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ASHFIELD DISTRICT COUNCIL

Council Offices,
Urban Road,
Kirkby in Ashfield
Nottingham
NG17 8DA

Agenda

Cabinet

Date:	**Monday, 24th February, 2020**
Time:	**1.00 pm**
Venue:	**Council Chamber, Council Offices, Urban Road, Kirkby-in-Ashfield**

For any further information please contact:

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01623 457317

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CABINET

Membership

Chairman: Councillor Jason Zadrozny

Councillors:

Kier Barsby	Samantha Deakin
Tom Hollis	Rachel Madden
David Martin	Matthew Relf
Helen-Ann Smith	Daniel Williamson
John Wilmott	

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SUMMONS

You are hereby requested to attend a meeting of the Cabinet to be held at the time/place and on the date mentioned above for the purpose of transacting the business set out below.

Carol Cooper-Smith
Chief Executive

AGENDA — Page

CABINET

Meeting held in the Council Chamber, Council Offices, Urban Road, Kirkby-in-Ashfield,

on Monday, 27th January, 2020 at 10.00 am

Present:	Councillor Jason Zadrozny in the Chair; Councillors Melanie Darrington, Samantha Deakin, Tom Hollis, David Martin, Matthew Relf, Helen-Ann Smith, Daniel Williamson and John Wilmott.
Apology for Absence:	Councillor Kier Barsby.
Officers Present:	Craig Bonar, Bev Bull, Lynn Cain, Carol Cooper-Smith, Ruth Dennis, Joanne Froggatt, Katherine Green, Theresa Hodgkinson, Peter Hudson and Paul Parkinson.

CA.38 Declarations of Disclosable Pecuniary or Personal Interests and Non Disclosable Pecuniary/Other Interests

No declarations of interest were made.

CA.39 Minutes

RESOLVED
that the minutes of the meeting of the Cabinet held on 25th November, 2019 be received and approved as a correct record.

CA.40 Corporate Scorecard Performance - April to September 2019 Update

Cabinet were presented with the Quarter 2, April to September 2019 update for the new corporate performance scorecard, which had recently been refreshed to align with the new Corporate Plan and corporate priorities.

As the report was for information only, there were no alternative options for Members to consider.

RESOLVED
that the levels of performance achieved against the Corporate Scorecard for Quarter 2, April to September 2019, be received and duly noted.

Reason:
The Corporate Plan sets out the Council's priorities for the future and the key projects and initiatives it intends to deliver. These are then translated and cascaded through the Performance and Strategic Planning Framework into specific Service Plans to facilitate focussed delivery. Presentation to Cabinet ensures Members are kept up to date with performance progress.

CA.41 Electronic Payment Options for Car Parking

Cabinet Members were requested to consider the potential introduction of a parking app. for use in the Council's car parks.

Members considered the alternative option of declining to approve the introduction of the parking app. as an additional payment option for customers using the Council's town centre car parks.

RESOLVED that

a) the introduction of an electronic payment element for car parking in the new parking order (via an appropriate car parking app.), be approved;

b) delegated authority be granted to the Director of Place and Communities, in conjunction with the Deputy Leader and Portfolio Holder for Streets, Parks and Town Centres, to determine the most appropriate parking app. for Ashfield and oversee its introduction.

Reason:
Paying car parking fees through an app. is increasingly popular as people carry less cash and more transactions are carried out by card payments. Inclusion of this facility within the new parking order would allow for a parking app. to be introduced.

CA.42 Re-designation of the Teversal, Stanton Hill and Skegby Neighbourhood Forum

Cabinet were requested to consider an application for the re-designation of the Teversal, Stanton Hill and Skegby Neighbourhood Forum.

Members considered the alternative option of declining to re-designate the Forum. However, in compiling its recommendations the Council had considered the evidence submitted by the Forum as well as the representations received on the consultation and subject to their being a "relevant body" and meeting the legislation requirements, the Council is obligated to exercise its power of designation of a Neighbourhood Forum.

RESOLVED
in accordance with the Town & Country Planning Act 1990 and the Neighbourhood Planning (General) Regulations 2012, as amended, Cabinet agrees to re-designate the Teversal, Stanton Hill and Neighbourhood Forum in relation to the Teversal, Stanton Hill and Skegby Neighbourhood Area.

Reason:
National planning policy places an emphasis on neighbourhood planning and local councils facilitating neighbourhood planning. The Forum had brought forward the Teversal, Stanton Hill and Skegby Neighbourhood Plan 2017, which formed part of the Council Local Development Plan.

They are an active Forum, which sets out to represent the view of the local community. Based on the information submitted, it was considered that the application met the legislative requirements and the Council should therefore re-designate the Neighbourhood Forum.

(During consideration of the item, the following Councillors declared Non Disclosable Pecuniary/Other Interests in relation to this item but remaining in the meeting and took part in the ensuing discussion:-

1. Councillor Samantha Deakin – known to landowner within the Forum boundary;
2. Councillor Tom Hollis - landowner with the Forum boundary is a family member;
3. Councillor Helen-Ann Smith – member of the Forum.)

CA.43 Planning Compliance and Enforcement Plan

Agreement was sought for the adoption of the Planning Compliance and Enforcement Plan following consultation with regular customers of the planning service.

Members considered the alternative option of declining to approve the Plan but it was felt that this course of action would deny customers the necessary guidance on how and why the service operates and would not meet current government guidance.

RESOLVED that

a) the draft Planning Compliance and Enforcement Plan be approved in principle ahead of the agreed consultation;

b) consultation with stakeholders and regular customers of the planning service, as set out in the report, be commenced;

c) delegated authority be granted to the Director of Place and Communities, in conjunction with the Portfolio Holder for Place, Planning and Regeneration, to approve the adoption of the final version of the Planning Compliance and Enforcement Plan following consultation.

Reason:
The Plan explains how Ashfield District Council carries out its planning compliance and enforcement activities and what customers can expect from the service. The National Planning Policy Framework recommends publishing a plan to manage enforcement proactively, in a way that is appropriate to the area.

CA.44 Fees and Charges 2020/21

Cabinet Members were presented with the revised Fees & Charges proposals for 2020/21 for consideration and approval.

Members considered various alternative options, as outlined in the report, but declined to make any changes to the proposals.

RESOLVED
the revised Fees & Charges proposals for 2020/21 with all applicable increases taking effect as soon as practically possible after 1st April, 2020, as presented, be approved.

Reason:
Additional income generated will meet the inflationary costs of service provision, contribute towards the Council's saving targets and continue to support the financing of a range of services to Ashfield residents and businesses. In addition, an annual review of fees and charges is part of sound financial management practice and a requirement of the Council's Financial Regulations.

CA.45 Treasury Management Mid Year Report 2019/20

Cabinet received the mid-year report, written to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and considered the following:

- An economic update for the 2019/20 financial year as at 30th September, 2019;
- The Council's capital position (prudential indicators);
- The Council's investment portfolio for 2019/20;
- The Council's borrowing position for 2019/20.

Due to the requirement to meet appropriate legislative requirements, Members did not have any alternative options to consider.

RESOLVED that
a) the content of the report, as presented, be received and noted;

b) the changes to the 2019/20 Prudential Indicators for the Capital Financing Requirement, the Operational Boundary and the Authorised Limit, to reflect the impact of in-year changes to the 2019/20 Capital Programme, be approved.

Reasons:
1) In accordance with Council's Financial Regulations, the Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

2) In accordance with the Council's Financial Regulations Cabinet are responsible for the implementation and regular monitoring of Treasury Management policies and practices and are to receive, as a minimum, each year reports setting out the Annual Treasury Management Strategy and Plan for the coming year; a mid-year review and an annual Treasury Management Performance Report.

CA.46 Housing Rent Setting 2020/21

Cabinet received a report, which provided information on the proposed rent level and other Council accommodation related charges for Council tenants for the financial year 2020/21.

Members considered the various alternative options, as outlined in the report, but declined to make any changes to the proposals as presented.

