(32)	This is part of an ongoing increase in the number of people using this facility. This amount is net of the transaction fee collected that the Council passes on to the supplier.	0	0
On-street parking- Penalty Control Notices	(350)	(392)	(42)	Increase in the number issued. This will partly be due to having lower staff vacancy levels.	0	0
Area Committee Grants	124	64	(60)	This forecast underspend is due to fewer grant applications than anticipated being received and also represents grants awarded but not yet released pending evidence of certain criteria being met. It is requested that this is carried forward in to 2018/19.	60	0
Planning Application Income	(807)	(944)	(137)	The progress of the Council's Local Plan through this financial year has resulted in an increase in planning applications.	0	0
Planning Income- transfer to reserve	0	137	137	Request to transfer the additional income above to a reserve. This will help cover the costs associated with challenges to other local authorities / organisations / bodies etc. e.g. Local Plans, policies/strategies/proposals etc., due to their impact upon the District.	0	0
Economic Development Officer	30	12	(18)	This is a joint post hosted by East Herts. As the post was not recruited to until November 2018, there is an underspend on the contribution for this year. There was also a carry-forward from 16/17 of £10k that has not been spent. It is requested that the total underspend of £18k is carried forward to 2018/19 to fund economic development initiatives.	18	0

Budget Area	Working Budget £k	Forecast £k	Difference £k	Reason for difference	Carry-forward requested £k	2018/19 Impact £k
Community Infrastructure Levy	87	0	(87)	Request for £87k Community Infrastructure budget to be carried forward into 18/19 for the work to be undertaken, subject to Central Government changes to CIL, after the Local Plan process.	87	0
Housing Stock Condition Consultants	25	12	(13)	A project with HCC and all other districts/boroughs in the County to improve the energy efficiency of residents properties. It is likely this project will extend to a second year commencing in October 2017, so it is requested to carry forward the remaining £13k for the continuation of the project in 2018/19.	13	0
Housing- Social Provision	21	0	(21)	Budget was carried forward in 16/17 to assist with review of Housing Strategies. However new housing legislation will come into effect in April 2018, so the proposal has been made to delay this project until 2018/19, when the strategies can be reviewed to take into account the changes from the new legislation. So carry forward in to 2018/19 is requested.	21	0
Syrian Refugee Grant	0	(92)	(92)	£157k of grant income will be received, of which £65k is forecast to be spent supporting refugee families.	0	0
Syrian Refugee Grant- transfer to reserve	0	92	92	Request to transfer the unspent grant income above to a reserve. This will be used for future costs of supporting refugee families.	0	0
Flexible Homelessness Support Grant	0	(159)	(159)	Grant funding received from the DCLG to fund flexible homelessness support grant. The grant has been awarded to reflect changes that will be made on the 1st April 2018 by the introduction of the Homelessness Reduction Act. This will place additional responsibilities on housing authorities and grant funding has been awarded	0	0
Flexible Homelessness Support Grant- transfer to reserve	0	159	159	Request to transfer the grant income above to a reserve. This will be used. to fund additional resources to help manage higher demand levels from the public as a result of the Act.	0	0
Highways- contribution to reserve	13	0	(13)	Ongoing contribution in to the reserve is not required.	0	(13)
Contaminated land consultants	10	0	(10)	The budget has not been spent for the last four years. Spend is dependant on relevant projects and staffing resources. The risk of any contaminated land works needing to	0	(10)

Budget Area	Working Budget £k	Forecast £k	Difference £k	Reason for difference	Carry-forward requested £k	2018/19 Impact £k
				be done in the future will be covered by a financial risk in the risk register.		
Disabled Facilities Grant (DFGs)- Capitalisation of Salaries	(38)	(28)	10	DFGs are now delivered (from October 2017) by a county-wide Home Improvement Agency. The way that the service is now delivered means that there is no scope to capitalise staff costs against the grant, as had been possible in the past. The overall service cost is expected to decrease, so this would then increase the budget available for grants to households.	0	38
Total of explained variances	**(1,521)**	**(2,145)**	**(624)**		**199**	**(35)**
Other minor variances	18,620	18,560	(60)		0	(47)
Overall total	**17,099**	**16,415**	**(684)**		**199**	**(82)**

8.4.2 This has identified £682k of underspends against the working budget. Of this there are requests for £198k of this to be carried forward into 2018/19. This gives a net increase in the General Fund balance of £484k. The final column of the table above details the forecast impact on 2018/19, which is a £66k reduction in required budget.

8.4.3 Cabinet is asked in recommendation 2.5 to approve the reduction in the 2017/18 working budget of £682k, and to note the expected impact in 2018/19 of a £82k reduction in budget.

8.4.4 Cabinet is asked in recommendation 2.6 to note and comment on the requests for the carry-forward of budgets that total £198k from 2017/18 to 2018/19.

8.5 Savings and Investment Proposals

8.5.1 The Medium Term Financial Strategy highlighted the need to find at least 4.2 million of savings within 4 years. Furthermore, with the expected phasing of these savings, there would be a need to use £3.8 million of reserves.

8.5.2 Budget proposals were considered by Cabinet at the December meeting. To give the full context, these proposals included both savings and investment proposals. Those being taken forward are detailed in appendix 2.

8.5.3 At the meeting in December, Cabinet discussed the removal of the saving in relation to Four yearly District Council Elections (PE8) that had previously been agreed by Full Council. They also discussed deferring the following savings until 2019/20 that had been agreed by Full Council:

- NHDC Lottery (PE23).
- Replace Area Committees with a more informal alternative.

As these changes require Full Council approval to be changed they have not been reflected in the totals in Appendix A. The impact on the General Fund if they were agreed is shown in the table 8.

Table 8: Impact of proposed changes on the General Fund

Proposed Change	**Impact in 2018/19 £000**	**Impact in 2019/20 £000**	**Impact in 2020/21 £000**	**Impact in 2021/22 £000**
Four yearly District Council Elections (PE8) removal	0	-54	89	89
NHDC Lottery (PE23) deferred	65	15	0	0
Replace area committees (PE25) deferred	50	0	0	0
Increased General Fund Expenditure	**115**	**(39)**	**89**	**89**

8.5.4 Cabinet is asked at recommendation 2.7 to approve the inclusion of the efficiencies and investment proposals at Appendix 2 in the General Fund budget estimates for 2018/19.

8.5.5 Cabinet is asked at recommendation 2.8 to make recommendations to Council on any changes to previous efficiencies.

8.5.6 It is likely that an element of the waste contract should be treated as a capital cost. This relates to the Councils making substantial use of the vehicles that are embedded within the contract. Under accounting regulations there is a requirement for these costs to be capitalised, which means that they are funded from capital expenditure and there is therefore a corresponding decrease in revenue spend. Given the forecast shortage of capital funds in the future it is proposed that these savings are transferred to a specific reserve. This reserve can then be used to fund the purchase of vehicles when they next need to be replaced. This is expected to be in 7 years when these vehicles reach the end of their useful life. The information presented to budget workshops did not assume any revenue savings in respect of this.

8.5.7 Cabinet is asked at recommendation 2.9 to note the proposal that any revenue savings arising from the capitalisation of waste vehicle costs are transferred to a specific reserve.

8.5.8 The budget currently includes an allowance for pay inflation of 3% in 2018/19 and 2019/20. NHDC follows the National Joint Council pay negotiations. The employers have made an offer of 2% per year in 2018/19 and 2019/20. At this stage this has not been accepted by the Unions and therefore the budget has not been adjusted to reflect this. The current pay proposal does include higher increases for lower paid staff in order to comply with National Living Wage legislation and to maintain differentials across the pay scales (although this affects a relatively low number of Council employees). If the 2% offer was accepted then it would reduce forecast expenditure by over £200k by 2019/20.

8.6 Overall Summary

8.6.1 Appendix 1 provides a summary of the forecast General Fund impact of the factors referenced in the previous sections of this report. This includes increases in Council Tax of 2.99% in 2018/19 and 2019/20.

8.6.2 Appendix 1 also includes a forecast of the remaining savings that the Council still needs to deliver by 2021/22, which are expected to be around £150k. This amount could be significantly affected by a number of factors which include:

- Changes to the way New Homes Bonus is calculated in future years
- Changes to the Fair Funding Formula, which is currently being consulted on by the Department for Communities and Local Government, with any changes likely to be implemented from 2020/21.
- The successful delivery of the savings included within the budget forecasts.

8.6.3 Cabinet is asked at recommendation 2.10 to note the savings targets for future years.

8.6.4 Cabinet is asked at recommendation 2.11 to note the estimated 2018/19 net expenditure of £14.6m, as detailed in appendix 1, and recommends this budget to Council.

9. LEGAL IMPLICATIONS

9.1 The Cabinet has a responsibility to keep under review the budget of NHDC and any other matter having substantial implications for the financial resources of NHDC.

9.2 Cabinet's terms of reference include recommending to Council the annual budget, including the capital and revenue budgets and the level of council tax and the council tax base. Council's terms of reference include approving or adopting the budget.

9.3 Members are reminded of the duty to set a balanced budget and to maintain a prudent general fund and reserve balances.

10. FINANCIAL IMPLICATIONS

10.1 As outlined in the body of the report.

11. RISK IMPLICATIONS

11.1 As outlined in the body of the report.

11.2 There are significant uncertainties and risks with regard to the funding of NHDC over the medium term. In particular in relation to potential changes to how the New Homes Bonus Scheme operates and the impact of future changes to the Fair Funding Formula.

12. EQUALITIES IMPLICATIONS

12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 The proposals for efficiencies do not unduly impact any one individual group within our local community more than another. Any future budget proposals relating to the staff, their terms and conditions or future employment will need subject to individual equality analysis.

13. SOCIAL VALUE IMPLICATIONS

13.1 The Social Value Act and "go local" policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

14.1 A number of efficiency proposals will directly affect staff. It is important that all affected staff are consulted at the earliest opportunity and council policies and procedures are followed.

15. APPENDICES

15.1 Appendix A – Budget Summary 2018/19 – 2021/22.
Appendix B – Revenue Efficiencies and Investment proposals.
Appendix C – Budget Risks for 2018/19.

16. CONTACT OFFICERS

16.1 Ian Couper, Head of Finance, Performance and Asset Management, Tel 474243, email, ian.couper@north-herts.gov.uk

16.2 Antonio Ciampa, Accountancy Manager, Tel 474566, email, Antonio.ciampa@north-herts.gov.uk

16.3 Reuben Ayavoo, Senior Policy Officer, Tel 474212, email Reuben.ayavoo@north-herts.gov.uk

17. BACKGROUND PAPERS

17.1 Medium Term Financial Strategy 2018-23.

Appendix A - General Fund Estimates for 2018/19 to 2021/22 (2.99% Council Tax increase in 2018/19 and 2019/20)

All amounts £000	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Net expenditure brought forward	16,354	14,633	14,394	14,740
Savings previously identified (excluding Waste savings)	-378	-9	-98	0
New savings proposals	-2,301	-586	-61	-50
Adjustments reported after 2017/18 budget was set	-97	-101	-64	-10
Pay inflation and increments	464	375	250	250
Contractual inflation	444	420	430	430
Income inflation	-332	-289	-261	-275
Pension scheme contribution increases	134	0	0	0
Investment budget	147	150	150	150
2017/18 Budgets Carried Forward	199	-199	0	0
Further savings tbc	0	0	0	-150
Total net expenditure (excluding Housing Benefit subsidy)	**14,633**	**14,394**	**14,740**	**15,086**
Council Tax	-10,976	-11,417	-11,781	-12,152
Revenue Support Grant	0	1,071	1,103	1,136
Business Rates- including tariff adjustment	-2,622	-2,680	-2,761	-2,844
New Homes Bonus	-1,265	-1,119	-1,252	-1,252
Other	39	24	24	24
Net funding position (use of reserves)	**-191**	**273**	**73**	**-2**

General Fund b/f	7,025	7,216	6,943	6,870
General Fund c/f	7,216	6,943	6,870	6,872

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Ref No	Service	Description of Proposal	Efficiency	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Corresponding Investment Required	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
E1	Rev and Bens - admin	Restructure of Revenues team. The use of technology means that the service can absorb these changes with no impact on service delivery.	**Expenditure reduction**	- 55	- 61	- 67	- 67	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 55	- 61	- 67	- 67	**Total**	-	-	-	-
E3	Housing and Public Protection	Introduction of Fixed Penalty Notices (FPNs) in connection with fly-tipping offences. Legislation permits the Council to use FPNs as an alternative means of dealing with fly-tipping offences. Unlike fines imposed by the courts, the income arising from these FPNs can be retained by the Council. It is proposed that FPNs be used; in connection with first time offenders; where the volume of waste deposited is relatively limited; where the waste is non-toxic; where the offender is not acting for personal or corporate financial gain.	**Expenditure reduction**	-	-	-	-	**Capital**	-	-	-	-
			Additional Income	- 1	- 1	- 1	- 1	**Revenue**	-	-	-	-
			Total	- 1	- 1	- 1	- 1	**Total**	-	-	-	-
E4	Housing and Public Protection	Introduction of a range of charges in connection with the local licensing function. Introduction of charges for: - Classification of films - Non-attendance of applicants to taxi testing appointments - Provision of pre-application advice	**Expenditure reduction**	-	-	-	-	**Capital**	-	-	-	-
			Additional Income	- 2	- 2	- 2	- 2	**Revenue**	-	-	-	-
			Total	- 2	- 2	- 2	- 2	**Total**	-	-	-	-
E5	Planning	Increase in planning activity and planning application income following the approval of the Local Plan. Additional income estimate is inclusive of the expectation of an increase in income from pre-application planning advice (£17k) and an increase in planning application discharge of conditions income (£5k).	**Expenditure reduction**	-	-	-	-	**Capital**	-	-	-	-
			Additional Income	- 72	- 72	- 72	- 72	**Revenue**	-	-	-	-
			Total	- 72	- 72	- 72	- 72	**Total**	-	-	-	-
E6	Planning	Increase in planning fees as a result of expected changes to legislation. Whilst this is an increase in income, the planning service is still a net cost to the Council and it is anticipated that meeting the need for enforcement and monitoring of the new sites in the Local Plan will require additional resource in the coming years.	**Expenditure reduction**	-	-	-	-	**Capital**	-	-	-	-
			Additional Income	- 140	- 140	- 140	- 140	**Revenue**	-	-	-	-
			Total	- 140	- 140	- 140	- 140	**Total**	-	-	-	-
E7	Green Space (Green Space Strategy & Grounds Maintenance)	Removal of the small scale grounds maintenance provision from the Parks & Countryside Development budget. Historically this revenue budget has been used for smaller green space improvement proposals. All planned improvements to green space were identified in the adopted 2017-2021 Green Space Strategy and are now included in the capital programme.	**Expenditure reduction**	- 30	- 30	- 30	- 30	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 30	- 30	- 30	- 30	**Total**	-	-	-	-
E8	Community Services	Reduction in repairs & maintenance budgets for community facilities following the change in management of Community Centres to full repairing lease arrangements. The management of the following centres has now transferred to community groups under full repairing leases; - Grange, Jackmans, Westmill, Burns Road, Grange Youth Centre The estimated efficiency value also assumes that leases will be signed for two further centres by April 2018; - Walsworth, St Michael's Mount	**Expenditure reduction**	- 26	- 26	- 26	- 26	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 26	- 26	- 26	- 26	**Total**	-	-	-	-
E9	Community Services	Cessation of Area Committee Grants with 70% of the budget (52k) transferred to a Member Grants Panel to oversee a district-wide revenue grant scheme. Efficiency value does not include any estimated saving from the reduced administration and officer support to Area Committees. **Note the potential overlap with NHDC Lottery**	**Expenditure reduction**	- 22	- 22	- 22	- 22	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 22	- 22	- 22	- 22	**Total**	-	-	-	-
E10	Finance, Performance & Asset Management	Reduction in the number of audit days delivered by the Shared Internal Audit Service. Proposed to reduce from current 400 days in 2017/18 to 360 days in 2018/19, 320 days in 2019/20 and 300 days from 2020/21 onwards. External Audit no longer place reliance on the work of Internal Audit in respect of key financial systems, hence the substantive testing element of this work is no longer required. The Council generally have good controls and therefore there is scope to reduce the time spent on service audits and still retain capacity to target any identified risk areas. The Audit Manager has advised that at 300 days, SIAS would still expect to be able to provide their annual assurance.	**Expenditure reduction**	- 10	- 20	- 25	- 25	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 10	- 20	- 25	- 25	**Total**	-	-	-	-
E12	Finance, Performance & Asset Management	Replacement of existing Asset Management System. Procurement and installation of new Asset Management system will reduce existing annual licensing costs from £9k to £1k.	**Expenditure reduction**	- 8	- 8	- 8	- 8	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 8	- 8	- 8	- 8	**Total**	-	-	-	-

Ref No	Service	Description of Proposal	Efficiency					Corresponding Investment Required				
				2018/19	2019/20	2020/21	2021/22		2018/19	2019/20	2020/21	2021/22
				£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
E13	Various	Budget scrutiny savings: savings identified from the review of existing base budgets.	**Expenditure reduction**	- 30	- 30	- 30	- 30	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 30	- 30	- 30	- 30	**Total**	-	-	-	-
E14	Burials	Provision of a Crematorium at Wilbury Hills. Delivery of the crematorium and any revenue efficiency is dependent on a successful planning application. Following consultation, and subject to gaining Cabinet approval, an application for outline planning permission is anticipated to be submitted by the end of the calendar year. The estimated efficiency value is based on the proposed terms of the lease, with NHDC receiving an annual base rent of £10k (indexed annually by RPI) plus a percentage (up to a maximum of 10%) of the turnover generated from the Crematorium. The eligible percentage of turnover would be linked to the number of cremations that take place over a 12 month period.	**Expenditure reduction**	-	-	-	-	**Capital**	-	-	-	-
			Additional Income	-	-	- 50	- 100	**Revenue**	-	-	-	-
			Total	-	-	- 50	- 100	**Total**	-	-	-	-
E15	Finance, Performance & Asset Management	Centralisation of property repairs and maintenance budgets. Centralisation of these budgets will facilitate more effective planning and prioritisation of maintenance work.	**Expenditure reduction**	-	- 20	- 20	- 20	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	-	- 20	- 20	- 20	**Total**	-	-	-	-
E16	Corporate	The discontinuation of the NHDC Apprenticeship Scheme. The existing budget provision covers the annual salary costs of eight apprenticeship posts. The discontinuation of the scheme would not affect the requirement to pay the annual apprenticeship levy (estimated £45k for NHDC).	**Expenditure reduction**	-	- 156	- 156	- 156	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	-	- 156	- 156	- 156	**Total**	-	-	-	-
E17	Finance, Performance & Asset Management	In-house management of all treasury funds. The authority currently makes available for investment to a cash manager those funds over and above those required to meet the day to day cash commitments of the Council. In return the cash manager charges a fee for each investment placed equivalent to a set percentage of the interest returned. By managing all funds in-house, the Council would not incur these fees. Whilst it is expected that the budget provision required would reduce over time in any case, as cash balances reduce, this is not assumed in the future year budget estimates hence the efficiency value is the same in each year.	**Expenditure reduction**	- 18	- 18	- 18	- 18	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 18	- 18	- 18	- 18	**Total**	-	-	-	-
E18	Accountancy Services	Restructure of Accounts team. The increased level of automation in the preparation of budget estimates and financial statements, combined with the management decision to cease the processing of support service recharges in 2018/19, will help to reduce the pressure on the team's capacity going forward. The imminent roll-out of the upgrade to the financial system is also expected to further enhance efficiency in the undertaking of finance related activities.	**Expenditure reduction**	- 48	- 48	- 48	- 48	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 48	- 48	- 48	- 48	**Total**	-	-	-	-
E19	Waste Contract- Lot 1 award	Reduction in cost for waste collection and street cleansing arising from the retendering of the service. This is for a service that is broadly in line with the current service.	**Expenditure reduction**	-1,701	- 1,904	- 1,904	- 1,904	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 1,701	- 1,904	- 1,904	- 1,904	**Total**	-	-	-	-
E20	Waste Contract- Lot 2 award	Potential savings from retendering, which could include reductions in materials processing costs, transportation costs or materials income. There is also the potential for further savings from a change to separate glass collection (rather than paper).	**Expenditure reduction**	tbc	tbc	tbc	tbc	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	-	-	-	-	**Total**	-	-	-	-

Ref No	Service	Description of Proposal	Efficiency	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Corresponding Investment Required	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
E21	Waste Contract- Garden Waste charging	The expected net impact of introducing garden waste charging, at £40 with a 26% take-up. Overall 26% of the residents that responded to the consultation said they would be likely to use a paid for garden waste service. Assumes a 50% take-up of an early-bird discount in the first year.	Expenditure reduction	-	-	-	-	Capital	-	-	-	-
			Additional Income	- 78	- 209	- 209	- 209	Revenue	-	-	-	-
			Total	- 78	- 209	- 209	- 209	Total	-	-	-	-
Total Net Budget Reduction			**Total Expenditure reduction**	**- 1,948**	**- 2,343**	**- 2,354**	**- 2,354**	**Total Capital**	**-**	**-**	**-**	**-**
			Total Additional Income	**- 293**	**- 424**	**- 474**	**- 524**	**Total Revenue**	**-**	**-**	**-**	**-**
			Total Efficiencies	**- 2,241**	**- 2,767**	**- 2,828**	**- 2,878**	**Total Investment**	**-**	**-**	**-**	**-**

Proposed Revenue Investments

Ref No	Service	Description of Proposal	Investment	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation etc.)
R1	ICT	Cyber Attacks - Event Monitoring Software Solution	Revenue Investment	6	6	6	6	This software solution is required to be in place for NHDC to retain its PSN Accreditation and all external links to the DWP and other government (.gov) websites.
R2	ICT	Cadcorp Local Knowledge & Notice Board Software Solution	Revenue Investment	1	1	1	1	To enhance the Council's channel migration programme, this software will enable current GIS Data to be extracted and populated into the NHDC Web Services so searches for My Councillor, Waste Collections, Listed Buildings, Planning Applications etc... can all be found in one place.
R3	Planning Services	Planning Resource Review	Revenue Investment	140	140	140	140	Review of resources required as the Local Plan progresses has identified that the budget provision for the Planinng Service will need to increase and it is proposed that the anticipated 20% increase in fees is used to meet the additional costs.
			Total Revenue Investments	**147**	**147**	**147**	**147**	

Grand Total Net Revenue Impact (all above)	**Total Net impact**	**- 2,094**	**- 2,620**	**- 2,681**	**- 2,731**

Efficiencies earmarked in 2018/19 (and/or beyond) resulting from previous decisions- excluding waste contract (superceded)

	Service	Description of Proposal	Efficiency	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Corresponding Investment Required	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
PE7	Property Services	Floor Space in DCO Net savings of £20k are expected to be achieved by moving Careline from Harkness Court to the DCO. This also provides for potential further income in relation to renovating in to 2 flats and letting these through the Property Company. There will still be available office space to let out at the DCO, which as well as letting income could also provide parking and ancilary (e.g. IT) service income. There could also be income from room hire.	Expenditure reduction	-	-	-	-	Capital	-	-	-	-
			Additional Income	- 50	- 50	- 50	- 50	Revenue	-	-	-	-
			Total	- 50	- 50	- 50	- 50	Total	-	-	-	-
PE8	Democratic Services	Whole Council elections as opposed to the current arrangement of elections by thirds. Such a proposal cannot be implemented in a year where there are County Council elections. The existing budget has provision of £89k for a one third District Council (DC) election for those financial years where a DC election is scheduled to take place. Efficiency value assumes a whole district council election in May 2019, joining the majority of district councils conducting whole council elections in this year. The estimated £143,000 budget required for a standalone election would need to be reinstated for the year of the next election (2023/24) and every fourth year thereafter.	Expenditure reduction	-	-	- 89	- 89	Capital	-	-	-	-
			Additional Income	-	-	-	-	Revenue	-	54	-	-
			Total	-	-	- 89	- 89	Total	-	54	-	-
PE11	Green Space (Green Space Strategy & Grounds Maintenance)	Rationalisation of playgrounds following the Green Space Strategy Review and the adoption of the Green Space Strategy 2017-21. Play areas identified in the review as less used that are not transferred to a third party by March 2018 will have equipment removed and be managed as green space. The revenue expenditure reduction value is based on the transfer or removal of 13 of the existing 47 play areas. Annual cost saving achieved would be subject to negotiations with the contractor. Cost of decommissioning is expected to be funded from capital resource under the flexible use of capital receipts direction.	Expenditure reduction	- 29	- 29	- 29	- 29	Capital	130	-	-	-
			Additional Income	-	-	-	-	Revenue	-	-	-	-
			Total	- 29	- 29	- 29	- 29	Total	130	-	-	-