RESOLVED
that approval be given to set the following:-

a) an average rent increase of the September Consumer Price Index (CPI) (1.7%) + 1% for all Council house rents for 2020/21;

b) a garage average rent increase of CPI (1.7%) for 2020/21;

c) an amenity charge of £1.35 per week (an increase of £0.04p) for all relevant Council house properties for 2020/21;

d) an increase to the communal heating charges of CPI (1.7%) for 2020/21;

e) an increase for water charges at Brook Street Court of 2.36% for 2020/21;

f) an increase for service charges for the properties at Hawkers Place of Retail Price Index (RPI) at December 2019 for 2020/21.

Reasons:
1. To set a 2.7% (CPI+1%) rent increase in line with the Ministry of Housing, Communities & Local Government policy statement on rents for social housing 2020/21.

2. To set an increase of CPI on garage rents to continue covering the increasing costs of maintenance and rental collection for the Council garage sites, consistent with the approach in previous years.

3. To increase the amenity charge by £0.04p per week to continue covering the costs of providing the services which do not fall within the provision of the rent charge.

4. To set an increase to the communal heating service charges. This is to cover the increase in price from the utility company to the Council for providing the communal heating in the applicable housing court schemes.

5. To set an increase to the service charge for water at Brook Street Court, Sutton in Ashfield to cover the increase in prices from Severn Trent to the Council for providing water at Brook Street Court.

6. To set an increase of RPI for the service fee for the properties at Hawkers Place estate, Hucknall, in line with the legal agreement between the Council and the Housing Development Company. This is to cover the annual increase set out in the legal agreement of the development.

CA.47 Temporary Accommodation Policy

Cabinet Members were asked to approve the Temporary Accommodation Policy, as presented, and acknowledged the Council's obligation to produce and maintain a Policy relating to how units of temporary accommodation for homeless households are procured and let.

Members considered the alternative option of declining to introduce a Temporary Accommodation Policy but this option was rejected as a Supreme Court ruling established a need for local authorities to produce and publish such policies.

A second option to have separate policies relating to procuring and letting Temporary Accommodation but this was rejected as the two elements overlap and it makes sense to combine them in a single document.

RESOLVED
that the Temporary Accommodation Policy, attached at Appendix A to the report, be approved.

Reasons:
A Supreme Court ruling in 2015 made a number of recommendations to local authorities in respect of temporary accommodation provided for homeless households. In light of the ruling, there is an expectation that local authorities will have policies in place that set out how temporary accommodation is procured and let.

Such policies will be of benefit to both officers and those households who are being placed in temporary accommodation. The homelessness service returned in-house in July 2019, when the need for a Council Policy was identified.

The meeting closed at 10.48 am

Chairman.

Report To:	**CABINET**	**Date:**	**24 FEBRUARY 2020**
Heading:	**SCRUTINY REVIEW: IMPACT OF UNIVERSAL CREDIT**		
Portfolio Holder:	**NOT APPLICABLE**		
Ward/s:	**ALL**		
Key Decision:	**NO**		
Subject to Call-In:	**NO**		

Purpose of Report

The Scrutiny Review: Impact of Universal Credit took place between July 2019 and January 2020, undertaken by the Overview and Scrutiny Committee. The purpose of this report is to present Cabinet with a summary of information and evidence considered over the course of the review, and the final recommendations approved by the Overview and Scrutiny Committee.

Recommendation(s):

a. Cabinet should note the hardship being experienced by Ashfield residents, and the current and anticipated financial impact to the Council, as a result of the introduction of Universal Credit welfare scheme.

b. A mandatory seminar be organised for all Councillors to equip them with the necessary knowledge and skills to support residents raising issues concerning Universal Credit.

c. A letter be sent to local MPs, and the relevant ministerial department, outlining the difficulties claimants in Ashfield have experienced following the introduction of Universal Credit.

d. Joint working with partners such as the Department of Work and Pensions and the Citizens Advice Bureau be enhanced to ensure important information is efficiently shared.

e. The Housing Management and Tenancy Services Team be recognised and commended for the extensive work undertaken in supporting Universal Credit claimants and responding to welfare reforms.

Recommendation(s) continued:

f. The Housing Revenue Account 30 Year Business Plan be reviewed, taking into consideration the impact the introduction of Universal Credit will have on Housing and other Council services.

g. The Welfare Reform Reserve Fund be reviewed to ensure sufficient funding remains available to support claimants and maintain adequate staffing levels.

h. All publically displayed information regarding Universal Credit and wider welfare reforms be reviewed to ensure maximum visibility and relevancy.

i. Consideration be given to software and hardware requirements that could assist in improving the Council's efficiency and effectiveness in managing Universal Credit cases and supporting claimants.

Reasons for Recommendation(s)

The Overview and Scrutiny Committee added Impact of Universal Credit to the Scrutiny Workplan 2019/20 in June 2019, and conducted a review from July 2019 to January 2020. At the Committee's January meeting, a set of recommendations were approved to be presented to Cabinet in February 2020.

Alternative Options Considered

Overview and Scrutiny Committee Members could have considered not approving a set of recommendations to be submitted to Cabinet. However, Committee Members felt that the findings of the review warranted the presentation of recommendations to Cabinet for consideration.

Detailed Information

Scrutiny Review: Impact of Universal Credit Background

Overview and Scrutiny Committee Members began the Scrutiny Review: Impact of Universal Credit by agreeing a review terms of reference. The agreed terms of reference set out the review rationale, objectives, indicators of success, review methodology, key witnesses, and information required.

Rationale

Members recognised the importance of understanding recent welfare reforms and the impact they have had in Ashfield after introduction. The Committee acknowledged the introduction of Universal Credit as a cause of significant community concern both nationally and in Ashfield, and wished to review how Ashfield District Council works to support impacted claimants in the District.

Members also wished to understand how the introduction of Universal Credit might have affected Ashfield District Council financially.

Objectives

Members undertook the review with the initial objective of gaining a further understanding of the following:

- Welfare reforms introduced in the past decade
- How Ashfield District Council has prepared and reacted to welfare reforms
- The impact of Universal Credit in Ashfield
- How Ashfield District Council is mitigating against these impacts
- How the introduction of Universal Credit has and will impact Ashfield District Council finances

Ultimately, the primary objective of the review was for Members of the Overview and Scrutiny Committee to understand the impact of the rollout of Universal Credit, from the perspectives of claimants and Ashfield District Council.

Indicators of Success

Members agreed that early indicators of a successful review would be the Committee achieving a further understanding of recently introduced welfare reforms such as benefit caps and Universal Credit. Further consideration of how Ashfield District Council had both managed the change and effectively supported Universal Credit recipients during the changes also allowed Members of the Committee to consider areas for improvement and future proofing.

Key Witnesses

Key witnesses identified by Members at the onset of the review were:

- Service Manager – Housing Management and Tenancy Services
- Service Manager – Revenues and Benefits
- Representative from the Department for Work and Pensions

Information and Evidence Required

Members began the review by exploring the measures and mitigation Ashfield District Council had in place in response to the introduction of Universal Credit. This included discussing the Council's Welfare Reform Strategy and receiving a presentation from the Service Manager – Housing Management and Tenancy Services. Members also agreed to undertake the review with an initial focus on understanding Universal Credit as a service, why it was introduced, the aims of the service, and expected outcomes.

After establishing a clearer understanding of Universal Credit and wider welfare reforms, as well as Ashfield District Council's position in relation to this, the Committee examined the wider implications of Universal Credit and gave thought to final recommendations.

Evidence and Information Considered

Welfare Reform Act 2012

The Welfare Reform Act 2012 introduced a new Universal Credit to replace most existing benefits, while limiting the total amount of benefit a person can claim. The Act also introduced an overall household benefit cap and new size criteria in the social rented sector. The welfare reforms included in the Act impact on the way tenants receive benefit, with an overarching drive to reduce the number of non-working households and cut welfare expenditure.

The fundamental changes to the welfare system introduced through the Welfare Reform Act 2012 include:

- ‘Under Occupation Charge’ or ‘Bedroom Tax’ – reduced housing benefit for under occupation
- An overall benefit cap on the total benefits a household can receive
- Universal Credit – introduction of a single working age benefit into a single monthly payment direct to claimant

<u>Universal Credit</u>

Introduction

Universal credit is a non-taxable new benefit, payable to people who are of working age, administered by the Department for Work and Pensions.

Universal Credit condensed six existing benefits:

- Income support
- Jobseeker’s allowance
- Employment and support allowance
- Working tax credit
- Child tax credit
- Housing benefit

Universal Credit was introduced with the aim of simplifying the benefits system and ensuring people are better off in work, as a benefit to cover basic living expenses. Similar to a wage, Universal Credit is paid directly into a claimant’s bank account as a single monthly payment, in arrears. This also includes any housing costs (for payment of rent); meaning universal credit recipients are responsible for paying rent to their landlord.

The basic requirements to claim Universal Credit are:

- Be 18 or over
- Be under State Pension age
- Be unemployed, have a low income and capital of £16,000 or less
- Have a right to reside in the United Kingdom
- Not be in education
- Accept a Claimant Commitment

The introduction of Universal Credit has and continues to require significant cultural and behavioural changes from claimants.

Claimant Commitment

Claimants of Universal Credit are required to accept a Claimant Commitment. A Claimant Commitment sets out what the claimant has agreed to do to prepare for and look for work, or, to increase earnings if already in work. A Claimant Commitment is based on the personal circumstances of each claimant, and is reviewed and updated on an ongoing basis. To keep receiving Universal Credit, claimants must accept any updates to their Claimant Commitment.

Age and Universal Credit Eligibility

A claimant’s age, and their partner’s age, can affect benefit and tax credit entitlement.

Working age describes anyone who is below the current State Pension age of 65.

Universal Credit is for working age claimants only. Claimants over pension credit age are not eligible. If a claimant is in a couple, benefit eligibility is decided by the youngest claimant in the couple. If one partner is working age and the other is of pension credit qualifying age, the couple will be eligible for Universal Credit.

Advanced Payments

Through Universal Credit, advanced payments are available if a claimant needs help to pay their bills or cover other costs while waiting for their first Universal Credit payment. For example, if a claimant cannot afford to pay rent or buy food.

An advanced payment is paid back through future Universal Credit payments, or other means such as wages or other benefit payments. A Universal Credit help adviser assesses the advanced payment application, and if agreed, informs the applicant of when the first repayment is due, and the monthly repayment amounts.

Deductions are made from a claimant’s monthly Universal Credit payment, and up to 12 months can be taken to repay the advance. In exceptional circumstances, this can be delayed for up to a further three months if the repayments are unaffordable.

Some criticisms of the advanced payments system have been a lack of flexibility in repayment options and a lack of adequate affordability and repayment assessments.

Third Party Deductions

Due to difficulties managing money, some claimants may struggle to pay household bills and can get into arrears.

In some circumstances, the DWP can deduct money from Universal Credit payments and pay it direct to the organisation that is owed, such as a landlord or utility supplier. Third party deductions can be taken without the claimant’s consent and are often for things like:

- Rent
- Fuel costs
- Council Tax
- Fines
- Child maintenance

Only three third party deductions can be taken from a claimant at any one time. A claimant is notified through their Universal Credit Journal when a third party deduction is made. A third party deduction is a fixed percentage that cannot be changed.

Financial Hardship

If a claimant is experiencing financial hardship, a financial hardship decision can be requested to reduce the amount of debt they are currently repaying. A financial hardship decision can be considered by the DWP if the claimant has deductions being taken from their Universal Credit payment for the following:

- Tax credits debt
- Benefit debt
- Social fund loan
- Rent arrears (if the deduction for rent arrears is being taken at a rate greater than 10%)

If the DWP makes a decision to reduce a claimant's deductions, the new reduced deduction rate will be applied automatically to their next Universal Credit assessment period.

Alternative Payment Arrangements

If a claimant is experiencing financial difficulties, such as being behind on their rent, the claimant or their landlord may be able to apply for an alternative payment arrangement.

This alternative arrangement can be:

- To have rent paid directly to a landlord
- To get paid more than once a month
- To receive split payments, if part of a couple

Alternative payment arrangements are applied for through a claimant's work coach.

Help to Claim

Help to Claim is a service provided by Citizens Advice aimed at supporting claimants in the early stages of their Universal Credit claim, from the application through to the first payment. It is a confidential, independent, and free service with trained advisers assisting claimants on how to gather evidence for an application, and how to prepare for jobcentre appointments.

Help is tailored to the individual, and is available face-to-face, over the phone, and through an online web chat service. The Help to Claim service is funded by £39 million from the Department for Work and Pensions.

<u>Universal Credit in Ashfield</u>

Introduction of Universal Credit in Ashfield

A Universal Credit 'live service' was introduced in Ashfield (with the exception of Hucknall) in June 2015. The 'live service' applied to new claims from single people, who would otherwise have been eligible for Jobseeker's allowance.

In December 2016, the Department of Work and Pensions confirmed plans for the roll out of the Universal Credit 'full service'. The 'full service' covers all new working age claimants only. Various dates were planned to implement the roll out but these were delayed.

Full service came into effect on the following dates:

- Rurals – 13 June 2018
- Hucknall – 17 October 2018
- Sutton and Kirkby – 21 November 2018

In line with the dates above, all new working age claimants in Ashfield were required to claim Universal Credit in place of Housing Benefit. Ashfield District Council would no longer take on new Housing Benefit claims from most working age claimants. Ashfield District Council still process new claims from some working age claimants, including complex Housing Benefit claims.

Full migration to Universal Credit for all working age claimants (Starting with Employment Support Allowance) is anticipated subject to a pilot in Harrogate. This will increase the number of Universal Credit claimants dramatically.

Ashfield District Council Planning for Universal Credit

In preparation for the introduction of Universal Credit and the overarching welfare reform, Ashfield District Council produced an internal Welfare Reform Strategy including:

- A summary of welfare reform legislative changes
- The anticipated impacts of welfare reform
- How Ashfield District Council will mitigate these impacts
- Financial inclusion
- A welfare reform action plan
- A welfare reform risk register

The Welfare Reform Strategy sets out Ashfield District Council's strategic objectives in response to the Welfare Reform Act 2012, with an emphasis on the introduction of Universal Credit in Ashfield.

The key priorities of Ashfield District Council identified in the Welfare Reform Strategy are:

- Promoting digital inclusion
- Enabling easier access to financial advice and money management
- Assisting people to move who are under occupying their current homes
- Practical advice and support for vulnerable applicants

Ashfield District Council Universal Credit Support

Although Ashfield District Council has no direct involvement in Universal Credit assessments, payments, enquiries and appeals, many different steps have been taken to mitigate the impact of welfare reforms to both the Council and tenants.

A specialist Welfare Reform Officer post was introduced to support tenants affected by Bedroom Tax, Benefit Cap, and Universal Credit with an additional 2-year fixed term post from January 2019. A Welfare Reform Apprentice has also been introduced to support the Welfare Reform Officers in their roles.

Policies and procedures, such as the Rent and Arrears Recovery Procedures and Lettings Policy, have been reviewed in light of the welfare reform changes, ensuring they are up to date, relevant, and support tenants where possible.

Good working relationships have been established with key partners such as the Department for Work and Pensions and the Citizens Advice Bureau with a focus on early intervention as a key component in helping people affected by welfare reform.

The Council's Tenancy Sustainment Officers provide a pre-tenancy service to new tenants, ensuring they are supported prior to and when moving into their new home.

The Council has undertaken the following in relation to welfare reform:

- Held welfare reform roadshows across the District
- Provided budgeting support and money management advice for residents
- Held financial capability sessions for tenants
- Organised 'getting on line' sessions for tenants
- Held fuel poverty roadshows
- Presented information to Community Groups and involved tenants in the District
- Shifted resources towards more prevention work

The Council continues to work with tenants to minimise arrears and provide ongoing support where possible.