Ref No	Service	Description of Proposal	Efficiency					Corresponding Investment Required				
				2018/19	2019/20	2020/21	2021/22		2018/19	2019/20	2020/21	2021/22
				£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
PE12	Green Space (Green Space Strategy & Grounds Maintenance)	Rationalisation of football pavilions following the Green Space Strategy Review and the adoption of the Green Space Strategy 2017-21. Expenditure reduction value represents the reduction in maintenance costs based on the option to retain the football pavilions at Grange, Ransoms and Swinburn and to transfer the remaining four pavilions at Cadwell Lane, St Johns, Walsworth and Bakers Close. These four pavilions will be demolished and returned to green space if not transferred to a third party by March 2018. Further revenue efficiencies could be achieved if Section 106 capital money can be secured for a new Walsworth pavilion (only the Grange and Walsworth would then be retained). Cost of decommissioning is expected to be funded from capital resource under the flexible use of capital receipts direction.	**Expenditure reduction**	- 8	- 8	- 8	- 8	**Capital**	120	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 8	- 8	- 8	- 8	**Total**	120	-	-	-
PE13	Planning	Increase in planning activity and planning application income following the approval of the Local Plan, which is to be submitted in early 2017. Meeting the need for enforcement and monitoring of the new sites in the Local Plan may however require some additional staffing resource in the coming years. This will be kept under review.	**Expenditure reduction**	-	-	-	-	**Capital**	-	-	-	-
			Additional Income	- 50	- 50	- 50	- 50	**Revenue**	-	-	-	-
			Total	- 50	- 50	- 50	- 50	**Total**	-	-	-	-

Ref No	Service	Description of Proposal	Efficiency					Corresponding Investment Required				
				2018/19	2019/20	2020/21	2021/22		2018/19	2019/20	2020/21	2021/22
				£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
PE15	Corporate	Corporate restructure: annual staff salary cost saving from phase 2 of the restructure.	**Expenditure reduction**	- 200	- 200	- 200	- 200	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 200	- 200	- 200	- 200	**Total**	-	-	-	-
PE23	Finance, Performance & Asset Management	The launch of an NHDC Lottery. Efficiency values are based on activity generated by the Aylesbury Vale lottery and assume 60% of the value of the tickets sold at £1 can be directed to fund activities in the NHDC area. Revenue generated could therefore be used to fund area grant awards.	**Expenditure reduction**	-	-	-	-	**Capital**	-	-	-	-
			Additional Income	- 15	- 15	- 15	- 15	**Revenue**	-	-	-	-
			Total	- 15	- 15	- 15	- 15	**Total**	-	-	-	-
PE25	Policy & Community Services	Replace area committees with a more informal alternative. The amount of saving of the direct administration cost of supporting Area Committees could be in the region of £50k, but would be dependent on the format and frequency of any alternative.	**Expenditure reduction**	- 50	- 50	- 50	- 50	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 50	- 50	- 50	- 50	**Total**	-	-	-	-

Ref No	Service	Description of Proposal	Efficiency					Corresponding Investment Required				
				2018/19	2019/20	2020/21	2021/22		2018/19	2019/20	2020/21	2021/22
				£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
PE26	Policy & Community Services	Cease MOU and contractual payments to identified Community Groups. Payments ceasing in 2017/18: Herts & Middlesex Wildlife Trust, Relate, Area Rape Crisis Line. Phased reduction in payments to Town Centre Partnerships: Royston (ceasing March 2018) and Baldock (ceasing March 2020) Reduction over a 3 year term from 2017/18 (ceasing March 2020): Hitchin British Schools Museum, North Herts Arts Council, Sports North Herts and Stevenage & North Herts Womens Resource Centre	**Expenditure reduction**	- 12	- 21	- 30	- 30	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	-	-	-	-
			Total	- 12	- 21	- 30	- 30	**Total**	-	-	-	-
PE29	IT	Provision of paperless reporting. Printing and delivery of meeting papers to Councillors and Senior Officers in 2015/16 cost 14K in paper, ink and secure delivery fees. Level of initial expenditure outlay in purchasing tablets (est. £350 per tablet inc. keyboard and data security software) and corresponding efficiency would be dependent on the level of take-up by Councillors. Additional charges are still to be established around the purchase and support and maintenance of the application system that will deliver this.	**Expenditure reduction**	- 14	- 14	- 14	- 14	**Capital**	-	-	-	-
			Additional Income	-	-	-	-	**Revenue**	tbc	tbc	tbc	tbc
			Total	- 14	- 14	- 14	- 14	**Total**	-	-	-	-

Total Net Budget Reduction	**Total Expenditure reduction**	**- 313**	**- 322**	**- 420**	**- 420**	**Total Capital**	**250**	**-**	**-**	**-**
	Total Additional Income	**- 65**	**- 65**	**- 65**	**- 65**	**Total Revenue**	**-**	**54**	**-**	**-**
	Total Efficiencies	**- 378**	**- 387**	**- 485**	**- 485**	**Total Investment**	**250**	**54**	**-**	**-**

Financial Risks 2018/19

Service	Financial Risk Ref. No.	Risk	Risk Reg no	High/ Medium/ Low	Risk Value £	%	Total Risk Assessment £
Legal Services	FR1	Legal team resources - requirement due to recruitment/retention issues to use temp. staff or outsource work. Additional external expertise for assistance with the delivery of key Corporate projects or Governance issues	RR508	M	85,000	25%	21,250
	FR2	Legal expertise related to employment cases	RR508	M	50,000	25%	12,500
	FR3	The Council is required to meet the cost of any award from new or ongoing judicial reviews.		M	30,000	25%	7,500
	FR4	Possible procurement challenge. Legal costs and costs of re-tendering if necessary.	RR530	H	100,000	50%	50,000
	FR5	Costs incurred from an increased number of prosecutions pursued in court, for example due to persistent flytipping or benefit fraud		M	50,000	25%	12,500
Housing & Public Protection	FR6	Lack of resilience in delivering key statutory services when staff absence occurs (other than normal leave) e.g. medium/long term sickness, staff resignations, etc.	RR534	H	20,000	50%	10,000
	FR7	Failure to meet projected Careline sales income as a result of the loss of a corporate client or fall in the number of private clients.	RR467.001	H	50,000	50%	25,000
	FR8	The payment of compensation to Careline's corporate or retail customers arising from a service interruption.	RR466	M	10,000	25%	2,500
	FR9	Termination of North Hertfordshire Housing Partnership and end of shared policy/software arrangements with North Herts Homes.	RR543	L	20,000	0%	0
	FR10	Usage of bed and breakfast accommodation for homeless households.	TR60	M	180,000	25%	45,000
	FR11	Domestic Homicide Review – additional resources in relation to Domestic Homicide Reviews and other partnership requirements	RR475	L	15,000	0%	0
	FR12	External challenge to review of licensing fee structure.	RR525	M	40,000	25%	10,000
Development, Building Control & Strategic Planning	FR13	Costs associated with receipt of a 'hostile' planning application	TR54	L	50,000	0%	0
	FR14	Development & implementation of Town Centre Strategies (additional consultancy support to implement Town Centre Strategies e.g. Hitchin)	RR517	L	50,000	0%	0
	FR15	Vehicle Parking Town-wide Reviews: displacement issues following implementation of approved schemes may require further TRO's	RR468	L	30,000	0%	0
	FR16	Dangerous structures - additional costs to the Authority from either increase in numbers of dangerous structure cases or particularly severe cases. The risk covers staff time and the cost to make the structure safe. Costs may not be recoverable within the same financial year or not all, e.g. due to the owner declaring bankruptcy.	RR364	M	50,000	25%	12,500
	FR17	Specialist advice with regard to potential planning applications (e.g. town centre schemes)	RR517	M	50,000	25%	12,500
	FR18	Costs associated with challenges / work, to and in connection with, other authorities / organisations / bodies etc. plans, policies/strategies/proposals etc., due to their impact upon the District	TR52.002	H	250,000	50%	125,000
	FR19	Planning and building control applications – costs associated with an appeal, public inquiry, Secretary of State call in, judicial review or other challenge against the Council's decision.	RR398	H	500,000	50%	250,000
	FR20	Enforcement – costs in relation to the enforcement of planning enforcement notices through legal /direct action or appeal processes.	RR398	M	100,000	25%	25,000
	FR21	Changes to government policy relating to planning e.g.: impact of Housing & Planning Act, Neighbourhood Planning Bill etc…	TR52.001	L	25,000	0%	0
	FR22	Neighbourhood Planning: costs of consultants, consultation, examination and referendum incurred in the production of Neighbourhood Development Plans.	TR52.001	H	60,000	50%	30,000
	FR23	Local Plan: additional costs associated with progressing the Local Plan.	TR54	H	500,000	50%	250,000
	FR24	Local Plan: costs associated with a challenge to the Local Plan either from the Council or another stakeholder/authority	TR54	M	300,000	25%	75,000
Cultural Services	FR25	Further delay to the opening of the North Herts Museum and Cafe due to unanticipated incidents hinders the achievement of the operating surplus anticipated from the Community facility.	TR39	M	100,000	25%	25,000
	FR26	Net cost of operating the Hitchin Town Hall Cafe is greater than previously indicated to cabinet in July 2015 due to greater than estimated running costs or lower than anticipated demand.	TR39	M	70,000	25%	17,500
Leisure & Environment	FR27	The council is forced to re-tender a major contract if a contractor is unable to deliver a contract for any reason .	RR530	L	300,000	0%	0
	FR30	Unforeseen issues arising relating to the mobilisation of the new Waste, Recycling and Street Cleansing contract require additional staffing resource to resolve.		M	100,000	25%	25,000
	FR31	Increase in the net cost of recycling services due to either or all of ; adverse changes in the market prices for commodities; a reduction in the volume of recyclates collected; a change in the material composition of the recyclates collected	TR59.007	H	50,000	50%	25,000
	FR32	Reduction in funding from third party agency agreements for contracted grounds and/or tree maintenance works.	RR320	L	50,000	0%	0
	FR33	Costs resulting from a localised flooding event that is associated with water courses within the responsibility of NHDC to maintain.	RR479	L	100,000	0%	0
	FR34	Cost of felling and destroying trees as a result of tree disease	RR099.002	M	75,000	25%	18,750
	FR35	Theft of or damage to parking pay & display equipment	RR308	M	20,000	25%	5,000

Known Financial Risks for 2018/19

Service	Financial Risk Ref. No.	Risk	Risk Reg no	High/ Medium/ Low	Risk Value £	%	Total Risk Assessment £
Finance, Performance and Asset Management	FR36	Achievement of vacancy control target of £200K in light of reduced staff levels and turnover, and the risk of cross-over with the saving from the Corporate restructure	TR08	M	200,000	25%	50,000
	FR37	Adverse possession of land/buildings. (litigation costs)Protection of "Village Greens". Signs/fences need to be constructed to avoid residents claiming ownership rights.	RR049	M	35,000	25%	8,750
	FR38	Contamination clear-up costs for disposal/vacant sites	RR481	L	100,000	0%	0
	FR39	Breach of partial-exemption calculation for VAT	RR527	L	300,000	0%	0
	FR40	Travellers eviction and clear-up costs	RR383	M	20,000	25%	5,000
	FR41	Exceptional repairs and maintenance required for Council properties	RR500	L	50,000	0%	0
	FR42	An emergency in the District leading to a shortfall in Belwin Funding and any costs from calling in support from our external contractors	RR553	L	40,000	0%	0
	FR43	The Council is obliged to make compensation payments to affected parties under the Assets of Community Value legislation.	RR512	L	20,000	0%	0
	FR44	Localisation of Business Rates – The council is now directly exposed to a range of risks, including: impact of levy, assumed rates of growth, safety net.	TR08	M	200,000	25%	50,000
	FR45	Member/Officer Indemnity Agreement is called upon		L	100,000	0%	0
	FR46	Further levy is charged through the MMI Scheme of Arrangement	RR271	M	20,000	25%	5,000
	FR47	Treasury Management - potential default by a counter party	RR448	L	1,000,000	0%	0
	FR48	Difficulty in recruiting Facilities Assistants results in higher expenditure on agency staff		M	15,000	25%	3,750
	FR49	Indemnity provided by the Council is called upon by lenders following default(s) on mortgage(s) secured through the local authority mortgage scheme.		L	1,000,000	0%	
	FR50	Cost of energy efficiency improvements required to lower energy rated properties in order to comply with the minimum energy efficiency standards introduced by government legislation. The regulations will come into force for new lets and renewals of tenancies with effect from 1st April 2018 and for all existing tenancies on 1st April 2020.		M	50,000	25%	12,500
Revenues, Benefits and IT	FR51	Fines for breaches of the EU General Data Protection Regulation by the Council or by NHDC outsourced providers when handling and storing data originally collected by NHDC	RR304	L	500,000	0%	0
	FR52	Failure to hit target on collecting summons's costs	TR08	M	15,000	25%	3,750
	FR53	Bad Debt Provision may need to increase in light of changes to housing benefits, the Business Rates scheme, Council Tax Reduction Scheme and the general economic downturn.	RR516	M	70,000	25%	17,500
	FR54	Ransomware attack results in the write-off of IT hardware and infrastructure.	TR62	L	200,000	0%	0
Democratic Services	FR55	District by-election		L	4,000	0%	0
Human Resources	FR56	Employment related risks related to outsourcing, shared services and restructuring	RR248	H	150,000	50%	75,000
	FR57	Additional salary costs following the pay and job evaluation of the new Service Director posts introduced as part of the senior management restructure.	TR07	H	100,000	50%	50,000
	FR58	Unanticipated additional costs or delay in implementation of phase 2 of the corporate restructure.	TR07	M	200,000	25%	50,000
					7,869,000		**1,423,750**

FINANCE, AUDIT & RISK COMMITTEE
22 JANUARY 2018

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 9

The following is the report to be considered by the Cabinet at its meeting to be held on 23 January 2018. The Committee is invited to comment on the report.

TITLE OF REPORT: CAPITAL PROGRAMME 2018/19 ONWARDS

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT
EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM
COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 To obtain Cabinet's approval of the provisional capital programme for 2018/19 to 2021/22. The current estimate is that total capital expenditure in 2018/19 - 2021/22 will be £17.075m.

2. RECOMMENDATIONS

2.1 That Cabinet approves the inclusion of the new capital investment proposals and revisions to existing proposals, listed in Appendix C, which total £3.274million overall (£1.931million profiled in 2018/19) in the proposed capital programme.

2.2 That Cabinet recommends the provisional capital programme for 2017/18 to 2020/21 of £17.075million, as detailed at Appendix A and Appendix B, to Council for adoption.

3. REASONS FOR RECOMMENDATIONS

3.1 To ensure that the capital programme meets the Council's objectives and officers can plan the implementation of the approved schemes.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 Each proposed capital scheme is the result of consideration of options for continuous service improvement by the relevant Head of Service in consultation with the relevant Executive Member.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 All Members were given opportunity to comment on all new Capital investment proposals, as well as existing projects earmarked in future years, at the Member

Budget Workshops held in November 2017. Notes of the comments and questions raised at the workshops were provided to Cabinet in December.

5.2 Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.

6. FORWARD PLAN

6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on 24 November 2017.

7. BACKGROUND

7.1 The Corporate Business Planning Process begins each year with consideration of policy priorities and the Council's Priorities for the District and a review of the Medium Term Financial Strategy. Finance and other resources are aligned to the strategic priorities as set out in the Corporate Plan. This requires that each proposal for additional investment is linked to one of the three priorities identified in the Priorities document.

7.2 Cabinet receives quarterly updates on the delivery and funding of the Council's capital programme, with the report presented at the November meeting of Cabinet providing estimates as at the end of the second quarter of 2017/18. The report advised that total expenditure of £28.322m would be required to deliver the current capital programme for 2017-2021, with £14.520m forecast to be spent in 2017/18. Table 1 below details the changes to the existing capital programme reported to Cabinet since the Capital Programme was approved by Full Council in February 2017.

Table 1- Capital Estimates

	2017/18 £M	2018/19 £M	2019/20 to 2020/21 £M
Original Estimates approved by Full Council February 2017	**8.465**	**4.788**	**3.197**
Changes approved by Cabinet in 2016/17 Capital Outturn report	12.125	-0.365	0.025
Revised Capital Estimates at start of 2017/18	**20.590**	**4.423**	**3.222**
Changes approved by Cabinet at 1st Quarter	-5.451	5.234	0
Changes approved by Cabinet at 2nd Quarter	-0.619	0.923	0
Current Capital Estimates	**14.520**	**10.580**	**3.222**

7.3 The December meeting of Cabinet received details of new capital investment proposals and proposed revisions to existing projects that were collated and reviewed as part of the annual Corporate Business planning process.

8. RELEVANT CONSIDERATIONS

Capital Programme 2018/19 and onwards

8.1 The Council has adopted three high level priorities for 2018/19 and onwards. These are:

- Attractive & Thriving
- Prosper & Protect and
- Responsive & Efficient

8.2 The strategic summary in Appendix A aligns the capital programme to Council priorities while also demonstrating the overall funding position year on year. The scheme by scheme details are shown in Appendix B. The estimated capital spend in 2018/19 is 12.511million. The total estimated capital spend over the period 2018/19 to 2021/22 is £17.075m.

8.3 The new capital investment proposals and proposed revisions to existing projects are detailed in Appendix C.

Capital Programme Funding 2017/18 and onwards

8.4 The capital programme can be funded by a combination of third party contributions (e.g. S106 and grants), government grants, revenue contributions, prudential borrowing and useable and set aside capital receipts. The estimated intended funding from each source for the capital programme is shown in Appendix A.

8.5 The largest assumed source of funding is through the use of Council resources, either via capital receipts or set aside capital receipts. The impact of using the set aside receipts (which are not replenished with more receipts) is to reduce the amount of cash available for treasury investment. This means there is an adverse General Fund impact resulting from capital expenditure which is funded by this means, as the amount of interest received on investments reduces. It is estimated that the forecast balance remaining at the end of 2017/18 of £5.145m of set aside capital receipts will reduce to zero over the period 2018/19 to 2021/22, while there will also be a total demand on usable capital receipts of £6.855m. At an average interest rate of 0.7%, this money would have generated the General Fund income up to £84k per annum. Each capital scheme must be individually assessed on its own merits and business case but the overall affordability of the capital programme must also remain under review. This is done by reviewing the Capital Financing Requirement in the Treasury Strategy and making sure an appropriate level of adjustment is reflected in the general fund estimates.

8.6 Appendix A shows that the total planned demand on the set-aside receipts is greater than the balance available at the start of 2017/18. This however is based on the current profile (timing) of capital expenditure. It is likely that there will be changes to the profile of spend and that usable capital receipts might be available to fund expenditure as and when the set-aside receipts reduce to zero. If this is not the case then the Council will need to use revenue contributions or borrow to fund this capital expenditure.

8.7 The availability of third party contributions and grants to fund capital investment is continuously sought in order to alleviate pressure on the Council's available capital receipts and allow for further investment. In 2018/19 a total of £2.0million of third party contributions and grants is expected to be applied.

Asset Disposals

8.8 A number of assets have been identified for disposal via the asset management plan and it is anticipated that the Council will complete disposals over the period 2018/19 - 2021/22 that will generate receipts of around £8.5million.

8.9 The capital receipts direction allows new capital receipts to be used for one-off revenue purposes to support transformation and efficiency projects that deliver ongoing revenue savings. It is intended to make use of this option in 2018/19 to fund the proposals to decommission identified pavilions and playgrounds, as detailed in Appendix C.

9. LEGAL IMPLICATIONS

9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering the capital programme and its impact upon the revenue budget Cabinet is able to make informed recommendations on the budget to Council.

9.2 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.

10. FINANCIAL IMPLICATIONS

10.1 The main financial implications are covered in section 8 of the report. The Authority can call upon borrowing or the disposal of its non-core assets if needed and if considered affordable.

10.2 The Authority operates a 10% tolerance limit for most capital projects and on this basis over the next four-year programme (2018/19 - 2021/22) it should be anticipated that the total spend over the period could be £1.708million higher than the estimated £17.075million. The authority will need to continuously review the affordability of the capital programme in the light of the asset disposal programme, availability of third party funds and impact on the general fund, including the on-going revenue liabilities arising from new capital schemes. The asset disposal programme has to be carefully reviewed in the light of market conditions while considering the demands for resources from the capital programme.

11. RISK IMPLICATIONS

11.1 Capital investment is sometimes needed to mitigate against a risk to the Council. This should be detailed to Members when a new investment comes forward (see the anticipated impact column on Appendix C).

11.2 The risk implications of each individual scheme are considered in project plans as the schemes are progressed.

11.3 The capital programme assumes a level of third party contributions and grants towards the cost of the schemes. There is a risk that not all the contributions are forthcoming.

12. EQUALITIES IMPLICATIONS

12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 There are no direct equalities implications directly arising from the adoption of the Capital Programme for 2018/19 onwards. For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out. This will take place following agreement of the investment proposal.

13. SOCIAL VALUE IMPLICATIONS

13.1 The Social Value Act and “go local” policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resource or employee equality implications.

15. APPENDICES

15.1 Appendix A: Capital Programme Summary.

15.2 Appendix B: Capital Programme Detail.

15.3 Appendix C: New Capital Investment Proposals and proposed revisions to existing projects for 2018/19 and onwards.

16. CONTACT OFFICERS

16.1 Antonio Ciampa, Accountancy Manager
antonio.Ciampa@north-herts.gov.uk; ext 4566

16.2 Ian Couper, Head of Finance, Performance and Asset Management
ian.Couper@north-herts.gov.uk; ext 4243

16.3 Dean Fury, Corporate Support Accountant
dean.Fury@north-herts.gov.uk; ext 4509

By Council Priority

Priority	2016/17 Outturn £'000	2017/18 Working Budget £'000	2017/18 Revised Budget £'000	Movement £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Attractive & Thriving	2,106	3,529	3,529	0	3,600	0	300	0
Prosper & Protect	1,042	526	1,076	550	4,459	150	0	0
Responsive & Efficient	2,538	10,465	10,465	0	4,452	1,678	1,125	1,312
Grand Total	**5,686**	**14,520**	**15,070**	**550**	**12,511**	**1,828**	**1,425**	**1,312**

By Service Group

Service Group	2016/17 Outturn £'000	2017/18 Working Budget £'000	2017/18 Revised Budget £'000	Movement £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Advances & Cash Incentives	0	0	0	0	1,096	0	0	0
Asset Management	1,395	5,753	5,753	0	3,525	150	0	0
CCTV	69	35	35	0	0	0	0	0
Community Services	428	371	371	0	636	250	120	0
Computer Software and Equipment	410	290	290	0	111	538	115	507
Corporate Items	2	11	11	0	2,500	0	0	0
Growth Fund Projects	0	0	0	0	713	0	0	0
Leisure Facilities	1,965	3,252	3,252	0	2,209	85	385	0
Museum & Arts	715	149	699	550	0	0	0	0
Parking	125	430	430	0	916	0	0	0
Renovation & Reinstatement Grant Expenditure	544	630	630	0	805	805	805	805
Waste Collection	32	3,600	3,600	0	0	0	0	0
Grand Total	**5,686**	**14,520**	**15,070**	**550**	**12,511**	**1,828**	**1,425**	**1,312**