Impact of Universal Credit on Local Authorities

Recent welfare reforms have seen the biggest change to the benefits system in decades, presenting local authorities with many potential different challenges to face:

- Reduction in rental income
- Increase in arrears and bad debt
- More intensive support for tenants and intensive case management
- Increased staffing costs

Impact of Universal Credit on Claimants

The significant changes to the benefits system introduced through recent welfare reforms is potentially having a significant impact on benefit claimants as follows:

- Rent arrears/increased rent arrears
- Increased debt
- Reliance on food banks and charity organisations
- Financial hardship
- Difficulties in managing finances/budgeting
- Fuel poverty
- Longer wait times for benefit payment

Informal Working Group

An informal working group was held on the 7 August 2019, with attendance from Members of the Overview and Scrutiny Committee, Nicky Moss, Service Manager – Housing Management & Tenancy Services, Peter Curry, Housing Management Advisor, Craig Scott, Service Manager – Revenues and Benefits, and Sue Fielding, Senior Employment & Partnership Leader – Department for Work and Pensions.

The working group provided an opportunity for Members and Council Officers to discuss the working relationship between the Council and the Department for Work and Pensions regarding Universal Credit, and what payment and support processes are in place. Members and Officers discussed the following at the informal working group:

- The process of applying for Universal Credit
- The Council's Universal Credit case load management
- Universal Credit payment processes such as:
    - Third Party Deductions
    - Managed Payments
    - Advanced Payments
- The Help to Claim service
- How Council Tax has been impacted by Universal Credit
- Information sharing between the Council and the DWP
- Food and Fuel Poverty

At the conclusion of the informal working group, Members agreed that the Scrutiny Review: Impact of Universal Credit should explore the different payment processes available through Universal Credit, and how the introduction of Universal Credit has affected food and fuel poverty nationally and in Ashfield.

<u>Testimonials</u>

As part of the review process, the Chairman of the Overview and Scrutiny Committee, Councillor Sarah Madigan, used social media to ask the community what their experiences of Universal Credit had been. This initiated an ongoing online discussion on personal experiences of Universal Credit that recognised both positive and negative experiences. Whilst the testimonials have been discussed at a meeting of the Overview and Scrutiny Committee, the identity of the submissions has been kept private.

The testimonials highlighted a number of experiences including:

- Struggles with advanced payments
- Food bank usage
- Change of circumstances
- Rent arrears
- Initial claim waiting period

In discussing the testimonials, Members of the Overview and Scrutiny Committee received first-hand accounts, detailing the real impact of Universal Credit on claimants, the long-term hardships faced through utilising advanced payments, and the impact Universal Credit has had on mental health and well-being.

Key Review Findings

<u>First Payment Waiting Period</u>

Universal Credit is assessed and paid in arrears. A claimants personal circumstances are assessed to work out the amount of Universal Credit entitlement. The assessment period begins the date a claimant makes a claim, lasting one calendar month. Once the assessment period ends and entitlement is decided, a claimant will typically receive payment within seven days.

For example, if a new claim begins on 1 September, the assessment period would end on 30 September, and first payment would be on the 7 October. Subsequent Universal Credit payments would be paid on the seventh of each month following.

Many claimants, particularly those transferring from legacy benefits often do not have the resources to meet essential costs whilst waiting for their first Universal Credit payment, such as rent, food, bills, and childcare. This is exacerbated if there are any problems with a claim causing further delay.

Throughout the review, Members identified this function of Universal Credit as a key issue with the service, often compounding financial and wellbeing issues for claimants.

Statutory Support

Members concluded that often if a claimant is experiencing issues relating to Universal Credit, there is minimal statutory support available, with the most likely form of help offered being foodbank vouchers.

Advanced payments prove helpful for some, but many claimants find them to be too little or unaffordable to repay.

Throughout the review Members worked closely with the Service Manager – Housing Management & Tenancy Services. They were informed that the Council, in particular the Housing Section and Revenues and Customer Services, continue to work proactively with both the voluntary advice sector and other statutory partners to share and collect information. Members arrived at the conclusion during the review that timely data should also be collected and shared regarding:

- Use of food banks
- Amount of hardship payments
- Number/% of claimants who do not receive their first payment in full on time
- Failed claims where residents have not completed their claim, or are refused UC, and reasons why

Communication

During the informal working group and formal committee meetings, Members recognised that the Council had taken many positive steps to try to inform and assist claimants regarding Universal Credit, as detailed in the report.

Members noted that information on effective support and advice to residents is available both on the Councils website, within leaflets, and through officer advice. Members were clear that it should also be ensured that up to date information on specific help available should not only be provided in Council publications and online, but also through community buildings, local service providers and through informing our Elected Members.

Elected Member seminars were provided during the initial implementation periods, however as the Council held its District elections in 2019, some Members feel that they do not have sufficient experience or information to assist residents effectively.

Financial Impact to Ashfield District Council

The introduction of Universal Credit has resulted in additional costs being placed on Local Authorities nationally, with Ashfield no exception to this.

At the first meeting of the Overview and Scrutiny Committee, Members received a presentation delivered by the Council's Service Manager – Housing Management and Tenancy Services. Members were informed that (as of 1 July 2019) Ashfield District Council had 627 Universal Credit cases, and of these cases, 383 were in arrears, totalling 61% of all cases. The total arrears for these cases amounted to £161,985.36, an average of £422.94 per case.

In January 2020, Members were advised that there were currently 996 Universal Credit claimants within Ashfield, with 472 now showing arrears. The Universal Credit element of rent arrears for the Authority stood at approximately £192,000. The figure had previously been higher but some excellent work undertaken by the Rent Arrears Team had brought the amount down from £270,000 at its peak. It was anticipated following recent profiling and extrapolation of benefits data, that the Council could potentially be supporting the migration of up to 3,500 applicants in total in the coming years.

The review raised concerns with Members of the Committee regarding the impact that the introduction of Universal Credit was having on claimants falling into arrears, and the impact that could have on the Council's budget and service delivery.

<u>Social Impact</u>

Throughout the review, Members were centrally concerned with the severe financial difficulties some claimants were and continued to be exposed to because of the introduction of Universal Credit. Members recounted some of the hardships that claimants and their families had approached them with, and stressed the importance of the role Ashfield District Council and partners must take in supporting claimants.

Further examples of the impact of Universal Credit on some recipients were provided to Members by the Council's Service Manager – Housing Management and Tenancy Services and through the social media discussions that resulted in Members considering 12 short testimonials. These examples included;

- Being unable to feed households
- Being unable to afford heating
- Ending up in a cycle of debt
- Threats of eviction
- Impact on mental health

Ensuring adequate support through both the Department for Work and Pensions, the Council, and the voluntary sector is essential. To do this, timely information should be communicated between all involved agencies, detailing any change in circumstances because of Universal Credit in order to offer assistance at the earliest possible stage.

Members were also informed that Ashfield Citizens Advice had seen a massive increase in issues relating to Universal Credit. These included queries regarding reduced payments due to sanctions, difficulties managing repayment of advances and some finding it difficult to make an initial claim.

Citizens Advice currently offer a “Help to Claim” service, helping support people in the early stages of their Universal Credit claim from the application to the first payment.

The Future of Universal Credit and Other Benefits

Following the December 2019 General Election and the subsequent formation of a Conservative majority government, the continuation of Universal Credit has been ensured.

There is a tentative timeline of anticipated changes to Universal Credit, and other benefits, expected to be introduced throughout 2020.

April 2020 – End of the Benefit Freeze

The end of the benefit freeze would mean Universal Credit and other working age benefits rising by 1.7 percent from April 2020. The freeze initially came into effect from April 2016, meaning most benefits and tax credits have not gone up in line with inflation for four years.

Other benefits that have been frozen but are now set to rise are income support, housing benefit, child tax credits, Employment and Support Allowance, working tax credits, and child benefit.

The end of the benefit freeze would mean someone on £1,000 a month in benefits would receive the equivalent of £204 extra over a year, or £17 a month.

April 2020 – Pension Changes

Another change expected to be announced in the 2020 Budget is a 3.9 percent increase to the State Pension. This would mean £5.05 a week extra on the old State Pension and £6.60 a week on the new State Pension.

April 2020 – Adult Dependency Payment

Adult dependency payment is a payment for a partner who is financially dependent on you and has not yet reached pension age. The scheme closed to new applications in 2010, and will cease entirely in April 2020.

This payment ceasing could result in reductions of up to £70 per week.

June 2020 – TV License Changes

Government funded free TV Licenses for those aged 75 or over will cease in June 2020. From June 1, a new TV License scheme means you can only carry on getting a free TV License if you or your partner are receiving pension credit.