Capital Funding Source

Funding Source	2016/17 Funding £'000	2017/18 Working Budget £'000	2017/18 Revised Budget £'000	Movement £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Funding £'000
Government Grant	520	600	600	0	1,508	745	745	745
Revenue Contribution / Borrowing	0	0	0	0	540	0	0	0
Other Capital Contributions	196	0	520	520	163	0	250	0
S106 Funding	457	347	347	0	341	0	37	0
Capital Receipt	2,328	2,586	2,106	-480	4,813	1,083	393	567
Drawdown of cash investments	2,185	10,987	11,497	510	5,145	0	0	0
Grand Total	**5,686**	**14,520**	**15,070**	**550**	**12,511**	**1,828**	**1,425**	**1,312**

Capital Receipt Analysis

	2016/17 Outturn £'000	2017/18 Working Budget £'000	2017/18 Revised Funding £'000		2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
B/fwd Capital Receipt Funding	-5,462	-3,221	-3,221		-2,315	-2	-2,920	-3,277
Add: Capital Receipts Received in Year	-87	-1,040	-1,200	-160	-2,500	-4,000	-750	-1,250
Less: Capital Receipts Used in Year	2,328	2,586	2,106	-480	4,813	1,083	393	567
C/Fwd Capital Receipt Funding	**-3,221**	**-1,675**	**-2,315**	**-640**	**-2**	**-2,920**	**-3,277**	**-3,960**

Cash Investments Analysis (set-aside receipts funding)

	2016/17 Outturn £'000	2017/18 Working Budget £'000	2017/18 Revised Funding £'000		2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
B/fwd Cash Investments	-18,827	-16,642	-16,642		-5,145	0	0	0
Drawdown of cash investments	2,185	10,987	11,497	510	5,145	0	0	0
C/Fwd Cash Investments	**-16,642**	**-5,656**	**-5,145**	**510**	**0**	**0**	**0**	**0**

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Service Group	Project	Spend in Prior Years £'000	2017/18 Revised Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	Total Scheme Cost £'000
Advances & Cash Incentives								
	John Barker Place, Hitchin	0	0	1,096	0	0	0	1,096
Advances & Cash Incentives Total		**0**	**0**	**1,096**	**0**	**0**	**0**	**1,096**
Asset Management								
	Council property improvements following condition surveys	260	65	875	0	0	0	1,200
	Energy efficiency measures	0	60	0	0	0	0	60
	Provide housing at market rents	0	200	2,650	150	0	0	3,000
	Refurbishment of DCO	811	5,268	0	0	0	0	6,079
	Replacement of Walsworth Common Access Bridge	9	120	0	0	0	0	129
	Storage Facilities	515	40	0	0	0	0	555
Asset Management Total		**1,595**	**5,753**	**3,525**	**150**	**0**	**0**	**11,023**
CCTV								
	Replacement of neighbourhood CCTV equipment	0	35	0	0	0	0	35
CCTV Total		**0**	**35**	**0**	**0**	**0**	**0**	**35**
Community Services								
	Area Visioning	321	26	0	0	0	0	347
	Baldock Town Hall project	36	77	0	0	0	0	113
	Demolition of Bancroft Hall	47	1	0	0	0	0	48
	Refurbishment and improvement of community facilities	0	200	636	250	120	0	1,206
	S106 Projects	635	67	0	0	0	0	702
Community Services Total		**1,039**	**371**	**636**	**250**	**120**	**0**	**2,417**
Computer Software and Equipment								
	40 KVA UPS Device or Battery Replacement	7	0	0	7	0	0	14
	Additional PC's - Support Home Working/OAP	0	13	0	13	0	0	26
	Additional Storage	0	12	0	13	0	0	25
	Alarm Receiving Centre (ARD) Upgrade	0	30	0	0	0	0	30
	Alternative to safeword tokens for staff/members working remotely	0	0	0	8	0	0	8
	Back-up Diesel 40 KVA Generator (DCO)	0	0	0	20	0	0	20
	Cabinet Switches - 4 Floors	0	15	0	0	0	18	33
	Cadcorp Local Knowledge & Notice Board Software	0	0	14	0	0	0	14
	Careline Call Handling Hardware and Software	104	5	0	0	0	0	109
	Channel shift - processing of housing register applications	0	20	20	0	0	0	40
	Core Backbone Switches	10	0	0	20	0	0	30
	Customer Self Serve Module	10	3	0	0	0	0	13
	Cyber Attacks - Events Monitoring Software Solution	0	0	30	0	0	0	30
	Dell Servers	0	0	0	65	0	0	65
	Disaster Recovery Set Up	42	47	0	25	0	0	115
	Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract	0	29	0	0	39	0	68
	Email Encryption Software Solution	31	0	0	0	45	0	76
	Laptops - Refresh Programme	0	0	6	0	6	0	12
	Microsoft Enterprise Agreement	260	0	0	200	0	450	910
	New Blade Enclosure	0	0	0	32	0	0	32
	PC refresh programme	53	17	17	17	17	17	138
	Permit gateway Citizen - to enable customers to renew permits on line	4	11	0	0	0	0	15
	Recording of Council Meetings	0	64	0	0	0	0	64
	Replacement SAN	0	0	0	110	0	0	110
	Security - Firewalls	0	10	14	0	0	14	38
	Software for personalised bills and annual billing	13	6	0	0	0	0	19
	Tablets - Android Devices	7	8	10	8	8	8	49
Computer Software and Equipment Total		**542**	**290**	**111**	**538**	**115**	**507**	**2,102**
Corporate Items								
	Capitalised Pension Fund Contribution	2,447	0	2,500	0	0	0	4,947
	Telephony system	124	11	0	0	0	0	135
Corporate Items Total		**2,571**	**11**	**2,500**	**0**	**0**	**0**	**5,082**
Growth Fund Projects								
	Cycle Strategy implementation (GAF)	122	0	278	0	0	0	400
	Green Infrastructure implementation (GAF)	45	0	185	0	0	0	230
	Transport Plans implementation (GAF)	109	0	250	0	0	0	359
Growth Fund Projects Total		**276**	**0**	**713**	**0**	**0**	**0**	**989**

Service Group	Project	Spend in Prior Years £'000	2017/18 Revised Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	Total Scheme Cost £'000
Leisure Facilities								
	Bancroft Gardens Play Area	21	54	0	0	0	0	75
	Bancroft Recreation Ground, Hitchin, Multi Use Games Area (MUGA)	0	0	170	0	0	0	170
	Construction of pathway and roadway, Wilbury Hills Cemetery, Letchworth	0	0	35	0	0	0	35
	Decommissioning of Pavilions	0	0	120	0	0	0	120
	Decommissioning of Play Areas	0	0	130	0	0	0	130
	Dog / Litter Bins	0	40	0	0	0	0	40
	Hitchin & Royston Fitness Equipment	206	520	0	0	0	0	726
	Hitchin Outdoor Pool Showers and Toilets	0	75	0	0	0	0	75
	Hitchin Swimming Centre Lift	0	100	0	0	0	0	100
	Hitchin Swimming Pool Car Park extension	32	50	476	0	0	0	558
	Jackmans Central Play Area Renovation	0	75	0	0	0	0	75
	Letchworth Outdoor Pool safety surface	0	0	60	0	0	0	60
	Letchworth Outdoor Pool Showers and Toilets	0	75	0	0	0	0	75
	New changing rooms, Walsworth Common, Hitchin	0	0	0	0	300	0	300
	North Herts Leisure Centre Development	1,697	1,922	0	0	0	0	3,619
	Norton Common Wheeled Sports improvements	13	159	0	0	0	0	172
	Relay concrete slabs that surround the Hitchin outdoor pool	25	35	0	0	0	0	60
	Renew pathways at Bancroft Recreation Ground, Hitchin	0	50	0	0	0	0	50
	Renovate play area Howard Park, Letchworth	0	0	0	0	75	0	75
	Renovate play area King George V Recreation Ground, Hitchin	0	0	0	75	0	0	75
	Renovate play area, District Park, Gt. Ashby	0	0	75	0	0	0	75
	Replace items of equipment, Brook View, Hitchin	0	10	0	0	0	0	10
	Replace items of play equipment Holroyd Cres, Baldock	0	0	0	0	10	0	10
	Replace items of play equipment Wilbury Recreation Ground, Letchworth	0	0	0	10	0	0	10
	Replace items of play equipment, Chiltern Road, Baldock	0	0	10	0	0	0	10
	Royston Leisure Centre extension	0	0	1,000	0	0	0	1,000
	Serby Avenue Play Area renovation, Royston	67	8	0	0	0	0	75
	Smithsons Recreation Ground	27	2	0	0	0	0	29
	Splash Park at Bancroft Recreation Ground	186	12	0	0	0	0	198
	Splash Park at Priory Memorial, Royston	157	15	0	0	0	0	172
	Ultra Violet water disinfection system	0	50	0	0	0	0	50
	Walsworth Common Pitch Improvements	0	0	103	0	0	0	103
	Walsworth Common Reconstruction of Car Park	0	0	30	0	0	0	30
Leisure Facilities Total		**2,432**	**3,252**	**2,209**	**85**	**385**	**0**	**8,362**
Museum & Arts								
	Burymead Road - new roof waterproofing system	53	2	0	0	0	0	55
	NH Museum & Community Facility	5,183	147	0	0	0	0	5,329
	Purchase of 14 & 15 Brand Street	0	550	0	0	0	0	550
Museum & Arts Total		**5,236**	**699**	**0**	**0**	**0**	**0**	**5,935**
Parking								
	Installation of trial on-street charging (GAF)	0	0	50	0	0	0	50
	Lairage Multi Storey Safety and Equalities Act improvements	0	40	0	0	0	0	40
	Lairage Multi-Storey Car Park - Structural wall repairs	172	6	120	0	0	0	298
	Letchworth Multi Storey Safety Edge Protection Fencing	0	120	0	0	0	0	120
	Letchworth Multi_storey Car Park - parapet walls, soffit & decoration	3	147	0	0	0	0	149
	Letchworth multi-storey car park - lighting	200	23	0	0	0	0	223
	Off Street Car Parks resurfacing and enhancement	188	60	91	0	0	0	339
	Replace and enhance lighting at St Mary's Car Park	0	0	60	0	0	0	60
	Refurbishment of lifts at Lairage Car Park	0	0	360	0	0	0	360
	St Mary's car park. Structural repairs to steps	6	35	0	0	0	0	41
	Town Centre pay & display machines for on-street charging	0	0	235	0	0	0	235
Parking Total		**570**	**430**	**916**	**0**	**0**	**0**	**1,916**
Renovation & Reinstatement Grant Expenditure								
	Mandatory Disabled Facility Grants	8,591	600	745	745	745	745	12,171
	Private Sector Grants	952	30	60	60	60	60	1,222
Renovation & Reinstatement Grant Expenditure Total		**9,543**	**630**	**805**	**805**	**805**	**805**	**13,393**
Waste collection								
	Waste and Street Cleansing Vehicles	0	3,600	0	0	0	0	3,600
Waste Collection Total		**0**	**3,600**	**0**	**0**	**0**	**0**	**3,600**
Grand Total		**23,804**	**15,070**	**12,511**	**1,828**	**1,425**	**1,312**	**55,949**

CAPITAL INVESTMENT PROPOSALS

Ref No	Service	Responsible Head of Service / Corporate Manager	Description of Proposal	Corporate Priority	Total Project Investment 2018/19 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2018/19	Proposed Investment in 2019/20	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc.)
					£'000	£'000	£'000	£'000	£'000	£'000	*£'000*	
Projects and / or values highlighted in yellow indicate new proposals or proposed revision(s) to existing proposals. Revisions to existing proposals are clarified in the accompanying commentary.												
New proposals and proposed revisions to existing proposals												
ECP12	Leisure Facilities	Head of Leisure & Environmental Services	Hitchin Swimming Pool Car Park extension	Attractive & Thriving	476	-	476	0	0	0	*0*	To provide a new car park at HSC. UPDATE CBP 2018/19: Proposed to increase the existing capital provision by an additional £250,000 as; the Council has had to spend money as part of the Section 38 approval and the legal cost of the land swap; the original construction cost estimates were prepared over five years ago and construction costs have since increased. The revised project budget has been estimated at a cost of £5,000 per parking space.
ECP40	IT	Head of Revenues & Benefits & IT & MSU	Microsoft Enterprise Agreement	Responsive & Efficient	650	-	0	200	0	450	*0*	NHDC entered into a 3 year Contract for the use of Microsoft Licences for which 2017/18 represents year 2 of 3. There is the option within the contract to extend by a further 2 years. It is essential NHDC has the correct Microsoft Licences to ensure we do not fall foul of F.A.S.T (Fraud Against Software Threat) regulations. UPDATE CBP 2018/19: £450k is requested to be earmarked for renewal of licences contract in 2021/22
NCP1	IT	Head of Revenues & Benefits & IT & MSU	Cadcorp Local Knowledge & Notice Board Software	Responsive & Efficient	14	-	14	0	0	0	*1*	This software collates current stored information from the current GIS software and presents it as a web page which can be tailored to display data such as Waste Collections, Recycling Collections (dates), your Councillor, Planning Applications, Listed Buildings etc. all in a single view via the NHDC Website. This software will benefit the public and officers alike when researching NHDC information.
NCP2	IT	Head of Revenues & Benefits & IT & MSU	Cyber Attacks - Events Monitoring Software Solution	Responsive & Efficient	30	-	30	0	0	0	*6*	For the past 6 years NHDC have been using a software solution called GFI Events Management for capturing and reporting potential cyber hacking threats. The contract is due for renewal in May 2018. It is an essential requirement of the PSN that the authority has an active solution in place.
NCP3	Leisure Facilities	Head of Leisure & Environmental Services	Letchworth Outdoor Pool safety surface	Attractive & Thriving	60	-	60	0	0	0	*0*	To remove and replace the existing safety surface at Letchworth Outdoor Pool as the current surface condition is in poor condition. Officers have investigated current market products and these are now more superior to what is currently in situ. The proposed surface will be the same product that was recently installed at Hitchin Outdoor Pool.
NCP4	Leisure Facilities	Head of Leisure & Environmental Services	Royston Leisure Centre extension	Attractive & Thriving	1,000	-	1,000	0	0	0	*tbc*	To extend the front of the Royston Leisure Centre. This will provide a new multi functional room and increase the size of the fitness room. The gym membership at Royston Leisure Centre is close to capacity and a recent latent demand survey demonstrated there is a demand to increase the size of this facility. By undertaking the capital work the Council will renegotiate the Leisure Management contract and SLL will increase their management fee to the Council. The revenue implication of the project is therefore subject to negotiation and agreement with SLL, but is estimated to involve an increase in the annual return to the General Fund in the range of £120k to £150k.
NCP5	Parks & Countryside Development	Head of Leisure & Environmental Services	Decommissioning of Play Areas	Responsive & Efficient	130	-	130	0	0	0	*-29*	The Councils adopted Green Space Management Strategy 2017-2021 seeks to asset transfer 13 of its less used play areas. Play areas that are not transferred to a third party by March 2018 will have equipment removed and be managed as green space. As this project does not involve enhancing an asset, any investment will ultimately be charged to the Council's General Fund but, as the scheme does deliver service change that leads to ongoing cost reductions, it therefore would be expected to meet the conditions for funding from capital resource under the flexible use of Capital Receipts direction.

CAPITAL INVESTMENT PROPOSALS

Ref No	Service	Responsible Head of Service / Corporate Manager	Description of Proposal	Corporate Priority	Total Project Investment 2018/19 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2018/19	Proposed Investment in 2019/20	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc.)
					£'000	£'000	£'000	£'000	£'000	£'000	£'000	
NCP6	Parks & Countryside Development	Head of Leisure & Environmental Services	Decommissioning of Pavilions	Responsive & Efficient	120	-	120	0	0	0	-8	The Councils adopted Green Space Management Strategy 2017-2021 seeks to asset transfer four pavilions identified as beyond economic repair at Bakers Close, Baldock. St. Johns Road, Cadwell Lane & Walsworth Common, Hitchin. If not transferred to a third party by March 2018 they will be decommissioned & returned to green space. As this project does not involve enhancing an asset, any investment will ultimately be charged to the Council's General Fund but, as the scheme does deliver service change that leads to ongoing cost reductions, it therefore would be expected to meet the conditions for funding from capital resource under the flexible use of Capital Receipts direction.
NCP7	Property Services/ Parking	Head of Finance, Performance and Asset Management/ Head of Leisure & Environmental Services	Refurbishment of lifts at Lairage Car Park	Attractive & Thriving	360	-	360	0	0	0	0	Estimated cost of the refurbishment of the four lifts. The work will be required to ensure that the lifts opearte safely and relaibly. This may not be required until 2019/20.
ECP3	Housing Services	Head of Housing & Public Protection	Disabled Facility Grants	Responsive & Efficient	2,980	2,980	745	745	745	745	0	DFGs are available to owner/occupiers and tenants towards the cost of providing adaptations and facilities to assist older people and people with disabilities. It enables them to remain independent within their own home. In February 2015 Council approved maintaining this level of funding for 2015/6 and beyond whilst a review on longer term options was undertaken. UPDATE 2018/19 CBP: Investment proposed to be extended to 2021/22. Total government grant expectation amended accordingly. 2017/18 total £716k. Total funding value includes application of grant funding held as income in advance (where grant unspent in prior year).
ECP2	Housing Services	Head of Housing & Public Protection	Home Repair Assistance Grants	Responsive & Efficient	240	-	60	60	60	60	0	HRAGs are a discretionary form of assistance specifically designed to provide practical help through a grant for small-scale works. This grant provides cash limited assistance up to £5K within any three-year period, for minor works for owner / occupiers and private tenants who meet certain criteria. HRAGs are means tested and help to eradicate CAT1 Hazards, such as excess cold. In February 2015 Council approved an increase in the level of funding from £35k to £60k per annum for 2015/6 and future years. UPDATE 2018/19 CBP: Investment proposed to be extended to 2021/22
ECP5	IT	Head of Revenues & Benefits & IT & MSU	PC's - Refresh Programme	Responsive & Efficient	68	-	17	17	17	17	0	PC's identified as having reached their end of useful life as part of the annual refresh programme. The assets have been used well past their original end of life because of the introduction of the citrix thin client technology. UPDATE CBP 2018/19: Resource of £17k requested in both 2020/21 and 2021/22
ECP6	IT	Head of Revenues & Benefits & IT & MSU	Tablets - Android Devices	Responsive & Efficient	34	-	10	8	8	8	0	As part of the IT Strategy and supporting the channel migration programme, the tablets are required to continue the roll-out to identified officers who would benefit from having mobile devices to be more efficient and productive. It is becoming increasingly important for those staff who are mobile working that they have the correct tools to view emails and documents whilst on the move. UPDATE CBP 2018/19: Additional £2k resource requested in 2018/19 and £8k earmarked in both 2020/21 and 2021/22
ECP27	IT	Head of Revenues & Benefits & IT & MSU	Security - Firewalls	Responsive & Efficient	28	-	14	0	0	14	0	Firewalls are one of the most important piece of hardware between the NHDC Network and the outside world and it is this equipment that stops cyber attacks from penetrating NHDC systems and data. There is a need to ensure this hardware is kept as current and up to date as possible to ensure the Council's networks and data are kept secure. UPDATE CBP 2018/19: Resource of £14k requested to be programmed in 2021/22

CAPITAL INVESTMENT PROPOSALS

Ref No	Service	Responsible Head of Service / Corporate Manager	Description of Proposal	Corporate Priority	Total Project Investment 2018/19 onwards	Total Anticipated Funding from Grants or Other Contributions	Proposed Investment in 2018/19	Proposed Investment in 2019/20	Proposed Investment in 2020/21	Proposed Investment in 2021/22	Revenue Implication	Anticipated Impact of Proposal (on Public/ Customers/ Staff/ Members/ Reputation/Revenue Budget etc.)
					£'000	£'000	£'000	£'000	£'000	£'000	*£'000*	
ECP4	IT	Head of Revenues & Benefits & IT & MSU	Core Backbone Switch	Responsive & Efficient	20	-	0	20	0	0	*0*	Dual processor switch, which links the virtual servers to the SAN. UPDATE CBP 2018/19: £17k earmarked provision in 2018/19 proposed to be removed.
ECP28	IT	Head of Revenues & Benefits & IT & MSU	Cabinet Switches - 4 Floors	Responsive & Efficient	18	-	0	0	0	18	*0*	This hardware connects each floor across the DCO to each other and back to the IT Data Centre on the ground floor. This hardware is the essential piece of kit that routes the traffic from desktops to the data servers and hence keeping this technology up to date and modern is essential to ensure data speeds are maintained. UPDATE CBP 2018/19: Allocated resource of £18k in 2018/19 reprogrammed to 2021/22.
ECP23	IT	Head of Revenues & Benefits & IT & MSU	Laptops - Refresh Programme	Responsive & Efficient	12	-	6	0	6	0	*0*	Over the past 3 years IT have reduced the laptop estate from 149 devices down to only having 48 still in use. The small budget provision is to ensure we have funds to replace these devices when Windows 7 becomes de-supported or they have reached their end of life as part of the refresh programme. UPDATE CBP 2018/19: Resource allocation of £6k requested in 2020/21.
TOTAL					**6,240**	**2,980**	**3,042**	**1,050**	**836**	**1,312**	**-30**	

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FINANCE, AUDIT & RISK COMMITTEE
22 JANUARY 2018

PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 10

The following is the report to be considered by the Cabinet at its meeting to be held on 23 January 2018. The Committee is invited to comment on the report.

TITLE OF REPORT: TREASURY MANAGEMENT STRATEGY FOR 2018/19

REPORT OF: THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT
EXECUTIVE MEMBER: CLLR JULIAN CUNNINGHAM
COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

1.1 To seek Member approval of the Treasury Strategy Statement for 2018/19 and recommend its adoption by Council. This includes the Treasury Management Prudential Indicators, as required by the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.

1.2 There have been no significant changes to the Treasury Strategy from 2017/18. The main changes relate to borrowing limits (paragraph 8.5.1) and clarifications as to how the Minimum Revenue Provision will be calculated (paragraph 8.6.1).

2. RECOMMENDATIONS

2.1 That Cabinet recommend to Council the adoption of the 2018/19 Treasury Strategy Statement (Appendix C).

2.2 That the Committee review and comment on the compliance with the Code of Practice on Treasury Management.

3. REASONS FOR RECOMMENDATIONS

3.1 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 The Council must have in place a Treasury Strategy Statement, adopted by full Council, before the start of the financial year.

4.2 The primary principle governing the Council's investment criteria is the security of its investments, which includes credit, liquidity and market risk (see section 8 below). After this the return (or yield) is then considered, which provides an income source for the Council. In general, greater returns can be achieved by taking on greater risk. Our current strategy is relatively low risk, but we have still been able to achieve a yield that is above the average achieved by the Link (formerly Capita) Hertfordshire and Buckinghamshire Investment Benchmarking Group. Link Asset Services advisors promote a more risk adverse approach in relation to investments with most Building Societies as they are not rated. This option has been dismissed on the basis of Members' appetite for risk, the impact on the general fund and controls on the value of investments with each Building Society. Link Asset Services would also promote greater diversification in relation to non-UK deposits, however the Council have chosen not to invest outside of the UK.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 There is ongoing dialogue with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link).

6. FORWARD PLAN

6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 24 November 2017.

7. BACKGROUND

7.1 The Treasury Strategy Statement for 2017/18 was approved by Council on 9 February 2017. A mid year review of the Treasury Strategy was provided to Members in November 2017. There have been no changes made to the Strategy during the course of 2017/18

7.2 The Code of Practice on Treasury Management requires that a report be submitted setting out four clauses which should be formally passed in order to approve adoption of the code. CIPFA recommends that public service organisations adopt as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses:

7.2.1 Clause 1

This relates to creating and maintaining a Policy and practices as a cornerstone for effective treasury management:

- A Treasury Management Policy Statement stating the policies, objectives and approach to risk management of its treasury management activities (Appendix A). This is unchanged from the Policy Statement approved by Full Council on 9 February 2017.

- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. (Appendix B).

The content of the Policy Statement and TMPs follow the recommendations contained within the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments are minor and do not result in the organisation materially deviating from the Code's key principles.

7.2.2 Clause 2

This relates to the reporting on treasury activities. In accordance with the Code, there will be:

- An annual report on Policy and practices (as referred to in 7.2.1 above), contained within this report
- Treasury Strategy (a plan for the year), contained within this report
- Annual report after the end of the year, reported to Full Council in July
- Quarterly monitoring reports on treasury activities to Cabinet. This exceeds the guidance which just requires a mid-year review.