This could lead to increased costs of up to £154.50 per year for those who previously relied on the ending Government scheme, where they are not entitled to pension credit.

July 2020 – Universal Credit Transition Period

From July 22 2020, when moving across to Universal Credit, claimants will receive an additional two weeks of:

- Jobseekers Allowance
- Employment and Support Allowance
- Income Support

People are transferred on to Universal Credit if their circumstances change – this is called natural migration.

Everyone else on the six old benefits, which Universal Credit was introduced to replace, will be transferred to Universal Credit through a managed migration scheme run by the Department for Work and Pensions – set to be completed by December 2023.

The extended transition protection will help to reduce the impact of the Universal Credit waiting period as claimants move across.

September 2020 – Universal Credit Change for Self Employed

The Department for Work and Pensions use a Minimum Income Floor to calculate Universal Credit payments for self-employed claimants. Currently, the Minimum Income Floor is roughly equivalent to the national minimum wage for each hour the claimant is expected to work.

The Minimum Income Floor can lead to claimants having their Universal Credit entitlement calculated at a higher level of earnings than what they have been paid.

The Minimum Income Floor is not applied to those who started a business within the past 12 months. From September 2020, this 12-month exclusion period will also not apply to those who are naturally migrated to Universal Credit in self-employment and all those existing claimants who become newly self-employed.

Further Delays to Implementation

In February 2020, it was announced by Government that the completion of the Universal Credit welfare scheme has been delayed by a further nine months until 2024. This means the full implementation of Universal Credit will be at least seven years behind its original completion date.

The latest delay follows the previous delay that came in October 2018, and has been announced as fewer claimants are moving across to the new scheme than anticipated. Claimants are increasingly reluctant to move onto Universal Credit due to the many issues facing the scheme.

Recommendations

At the January 2020 meeting, Overview and Scrutiny Committee Members approved the following set of recommendations. Rationale regarding the reasons for each recommendation is provided below.

a. Cabinet should note the hardship being experienced by Ashfield residents, and the current and anticipated financial impact to the Council as a result of the introduction of the Universal Credit welfare scheme.

   Members of the Committee fully understand the limitations of the review concerning impacting Universal Credit nationally, however real life case studies supplied to Members highlighted the severe social impact, hardship and debt that some claimants had experienced as a result of the introduction of Universal Credit.

   Ashfield District Council staff, in particular, Housing Services, see the impact and hardships on a daily basis through their contact with tenants. Often supporting tenants in severe difficulties.

b. A mandatory seminar be organised for all Councillors to equip them with the necessary knowledge and skills to support residents raising issues concerning Universal Credit.

   A Members seminar on Universal Credit was delivered in 2018, outlining the main issues, support available, advice and signposting regarding the new welfare scheme. Following the District Elections in May 2019, a significant number of Elected Members have not had that briefing. Members of the Committee concluded that another seminar is essential to help inform Members, who are often the first point of contact for constituents.

c. A letter be sent to local MPs, and the relevant ministerial department, outlining the difficulties claimants in Ashfield have experienced following the introduction of Universal Credit.

   Overview and Scrutiny Committee Members agreed that the Local MPs and relevant Ministerial Departments should be contacted to outline the severity of the difficulties that some claimants are currently facing. This letter should also highlight the need for further resources for the Council and enhanced support for claimants.

d. Joint working with partners such as the Department of Work and Pensions and the Citizens Advice Bureau be enhanced to ensure important information is efficiently shared.

   Members of the Committee concluded that with many more claimants due to be transferred to Universal Credit, effective partnership working and information sharing was essential to ensure that the Council can adequately plan any additional support needed. This includes sharing information on:

   - Numbers of claimants being referred to foodbanks
   - Number of hardship payments
   - Monetary amount of hardship payments as an average figure
   - Number and percentage of claimants who do not receive their first payment in full on time (including data as to reasons why)
   - Failed claims where residents have not completed their claim or are refused Universal Credit and the reasons why

e. The Housing Management and Tenancy Services Team be recognised and commended for the extensive work undertaken supporting Universal Credit claimants and responding to welfare reforms.

   It was clear from the review that the Housing Management and Tenancy Services have planned, trained and explored new and innovative ways to offer ongoing assistance to new claimants, often going above and beyond to assist claimants. This has included seeking additional grant funding, providing essentials such as blankets, utensils and equipment and continuing to offer money/debt management advice. Members of the team have even collected and delivered food from the Salvation Army Food Banks for some of the District's most vulnerable people that were unable to collect for themselves.

   In acknowledging the extent of support provided, Members of the Overview and Scrutiny Committee wanted to highlight the excellent work of the Team.

f. The Housing Revenue Account 30 Year Business Plan be reviewed, taking into consideration the impact the introduction of Universal Credit will have on Housing and other Council services.

Whilst Members of the Committee were confident that the Council had sufficiently planned for the introduction of Universal Credit, it is clear that the potential impact on Council income and subsequent ability to deliver support and services to tenants is significant. Therefore reviewing the HRA 30 year Business Plan regularly, taking into account up to date information on debt, risk, income and mitigation was considered essential by the Committee.

g. The Welfare Reform Reserve Fund be reviewed to ensure sufficient resources remain available to support claimants and maintain adequate staffing levels.

   The Welfare Reform Reserve Fund is an additional fund available to support the Housing Management and Tenancy Services Team in delivering support to claimants following welfare reforms. This has included funding temporary staff positions (some of which will be ending in 2020). Members of the Committee recognised the importance of sufficient funding to continue to be able to support some of the most vulnerable people within our district, particularly with the likelihood of the number of Universal Credit cases within the District increasing substantially in the future.

h. All publically displayed information regarding Universal Credit and wider welfare reforms be reviewed to ensure maximum visibility and relevancy.

   Whilst noting that information offering support and advice to residents is already available, Members of the Committee concluded that partnership working to ensure adequate support is both advertised and accessible is essential. Ensuring claimants are aware of the support available can help people manage debt, maintain their tenancies, feed their families and in extreme cases, mitigate against experiencing severe mental health issues.

i. Consideration be given to software and hardware requirements that could assist in improving the Council’s efficiency and effectiveness managing Universal Credit cases and supporting claimants.

   During the review, Members of the Committee endeavoured to ensure that the Council had the adequate resources needed to deliver the support for the current and further implementation of Universal Credit. The Committee were advised that future administration of the service could be enhanced through exploring the benefits of improved telephony systems (such as ‘Dialler’) or assistive software packages such as ‘RentSense’. These systems would assist greatly with managing caseload and anticipating rent arrears at an earlier stage.

Conclusion

The Overview and Scrutiny Committee undertook a comprehensive review on the Impact of Universal Credit following its addition to the Workplan in June 2019. Members of the Committee, many who were new to the Council following the District Elections in May 2019, had a basic understanding of Universal Credit and its impact on claimants, however they did not have a full understanding of the role the Council had in both its implementation and in supporting many of these claimants during difficult times.

Whilst the Committee understood the limitations of the review in changing Government policy, gaining a greater understanding of how the process works, its impact on claimants, partnership working and the potential longer-term impact on the Council’s finances has been a beneficial process.

Throughout this review, the Committee has heard evidence from the Council (Housing Management and Tenancy Services, Revenues and Benefits), partner agencies (DWP and Citizens Advice, Salvation Army) and claimants themselves.

The Committee concluded that the introduction of Universal Credit has negatively affected many members of the community, particularly those with financial difficulties, mental health or learning disabilities, single parent families, part time workers and family carers.

Many have struggled in both applying for Universal Credit, managing debt, and dealing with delays in payment. Many have resorted to the use of loan sharks and food banks, a fact that gravely concerned the Committee.

The Committee were encouraged by the work of the Council's Housing Management and Tenancy Services and partner agencies such as Citizens Advice in supporting claimants.
The recommendations made in this review reflect areas of service delivery and support regarding Universal Credit that the Committee believe can generate improvements, increased knowledge and ensure necessary preparations.

Implications

Corporate Plan:

Due to the extensive impact the introduction of Universal Credit has had socially and financially, this review incorporates many of the Council's priorities and values set out in the Corporate Plan 2019 – 2023.

This includes:

- People Focussed
- Health and Happiness
- Homes and Housing

Legal:

There are no legal implications resulting from the recommendation set out in this report.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	None.
General Fund – Capital Programme	None.
Housing Revenue Account – Revenue Budget	As detailed in the report.
Housing Revenue Account – Capital Programme	None.

Risk:

Risk	Mitigation
Social risk to claimants.	Ensuring Ashfield District Council works with partner organisations to provide support and guidance to Universal Credit claimants.
Financial risk to Ashfield District Council.	Ensuring Ashfield District Council has measures in place to address or mitigate any financial risks resulting from the introduction of Universal Credit.

Human Resources:

Any human resource implications relating to the recommendations resulting from this scrutiny review will be considered and included in the final report presented to Cabinet.

Environment/Sustainability:

There are no environment/sustainability implications resulting from the recommendations detailed in this report.

Equalities:

During the course of this review, consideration has been given to equality implications relating to Universal Credit, particularly towards disabled and ill health claimants.

Other Implications:

None.

Reason(s) for Urgency

None.

Reason(s) for Exemption

None.

Background Papers

None.

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Agenda Item 5

Report To:	**CABINET**	**Date:**	**24 FEBRUARY 2020**
Heading:	**ANNUAL BUDGET & COUNCIL TAX 2020/21 AND MEDIUM TERM FINANCIAL STRATEGY (MTFS) UPDATE**		
Portfolio Holder:	**CABINET MEMBER FOR FINANCE & RESOURCES - COUNCILLOR RACHEL MADDEN**		
Ward/s:	**ALL**		
Key Decision:	**Yes**		
Subject to Call-In:	**Yes**		

Purpose of Report

This report sets out the proposed:

- 2020/21 Annual Revenue (General Fund) and HRA Budgets and the Capital Programme for 2019/20 to 2023/24;
- 2019/20 In-Year Revised Budgets (HRA and Capital); and
- 2020/21 District Council Tax

The report also sets out the estimated financial challenge in the Medium Term Financial Strategy (MTFS) for 2021/22 to 2024/25 and the Chief Finance Officer's advice regarding the robustness of the estimates included in the proposed 2020/21 Budget, and the adequacy of reserves for which the proposed budget provides.

Recommendation(s)

That Cabinet recommends to Council:

1. **Approval of a £5 (2.7%) increase in the level of the District's own Council Tax for 2020/21, setting the Band D equivalent at £190.46;**

2. **Approval of the proposed 2020/21 Revenue (General Fund) and HRA Budgets as set out in this report. (Sections 3 and 4).**

3. **Approval of the proposed Capital Programme and associated borrowing 2019/20 to 2023/24 as set out in this report. (Section 5).**

4. **Approval of the 2019/20 Revised HRA and Capital Budgets as set out in this report. (Sections 4 and 5).**

5. **Approval that the precept figures from Nottinghamshire County Council, Nottinghamshire Fire and Rescue Authority, Police and Crime Commissioner and the two Parish Council's within the District be incorporated, when known, into the Council Tax recommendation to Council on 5th March 2020.**

6. **That it notes the estimated financial challenge in the Medium Term Financial Strategy (MTFS) for 2021/2022 to 2024/25 and the planned approach to address the challenge. (Section 6).**

7. **That an updated MTFS will be brought back to Cabinet after the 2019/20 Accounts have been closed and audited.**

8. **Approval of the proposed use of reserves as set out in this report. (Table 5 (General Fund) and Table 9 (HRA)), the creation of 5 new reserves and the amalgamation of 2 existing reserves (As set out in Section 3.6).**

9. **That it notes and accepts the comments and advice of the Corporate Finance Manager (Section 151 Officer), provided in compliance with Section 25 of the Local Government Act 2003, as to the robustness of the estimates included in the 2020/21 Budget and the adequacy of the reserves for which this budget provides. (Section 7).**

10. **Notes that the proposed 2020/21 budgets reflect the agreed changes to Fees and Charges approved by Cabinet on 27th January 2020.**

11. **Approval of the use of in-year Capital Receipts up to 2020/21 to maximise capitalisation opportunities arising from service transformation to deliver efficiencies and improved services to residents and clients, and thereby minimise the impact of costs on the revenue budget as included in the Flexible Use of Capital Receipts Strategy 2018/19 approved by Council on 11th October 2018.**

12. **Notes that additional recurrent and non-recurrent costs of progressing the Digital Service Transformation (DST) programme at a quicker pace than had previously been planned are not included within the proposed 2020/21 budget and that a separate report detailing the programme, costs and payback periods, and how the programme will be funded will be brought for consideration through the appropriate channels in accordance with the Council's Financial Regulations.**

Reasons for Recommendation(s)

To recommend to Council approval of a £5 (2.7%) increase in the District Council's Council Tax for a Band D equivalent property, approval of the HRA and Capital Budget Revisions for 2019/20 and approval of the proposed 2020/21 Revenue and HRA Budgets and the Capital Programme 2019/20 to 2023/24. In accordance with the Local Government Finance Act 1992 the Council must set its annual budget by 10th March in the preceding financial year.

Alternative Options Considered

The District Council is able to set a Council Tax increase of up to the greater of 2.00% or £5 per annum without triggering a referendum. The proposal is to increase the level of District Council Tax for 2020/21 by £5 which equates to a 2.7% increase for a Band D equivalent property to assist the Council to set a balanced budget for 2020/21 and to recognise the cumulative impact of this increase in helping to address the estimated funding gap in the Medium Term Financial Strategy for the years 2021/22 to 2024/25.

The District Council was able to freeze its own Council Tax for 2019/20 however, recognising the financial challenge faced beyond 2020/21 the proposed increase for 2020/21 is considered appropriate in order to continue to provide the key services on which our residents rely. Most properties in Ashfield (81.6%) are in Bands A, B and C: (39.2% Band A, 22.0% Band B and 20.4% Band C) and for these properties the proposed increase amounts to £0.06p, £0.07p and £0.09p per week respectively, or an average increase of 1 pence per day.

Careful consideration has been given to each of the proposed investments and savings included in this report. The investments proposed will support the Council in delivering its Corporate Plan priorities. The proposed savings will increase the efficiency of the Council with minimal adverse impact on residents and customers.

Detailed Information

1. Background

1.1 Since 2010 Local Government has seen an unprecedented reduction in the level of funding from Central Government.

1.2 Despite this significant reduction in funding this Council has a proven track record of setting its annual budget and delivering an Outturn within the budget set. However, despite this good financial performance the Council does face further financial challenges which it will need to address into the medium and longer term.

1.3 Although this report contains proposals to balance the 2020/21 revenue budget it is essential that the Council's management continue to work with Cabinet to identify and agree options to address the estimated financial challenge in the Medium Term Financial Strategy for 2021/22 to 2024/25 and beyond; ensuring the Council has a sustainable future.

1.4 The proposed 2020/21 Budget reflects the impact of both the Provisional and Final Local Government Settlements, including the Government's decision to extend payment of Revenue Support Grant (RSG) funding by one further year for 2020/21 due to delays in implementing the Fair Funding Review, the Business Rates reset and changes to the level of Business Rates retention.

1.5 The proposed revenue and capital budgets included in this report will facilitate the delivery of the Council's Priorities set out in the Corporate Plan 2019-2023.

2. District Council Tax 2020/21

2.1 **Ashfield District Council is proposing a £5 (2.7%) increase to its own Council Tax.** This would set the District's Council Tax level (Band D equivalent property) at £190.46 for 2020/21.

2.2 This proposed District Council Tax increase is reflected in the proposed Annual Revenue Budget for 2020/21 shown in Section 3, Tables 3 and 4.

2.3 Based on the number of Band D equivalent properties in the 2020/21 Council Tax Base (33,695.3) and a District Council Tax of £190.46, this will generate Council Tax income of £6.418m for 2020/21.

3. Annual Revenue Budget 2020/21

3.1 The proposed 2020/21 Annual Revenue Budget includes a number of Investments and Savings/Efficiencies. These are set out in tables 1 and 2 below.