All these reports will be in the form set out in the TMPs.

7.2.3 Clause 3

This relates to the delegation of responsibility for the implementation and regular monitoring of its treasury management policies. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet and for the execution and administration of treasury management decisions to the Head of Finance, Performance and Asset Management (the Chief Finance Officer) who will act in accordance with the Authority's policy statement and treasury management practices and the CIPFA Standard of Professional Practice on Treasury Management.

7.2.4 Clause 4

This relates to the scrutiny of treasury management strategy and policies. The Council nominates the Finance, Audit and Risk Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

7.3 The Prudential Code, under the Local Government Act 2003, requires Local Authorities to set an authorised limit and an operational boundary for its total external debt.

7.4 CIPFA revised the Code of Practice on Treasury Management and the Prudential Code in 2009 to include new financial indicators that Local Authorities have to set. These are incorporated into the Treasury Strategy Statement.

7.5 The Department for Communities and Local Government (DCLG) carried out a consultation on changes to guidance in relation to the prudential framework for capital finance. The consultation closed on the 22 December and the feedback will need to be analysed before final guidance is issued. Given the timing it is hoped that there will not be a requirement for any changes to be made to strategies for 2018/19. The most significant change could be that capital investments whose primary purpose is to generate a financial return will need to be assessed as though they are treasury investments. This will require an assessment of security and liquidity.

8. RELEVANT CONSIDERATIONS

8.1 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks. Each element of risk and the approach of the Authority to mitigate the exposure to the risks is described below.

8.2 **Credit Risk** – The possibility that other parties fail to pay amounts due to the Authority.

8.2.1 The Council's counterparty list comprises mostly UK building societies and UK banks with a Fitch credit rating greater than BBB but also includes other Local Authorities, and Public Corporations. Foreign banks with a UK subsidary, if they are subject to the same stress tests as UK banks, were added to the counterparty list in the 2015/16 strategy to give another outlet for our investments.

8.2.2 The average rate of interest achieved on investments by NHDC compares favourably to our Hertfordshire neighbours. This is mainly due to our investment strategy which permits investments to be placed with non-rated building societies and for a period of time of 12 months or more. This is in contrast to many authorities who will not lend to the building society sector, prefer to keep investments to less than one year and have taken a more risk averse position with regards to counterparties.

8.2.3 Building societies are regulated to the same standards as UK banks and are prevented by law from undertaking risky financial trading.

8.2.4 In the past when a building society has encountered difficulties, a merger with a stronger society has ensured that both wholesale depositors and retail savers experienced no interruption to service. There is of course no guarantee that this would continue to happen.

8.3 **Liquidity Risk –** the possibility that the Authority may not have funds available to meet its commitments to make payments.

8.3.1 Cash flow forecasts are prepared to determine the level of funds required to meet the day to day commitments with investments split between investments to cover the day to day cash flow activity and longer-term investments that take advantage of higher interest rates when they become available.

8.4 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.

8.4.1 Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risks of long term deals are two fold:

(i) The longer the time period the longer the investment is exposed to default.
(ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.

8.4.2 Members have indicated that they are prepared to accept this risk within the limits expressed in the Treasury Strategy and there is no proposed change to the current practice of allowing no more than 40% of outstanding investments to be invested for longer than 365 days at any one time. The Chief Finance Officer will be required to approve any deal longer than two years.

8.5 **Borrowing**

8.5.1 The Authority currently has a negative Capital Financing Requirement (CFR), although it is expected that it will reduce to close to zero during 2018//19. Depending on the timing of capital expenditure and receipts and any new opportunities for capital investment, there may be a need to borrow during 2018/19. The Treasury Management Strategy therefore proposes an operational boundary of £5m and an authorised limit of £15m (Appendix C at 3.2). These are both increases compared to 2017/18. The operational boundary is a maximum limit beyond which external debt is not normally expected to exceed. The authorised limit must not be exceeded. The Council will only borrow when it needs to do so, even though the Council could potentially benefit in the longer term from the low interest rates currently available. This would be imprudent and could be considered to be illegal as it would be in breach of the requirements of S.1 of the Local Government Act 2003. Therefore whilst they are still available the Council will continue to drawdown cash balances (i.e. capital reserves) to fund the capital programme.

8.5.2. The balance of longer term investments at the start of 2017/18 was £28.5million This is expected to reduce by £11.0million during 2017/18 to fund the capital programme. Total investment interest in 2017/18 will be in the region of £0.173million.

8.6 **Treasury Management Statement**

8.6.1 The Treasury Management Statement for 2018/19 is attached in Appendix C. There have been some changes in relation to borrowing limits (as referenced in 8.5.1 above) and some clarifications as to how the Minimum Revenue Provision (MRP) will be calculated have been added in Appendix C at 2.3. The MRP is a required charge to the General Fund (i.e. a cost to Council Taxpayers) when the Council borrows to fund capital expenditure. The intention is that it sets aside the money to repay the borrowing when it becomes due.

9. LEGAL IMPLICATIONS

9.1. Other than has already been set out in the report, section 151 of the Local Government Act 1972 provides that:
"every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs." The Council has appointed such an officer and that person has delegated responsibilities in respect of these matters as set out in the body of the report.

9.2. The CIPFA Prudential Code provides that "Prudential Indicators… are required to be set… alongside the processes established for the setting… of the budget for the local authority". It also states that "*decisions around capital expenditure, investment and borrowing should align with the processes established for the setting and revising of the budget for the local authority*". As detailed in Appendix B, the Council sets Treasury Management Practices to comply with the CIPFA Treasury Management Code. This process includes a review by the Finance, Audit and Risk Committee and Cabinet, prior to Full Council approval. This is in line with the processes established for the setting of the Revenue Budget and Capital Programme, as detailed in the Constitution.

9.3. CIPFA Treasury Management Code recommends that "*local authorities should, as a minimum, report annually to full council on their Treasury Management Strategy and plan, before the start of the yea*r".

9.4. As a result, Full Council is asked to approve the Treasury Strategy Statement (Appendix C).

9.5 The CIPFA Prudential Code allows for detailed implementation and monitoring to be delegated to a Committee. As per the Constitution this is delegated to the Finance, Audit and Risk Committee, As a result. this Committee is asked to review and comment on the compliance with the Code of Practice on Treasury Management..

10. FINANCIAL IMPLICATIONS

10.1 There are no direct financial implications arising from the adoption of the Code and the Treasury Management Strategy. However, it is important to note that the Council currently receives approximately £0.2M a year of interest from its cash investments and this is used to help fund general fund expenditure. The Strategy has an impact on the amount of interest achievable and any significant change to the strategy would, as a result, impact on the general fund and lead to higher savings targets if interest receivable were to fall as a result.

10.2 The Treasury Management function is audited annually. The Treasury Management Audit Report in March 2017 concluded that a substantial level of assurance can be gained from the system of controls in operation.

11. RISK IMPLICATIONS

11.1 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003. The risk on the General Fund of a fall of investment interest below the budgeted level is dependant on banks and building societies need for borrowing. The introduction of the Funding for Lending Scheme which allows financial institutions access to low cost funding from Government for an extended period has impacted on their need to borrow and the rates at which they are prepared to borrow.

11.2 The Treasury Management Strategy reflects the Council's risk appetite, which inevitably varies between different authorities, as referenced in 8.2.2 above.

12. EQUALITIES IMPLICATIONS

12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 There are no direct equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

13.1 The Social Value Act and "go local" policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resource or equality implications.

15. APPENDICES

15.1 Appendix A - Treasury Management Policy Statement.
Appendix B - Treasury Management Practices.
Appendix C - Treasury Strategy Statement.

16. CONTACT OFFICERS

Author

16.1 Dean Fury, Corporate Support Accountant, Tel 474509, email, dean.fury@north-herts.gov.uk

Contributors

16.2 Ian Couper, Head of Finance, Performance and Asset Management, Tel 474243, email ian.couper@north-herts.gov.uk

16.3 Antonio Ciampa, Accountancy Manager, Tel 474566, email, antonio.ciampa@north-herts.gov.uk

16.4 Reuben Ayavoo, Corporate Policy officer, Tel 47212, email reuben.ayavoo@north-herts.gov.uk

16.5 Jeanette Thompson, Acting Corporate Legal Manager, Tel 474370, email jeanette.thompson@north-herts.gov.uk

17. BACKGROUND PAPERS

17.1 CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes 2017.

17.2 CIPFA Prudential Code for Capital Finance in Local Authorities, 2017.

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TREASURY MANAGEMENT POLICY STATEMENT

This organisation defines the policies and objectives of its treasury management activities as follows:

1 This organisation defines its treasury management activities as :
"The management of the authority's investments and cash flows, it's 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".

2 This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3 This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

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TREASURY MANAGEMENT PRACTICES

This organisation will prepare the following treasury management practices to which schedules will be attached to specify the systems and routines to be employed and the records to be maintained.

		Current Practice
TMP1	Risk Management	Yes
TMP2	Performance Measurement	Yes
TMP3	Decision-making and Analysis	Yes
TMP4	Approved instruments, methods and techniques	Yes
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements	Yes
TMP6	Reporting requirements and management information arrangements	Yes
TMP7	Budgeting, accounting and audit arrangements	Yes
TMP8	Cash and cash flow management	Yes
TMP9	Money laundering	Yes
TMP10	Staff training and qualifications	Yes
TMP11	Use of external service providers	Yes
TMP12	Corporate governance	Yes

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Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

North Hertfordshire District Council 2018/19

INDEX

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. 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 risk appetite, providing adequate liquidity initially before considering investment return.

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.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's 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

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report 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 – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, Cabinet will receive quarterly update reports.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised. This role is undertaken by the Finance, Audit and Risk Committee.

1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital issues

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

Treasury management issues

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

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department for Communities and Local Government (DCLG) MRP Guidance, the CIPFA Treasury Management Code and DCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed and training will be arranged for both members and officers as required.

1.5 Treasury management consultants

The Council uses Link Asset Services as its external treasury management advisors. (formerly known as Capita Asset Services).

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises 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.

2 THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

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

2.1 Capital expenditure

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.

Capital expenditure	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
		As at January 2018	**As at January 2018**		
Advances & Cash Incentives	0	0	1,096,000	0	0
Asset Management	1,395,400	5,753,000	3,525,000	150,000	0
CCTV	69,500	35,000	0	0	0
Community Services	427,500	371,200	636,000	250,000	120,000
Computer Software & Equipment	409,500	289,700	110,500	537,600	115,000
Corporate Items	2,100	10,600	2,500,000	0	0
Growth Fund Projects	0	0	713,000	0	0
Leisure Facilities	1,965,500	3,251,800	2,208,900	85,000	385,000
Museum & Arts	715,000	148,600	0	0	0
Parking	124,700	429,900	916,200	0	0
Renovation & Reinstatement Grant Expenditure	544,300	630,000	805,000	805,000	805,000
Waste Collection	32,500	3,600,000	0	0	0
Total	**5,686,000**	**14,519,800**	**12,510,600**	**1,827,600**	**1,425,000**

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. Given the Council's CFR position (see below) this will be met by a drawdown of cash investments, rather than actual borrowing.

Financing of capital expenditure	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital receipts	2,328,100	2,106,400	4,812,700	1,082,600	393,000
Government Grants	520,200	600,000	1,508,000	745,000	745,000
Other Capital Contributions	196,100	520,000	163,000	0	250,000
Revenue Contributions	0	0	0	0	0
S106 Funding	457,000	346,760	341,300	0	37,000

Net financing need for the year	**2,184,600**	**10,946,640**	**5,685,600**	**0**	**0**

2.2 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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £0.132m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Financing Requirement					
Total CFR	**-16.642**	**-5.696**	**-0.010**	**-0.010**	**-0.010**
Movement in CFR	**2.185**	**10.946**	**5.686**	**0**	**0**

Movement in CFR represented by					
Net financing need for the year (above)	2.185	10.946	5.686	0	0
Less MRP/VRP and other financing movements	0	0	0	0	0
Movement in CFR	**2.185**	**10.946**	**5.686**	**0**	**0**

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

The CFR is expected to remain negative during 2018/19 but as investments mature and are retained to fund capital there will come a point when that will no longer be the case.