3.2 The proposed Revenue Budget includes provision for pay award (2%), provision for the expected costs arising from changes to the national pay spines from April 2020 and contractual inflation. The proposed 2020/21 Budget also includes any revenue implications from the proposed Capital Programme yet to be approved by Council on 5th March 2020.

Table 1 – Proposed Investments 2020/21

Investment	**Detail**	**£'000**
Office 365 Licences	To ensure the Council has appropriate software licences in place for staff, utilising systems relevant to undertake their roles.	71
Corporate Communications	Additional funding to enhance the provision of timely information to residents and businesses across the District.	20
Lone Worker Devices	MyGuard (SOS devices) to provide potentially vulnerable front line staff with a recognised safety device.	7
TOTAL		**98**

Table 2 – Proposed Savings/Efficiencies 2020/21 and 2021/22

Saving / Efficiency	**Detail**	**2020/21**	**2021/22**
		£'000	**£'000**
Base Budget Review	Savings identified through a line by line review of all General Fund budgets	302	
HRA – reviewed contribution	Increased HRA contribution towards the its fair share of General Fund services costs	100	
Increase Vacancy factor by 0.5% to 3.5%	Following a review of average times taken to recruit to vacant posts it is considered to increase the vacancy factor by 0.5% and potentially increase it by a further 0.5% for 2021/22(subject to in year review)	72	72
Stationery budget reduction of 20% (Including Paper)	Monthly printing limits have been assigned to Officers and this combined with greater agile working has seen significant reductions in printing	10	
Ashfield Business Centre	The lease for this building expired on 24th December 2019 and a decision was taken to not renew.	33	
Reduce ICT Budgets (Capitalisation)	Historically the Council has purchased hardware from revenue budgets in the year required. It is proposed to capitalise this spend where appropriate and this will deliver recurrent revenue budget savings.	40	
Cease Trade Waste arrangement with Mansfield District Council	Process trade waste direct rather than via Mansfield DC as an intermediary.	35	
Outsource Building Control	Transfer of this service, including the two staff to Erewash Borough Council due to experiencing significant recruitment issues.	75	25
Regeneration Service	Through mutual agreement, dissolution of the shared Regeneration Service with Mansfield District Council and reconfiguration of the service to progress delivery of our new Corporate Plan priorities.		
Transport Review	Review led to an increase of 3 staff (including 2 apprenticeships) with the increased capacity reducing the requirement to externalise work at a greater cost.	49	4
Lifeline Service	Transfer of this service to Notts. City Homes due to significant recruitment issues.	58	7

HR/Payroll Structure review	Service review of the shared service with Mansfield District Council resulting in headcount reduction	35	
Pest Control – additional income	Stretch target for the service to continue to build on its success in 2019/20 and achieve a break-even trading position.	13	
Depot Canteen	Increased income target	5	
Democratic Services restructure	Service restructure resulting in deletion of a vacant post and a trial reduction in staff hours	14	-7
Environmental Health restructure	Deletion of a vacant post	37	
Finance review	Deletion of a fixed term contract post in October 2020.	9	14
Community Foundation – Grant reduction	Reduce the level of grant funding allocated via the Community Foundation to £10k per annum	5	
Kings Mill Reservoir Car Parking income	Capital investment in the car park will provide the capacity to generate additional parking income (£7k per annum full year effect)	3	4
Urban Road – Police Rental Income	Increased office space occupied by the Police will generate additional rent income	2	
TOTAL		**987**	**19**

3.3 Factoring in the above proposed Investments and Savings/Efficiencies, the proposed Annual Revenue Budget for 2020/21 is shown in Table 3 below:

Table 3 – Annual Revenue Budget by Directorate 2020/21

Directorate	**£'000**
Place & Communities	9,326
Resources & Business Transformation	-1,479
Legal & Governance	1,783
Housing & Assets	2,137
Chief Executive	540
Sub Total - Directorates	**12,287**
Net Recharges In/Out	-2,781
Borrowing & Capital Financing Costs	2,454
Net Interest Payable	216
Transfers to Earmarked Reserves	959
TOTAL	**13,155**

3.4 Table 4 below shows how the proposed 2020/21 Annual Revenue Budget is funded:

Table 4 – Funding the 2020/21 Annual Revenue Budget

Funding Source	£'000
New Homes Bonus	-1,155
Revenue Support Grant	-197
Net Business Rates / Section 31b Grants	-5,590
Council Tax Collection Fund Deficit	+42
Business Rates Collection Fund Deficit	+432
District Council Tax (Frozen)	-6,418
Use of Earmarked Reserves	-270
General Fund Reserve contribution	0
TOTAL	**-13,155**

3.5 General Fund Earmarked Reserves

Table 5 below shows the planned movement in General Fund Earmarked Reserves:

Table 5 – Known and Planned Movement in General Fund Earmarked Reserves

Movement on Earmarked Reserves	Balance as at 1st April 2019	Transfer to Reserve 2019/20	Transfer from reserve 2019/20	Expected Balance as at 31st March 2020	Transfer to Reserve 2020/21	Transfer from Reserve 2020/21	Expected Balance as at 31st March 2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
District Planning Inquiry / Local Plan	406	250	335	321	0	250	71
Elections	87	64	144	7	54	0	61
Harold Farr Bequest	5	0	5	0	0	0	0
Joint Use Maintenance Fund	201	0	0	201	0	0	201
Asset Repair & Renewal Reserve	812	0	40	772	0	0	772
LAMS Reserve	76	0	0	76	0	0	76
Joint Crematorium Reserve	492	0	0	492	0	0	492
Insurance Related Funds	334	0	0	334	75	0	409
Revenue Grant Reserve	957	0	17	940	0	0	940
NNDR Equalisation Reserve	1,804	0	0	1,804	0	0	1,804

Supported Housing Reserve	11	0	0	11	0	0	11
Corporate Change Reserve	1,257	0	360	897	200	0	1,097
Commercial Property Investment Reserve	800	900	0	1,700	600	0	2,300
Economic Development & Place Reserve	241	0	116	125	0	0	125
Technology Investment Reserve	402	0	0	402	0	0	402
Legal (ADC) Reserve (NEW)	0	20	0	20	5	20	5
Winter Maintenance (NEW)	0	0	0	0	5	0	5
Commercial Property Delapidations Reserve (NEW)	0	0	0	0	10	0	10
Investment Property (Aborted Enquiries) Reserve (NEW)	0	0	0	0	10	0	10
Brexit Reserve (NEW)	0	52	1	51	0	0	51
Total	**7,885**	**1,286**	**1,018**	**8,153**	**959**	**270**	**8,842**

3.6 Proposed New and Combined Reserves

As indicated in Table 5 above it is proposed that five new reserves are created as follows:

- Legal (ADC) Reserve – to meet costs of external legal advice which is either specialist in nature or in exceptional circumstances because capacity and time constraints dictate that the work cannot be undertaken in-house.

- Winter Maintenance Reserve – to meet the costs of winter gritting. As part of the Base Budget Review these budgets were removed from individual services as it is more appropriate for these costs to be met via a reserve as and when adverse weather requires access for this funding.

- Commercial Property Delapidations Reserve – to meet the costs incurred by the Council where it exits a lease and is required to make good delapidations.

- Investment Property (Aborted Enquiries) Reserve – to meet the costs incurred in pursuing potential Investment Property acquisitions but through due diligence the acquisition decision is aborted.

- Brexit Reserve – creation of a separate reserve for Brexit funding transferring out £17k (2018/19 funding) from the Revenue Grants reserve and also allocating into the reserve the funding received during 2019/20 (£35k).

- It is also proposed that the Corporate Change Reserve and the Investment Technology Reserve be combined and renamed the Corporate Transformation Reserve. This reserve will meet costs associated with service transformation (ICT, severance, etc).

3.7 Proposed transfers to Reserves

The proposed transfers to Earmarked Reserves for 2020/21 are:

- £54k to Elections reserve which includes £44k annual contribution and £10k towards costs of potential future By-elections.

- £75k annual contribution to the General Fund Insurance Reserve to meet costs of self-insurance.

- £200k to help meet the costs arising from the Digital and Service Transformation Strategy.