CLG regulations have been issued which require the full Council to approve **an 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 MRP Statement using the Asset Life Method.

- **Asset life method** – MRP 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).

There are two approaches that can be used when applying the Asset Life Method:

Equal instalments – The principal repayment made is the same each year

Or

Annuity – the principal repayments increase over the life of the asset. This has the advantage of linking MRP to the benefits arising from capital expenditure, where these benefits are expected to increase over the life of the asset

The Council will determine whether to use the Annuity or Equal Instalment method based on the project(s) that the borrowing is used for and the benefits derived from the project(s).

2.4 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 (e.g. sale of surplus assets). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	**2016/17 Actual**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Fund balances / reserves	8,235	6,210	6,412	5,799	5,619
Capital receipts	3,221	2,315	2	2,920	3,277
Provisions	966	1,000	1,000	1,000	1,000
Other	4,609	4,664	4,664	4,664	4,664
Total core funds	**17,031**	**14,189**	**12,078**	**14,383**	**14,560**
Set Aside Receipts	16,642	5,695	9	9	9
Expected investments	**33,673**	**19,884**	**12,087**	**14,392**	**14,569**

2.5 Affordability Prudential Indicators

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:

2.6 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 net of investment income) against the net revenue stream.

%	**2016/17 Actual**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Ratio	-2.47%	-1.97%	-0.73%	-0.35%	-0.37%

The estimates of financing costs include current commitments and the proposals in this budget report. The figures are negative because NHDC receives a greater amount of investment interest than it pays loan interest. The ratio is falling due to a reduction in estimated investment interest. The interest is reducing as investments are drawn down to fund the Capital Programme.

2.7 Incremental Impact of Capital Investment Decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period. Any shortfall in capital funding will be met by a drawdown on cash investments. The table below shows the likely impact on the General Fund and the incremental impact of Capital investment on Council Tax.

Incremental impact of capital investment decisions on the band D council tax

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Loss of investment interest in General Fund (£000)	£22	£77	£40	£0
Equivalent increase in Council Tax	0.22%	0.74%	0.37%	0.00%

3 BORROWING

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 relevant professional codes, so that sufficient cash is available to meet this service activity. 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.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2017, with 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.

£'000	**2016/17 Actual**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
External Debt					
Debt at 1 April	480	456	440	423	405
Expected change in Debt	24	16	17	18	19
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Gross debt at 31 March	**456**	**440**	**423**	**405**	**386**
The Capital Financing Requirement	**-16,642**	**-5,696**	**-10**	**-10**	**-10**
(Under) / over borrowing	**456**	**440**	**423**	**405**	**386**

The Council has a negative CFR which gives a position of "over borrowing". This is due to borrowing taken out before the receipt of income from the sale of the housing stock.

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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 this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary.

This is the limit beyond which external debt is not normally expected to exceed.

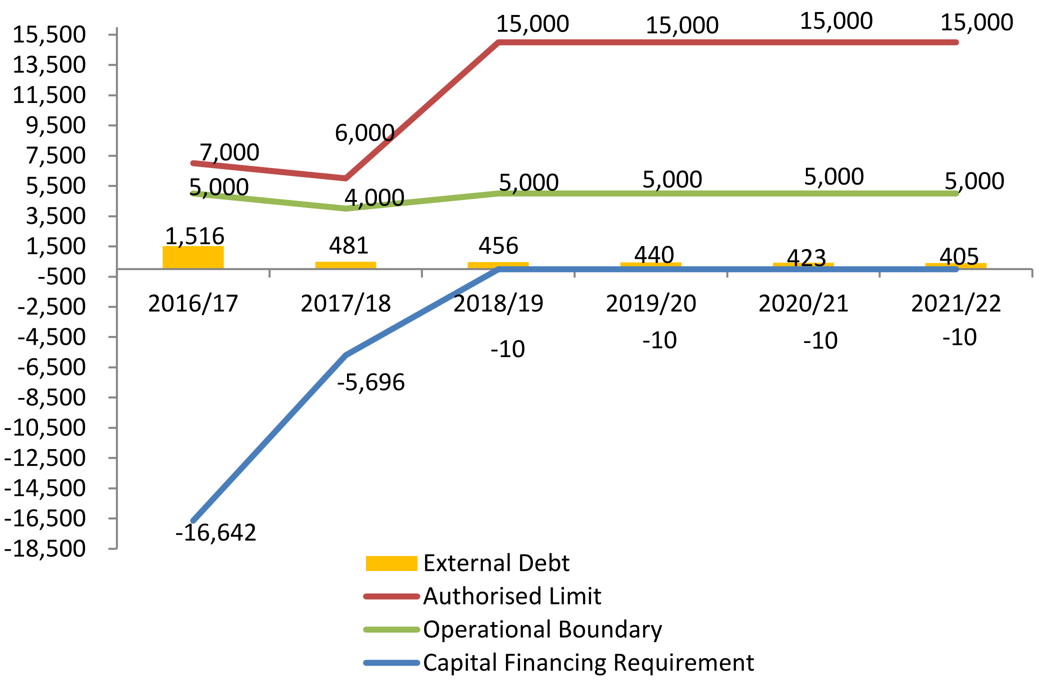
Operational boundary £'000	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	4,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	4,000	5,000	5,000	5,000

The authorised limit for external debt.

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

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

Authorised limit £m	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	6,000	15,000	15,000	15,000
Other long term liabilities	0	0	0	0
Total	6,000	15,000	15,000	15,000



3.3 Prospects for interest rates

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

3.4 Borrowing strategy

The Council is currently maintaining an over-borrowed position. This is because the Council has both a negative CFR and outstanding debt. This is due to the legacy of outstanding debt incurred prior to the receipt of income from the sale of the housing stock. Debt has not been repaid early as the premium for early redemption is extremely expensive. Outstanding debt will continue to reduce over time as loans reach maturity which means that this indicator will show as "over borrowed" for the foreseeable future.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Head of Finance, Performance and Asset Management will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

The CFR as at the 1st April 2018 is estimated to be a negative £5.696M. Where the CFR is nil or negative on the last day of the financial year, this indicates that the Authority's provision for debt is equal to or greater than the debt incurred. There is accordingly no need to make a Minimum Revenue Provision in the following year. The CFR requirement of a local authority will increase whenever capital expenditure is incurred and not resourced immediately (from useable capital receipts, direct charge to revenue or capital grant) and represents an increase in the underlying need to borrow for a capital purpose. This will be the case whether or not external borrowing actually occurs.

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. 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:

	2018/19 £'000	2019/20 £'000	2020/21 £'000
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates:			
• **Debt only**	100%	100%	100%
• **Investments only**	100%	100%	100%
Limits on variable interest rates			
• **Debt only**	50%	50%	50%
• **Investments only**	30%	30%	30%
Maturity structure of fixed interest rate borrowing 2018/19			
		Lower	**Upper**
Under 12 months		4%	100%
12 months to 2 years		4%	100%
2 years to 5 years		12%	100%
5 years to 10 years		20%	100%
10 years and above		60%	100%
Maturity structure of variable interest rate borrowing 2018/19			
		Lower	Upper
Under 12 months		0%	100%

3.5 Policy on borrowing in advance of need

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.

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

3.6 Debt rescheduling

As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

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

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

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy has regard to the DCLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the DCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and it is important to continually assess and monitor the financial sector 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.

Investment instruments identified for use in the financial year are listed below in 4.2

4.2 Creditworthiness Policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Head of Finance, Performance and Asset Management will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

Fitch ratings will be used to identify the risk associated with each counterparty. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

NHDC will continue the policy to not invest any funds in non UK registered banks.

NHDC will only lend to UK banks with a credit rating for longer term deals of "BBB" or above and F3 or above for short term credit ratings. (These are Fitch definitions of ratings). For further clarification, NHDC will invest in foreign banks with a UK subsidary if they are subject to the same stress tests as UK banks.

Deposits and Certificates of Deposits will be placed with the following investment counterparties:

- Banks 1 - good credit quality – the Council will only use banks which:
    i. are UK banks;
    ii. are UK subsidiaries of foreign banks that are subject to the same stress tests as UK banks

  and have, as a minimum, the following Fitch, credit ratings:
    i. Short term – F3
    ii. Long term – BBB
- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks will be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Banks 4 - UK Banks wholly owned subsidiaries -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies

  Not all building societies are credit rated but this will not preclude them from the lending list if they fulfil the criteria below. (Building societies have to pay the credit rating agency to obtain a rating). Where a society does have a credit rating, this will be considered at the time of the deal taking into account the amount of investment and the length of the deal.

  Unrated Building Societies produce annual reports known as Pillar 3 reports. These provide some information regarding the risks and capital adequacy of the Society. These reports will be reviewed by Officers before agreeing to deposit funds with the Society.

  The Council will use all societies which:
    i. Have assets in excess of £0.3bn
- Money market funds – AAA rated only
- UK Government (including gilts and the DMADF)
- Other Local authorities
- Property Funds – within the UK

  There are both up-front set up and exit costs for Property Funds. The capital value of these funds also fluctuates over time. Whilst in general it is possible to exit these funds at any time, there are likely to be more optimum times to do so. Therefore, there will not be a requirement to disinvest in line with the maximum period of investment of 5 years, and instead investments will be monitored on a regular basis to balance the need for cash (liquidity risk) with exit costs (market risk).

The Council will seek to ensure a reasonable spread of the cash investments across multiple counterparties. Maximum limits will apply as detailed in the table below. In addition the overall percentage of outstanding investments with each counterparty will not be more than 10% of total investments outstanding at the time of the deal.

	Total Maximum Amount Invested		
	£9 Million	£6 Million	£4 Million
UK Clearing Banks with a credit rating of BBB or above	All		
UK Clearing Banks – Wholly owned Subsidiaries with a credit rating of BBB or above	All		
UK Subsidiaries of Foreign Banks with a credit rating of BBB or above	All		
AAA rated Money Market Funds	All		
Building Societies	Assets Over £2.5bn	Assets £1bn to £2.5bn	Assets £0.3bn-£1bn
Public Corporations	All		
Other Local Authorities	All		

The Council's general banking provider, Lloyds, is excluded from the above limits in as far as the balance available in the current account.

Credit ratings are obtained and monitored by officers on a monthly basis. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be placed with that entity;
- depending on the severity of the downgrade, consideration will be given to recalling any existing investments that can be done so at no cost.

Financial Sector considerations

Limits will be used to ensure a degree of spread of the exposure to one particular sector:

- no more than 75% of investments will be placed with banks;
- no more than 75% of investments will be placed with Building Societies;
- no more than 25% of investments will be placed with Property Funds
- as Property Funds and Building Societies are exposed to the property market, the combined value of these investments will not exceed 75%
- no more than 25% of investments will be placed with Money Market Funds.

Use of additional information other than credit ratings.

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties.

4.3 Investment Strategy

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.

Investment returns expectations.
Bank Rate is forecast to stay flat at 0.5% until March 2019 and then to rise slowly to March 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

The estimated investment interest for 2018/19 is approximately £0.173M. This has been calculated using an average interest rate of 0.6% for new deals made during the year via the Cash Manager and 0.5% for those places by Officers in house.

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.

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

Maximum principal sums invested > 365 days			
£m	**2018/19**	**2019/20**	**2020/21**
Principal sums invested > 365 days	40% of Total Investments	40% of Total Investments	40% of Total Investments

A maximum of 40% of total investments may be invested longer than 365 days with a maximum term of 5 years. All decisions made on long term investments will be dependant on market conditions and cashflow. Deals longer than two years will require approval by the Chief Finnace Officer.

4.4 End of Year Investment Report

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

4.5 Cash Manager

The Council's Cash Manager, Tradition, will comply with the Annual Investment Strategy. To avoid the fees associated with using a Cash Manager, the Council will seek to identify and use in-house deals where it can match the rate offered. However it is still sensible to identify expected maximum levels for external and in-house management.

The maximum levels expected for 2018/19 are as follows:

External Cash Manager	£30 Million (no change from 17/18)
Managed In House	£45 Million (increased from £30 Million)

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