- £600k to the Commercial Property Investment Reserve to help mitigate potential future risks in respect of business failure resulting in void occupancy periods. Following review of the properties in the portfolio and the timing of break clauses, it is considered appropriate in the short term to build this reserve up to £3m. It is anticipated that through planned transfers of unbudgeted income in year (2019/20) this reserve will contain circa £1.7m by the end of 2019/20 and £2.3m by the end of 2020/21. Any additional unbudgeted income generated through new Investment Property acquisitions during 2020/21 will also be transferred to this reserve until it achieves the planned level of £3m.

- £30k transfer to the four new reserves; Legal (£5k), Winter Maintenance (£5k), Commercial Property Delapidations (£10k) and Investment Property Aborted Enquiries (£10k).

3.8 Proposed transfers from Reserves

The proposed transfers from Earmarked Reserves for 2020/21 are:

- £250k from the District Planning Inquiry / Local Plan Reserve to fund the evidence base required for the development of the Local Plan.

- £20k from the new Legal Reserve to meet costs which relate to the provision of specialist external legal advice.

- There will be a requirement to utilise the Corporate Transformation Reserve during 2020/21 to progress the pace of delivering our Digital Service Transformation programme. Once confirmed, the costs associated with this and the earlier payback of financial and non-financial benefits are currently being determined and approval for this spend will be brought for consideration through the appropriate channels in accordance with the Council's Financial Regulations.

3.9 General Reserve

As at 31st March 2019 the balance on the General Reserve was £6.116m. The Outturn Report (to Cabinet on 24th June and Council on 25th July) agreed utilisation of £55k, leaving a balance of £6.061m. **In setting the proposed budget for 2020/21 there is no proposed withdrawal of funding from the balance of this Reserve**.

4. Housing Revenue Account (HRA)

4.1 Local housing authorities are required by Section 74 of the Local Government and Housing Act 1989 (the 1989 Act) to keep a Housing Revenue Account (HRA). The HRA reflects a statutory obligation to account separately for local authority housing provision. It identifies the major elements of housing revenue expenditure such as maintenance, administration, and contributions to capital costs and how these are funded, mainly being from housing rent.

4.2 The proposed 2020/21 Annual HRA Budget includes a number of Investments and Savings/Efficiencies. These are set out in tables 6 and 7 below.

4.3 The proposed budget includes provision for pay award (2%), funding for increments and contractual inflation. The 2020/21 Budget also includes any revenue implications from the proposed Capital Programme yet to be approved by Council.

Table 6 – Proposed HRA Investments 2020/2021

Investment	Detail	£'000
Housing Management Advisors	Fixed Term contracts to assist with the full rollout of Universal Credit funded from reserves set aside for this purpose.	108
TOTAL		**108**

Table 7 – Proposed HRA Savings/Efficiencies 2020/21

Saving/Efficiency	Detail	£'000
Service Review of Housing Repairs	Annual employee savings from the Housing Repairs Review. (Part year)	13
Vacancy Factor increase (	Increase in vacancy factor from 3% to 3.5%	25
Implementation of the Dynamic Resource Scheduler	Efficiency gained from productivity of repair operatives reducing subcontractor requirement. (Part year)	60
TOTAL		**98**

4.4 **Table 8 below shows the proposed Revised HRA budget for 2019/20 and the proposed HRA Budget for 2020/21:**

	2019/20 Revised Budget £	**2020/21 Original Budget £**
Summary Budget for Housing Revenue Account		
Service		
Housing Revenue Account	(12,309,480)	(7,712,610)
Housing Courts Schemes	1,041,850	986,380
Tenancy Services and Housing Management	1,323,790	1,435,220
Lettings	690,190	789,290
Technical Services Management	(468,220)	(657,680)
Technical Services Responsive and Void Management	4,011,290	4,115,510
Technical Services Support Services	996,050	974,730
Technical Services Planned and Cyclical	2,999,280	2,890,670
Procurement	68,140	71,750
DLO	152,770	116,840
TOTAL	**(1,494,340)**	**3,010,100**

Subjective Analysis		
Employee Expenses	5,510,540	5,697,270
Premises Expenses	7,326,750	6,969,920
Transport Related Expenses	385,810	257,480
Supplies & Services	4,638,210	4,318,240
Transfer Payments	19,800	0
Income	(24,470,060)	(24,681,150)
DLO Recharges	(6,397,140)	(6,582,650)
Sub Total Excluding Capital Financing Costs & Central Recharges	**(12,986,090)**	**(14,020,890)**
Capital Financing Costs	10,012,170	15,026,420
Central & Dept Recharges In	4,101,930	4,053,190
Central & Dept Recharges Out	(2,622,350)	(2,048,620)
TOTAL	**(1,494,340)**	**3,010,100**

Net Operating Expenditure	**(1,494,340)**	**3,010,100**
Less Adjusting Capital Entries	10,012,170	15,026,420
Total Net Operating Expenditure after Adjusting Capital Entries	**(11,506,510)**	**(12,016,320)**

Borrowing and Capital Financing Costs		
Interest Payable and Other Charges	3,547,590	3,547,590
Depreciation	3,560,300	3,792,720
Direct Revenue Financing of Capital	2,904,280	7,686,110
Total Borrowing and Capital Financing Costs	**10,012,170**	**15,026,420**

Net Expenditure to be Financed from Housing Revenue Account	**(1,494,340)**	**3,010,100**
Net Deficit/ (Surplus) before movement from/(to) Reserves	**(1,494,340)**	**3,010,100**

Housing Revenue Account		
Balance Brought Forward	(32,597,239)	(34,294,054)
In year (Surplus)/Deficit	(1,494,340)	3,010,100
Transfer to/(from) Earmarked Reserves	(202,475)	(58,000)
Balance Carried Forward	**(34,294,054)**	**(31,341,954)**

The 2019/20 Revised Budget above includes the proposed HRA Capital Scheme budget changes for 2019/20 proposed in Section 5 of this report.

4.5 The HRA uses a sophisticated 30 year business planning model. This enables the impact of various changes in income and expenditure to be monitored across a 30 year timespan.

Whilst there is not an immediate risk to the HRA within the short term the Council must be mindful that savings are required within the service itself and from those services and funds that receive contributions from the HRA as well as a potential need to scale back capital investment within existing properties. Housing services have continued to make year on year savings within its operating and capital budgets. From a redesign and IT investment of the Housing Repairs service to improve customer service, this will lead to further savings and efficiencies of £0.5m within 3 years.

Even though the HRA borrowing cap ended in October 2018. The current financial position of the HRA cannot sustain further additional debt repayments

4.6 Possible Future impacts on the HRA

Social Housing Green Paper – A New Deal for Social Housing

Improving People's Homes and Reducing Bills. The Government will look at a long-term trajectory for energy performance standards across the social housing sector, with the aim of as many social rented homes as possible being upgraded to (Energy Performance Certificates (EPC) Band C by 2030, where practical, cost-effective and affordable.

If all Council stock were required to achieve a Band C energy rating this would cost circa ADC £9.7m based on around 1764 units currently showing as lower than EPC Band C. The figure may vary as property elements are updated or removed, however a broad estimate of £5.5k per property upgrade amounts to some £9.7m spend to achieve the C Band target. This is currently not built into the 30 year business plan as this has not gone through any legislation.

4.7 New measures to improve building safety standards – Ministry of Housing, Communities & Local Government (MHCLG)

The Government is shortly commissioning a new Building Safety Regulator in direct response to the Grenfell tragedy. There is debate as to whether this will cover buildings over 11m high which could potentially bring under regulation for the first time many of the Council's 3 storey accommodation blocks. Whilst Ashfield's housing stock currently complies with all the relevant standards there may be some unquantified additional cost of compliance to any standard created by the new Regulator.

4.8 HRA Earmarked Reserves

Table 9 below shows the already approved movements in the HRA earmarked reserves in 2019/20 and 2020/21:

Table 9 – HRA Earmarked Reserves

Movement on Earmarked Reserves	Balance as at 1st April 2019/20	Transfer to Reserve 2019/20	Transfer from reserve 2019/20	Forecast Balance as at 31st March 2020	Transfer to Reserve 2020/21	Transfer from Reserve 2020/21	Forecast Balance as at 31st March 2021
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenue Grants Reserve	25	0	0	25	0	0	25
Eco Funding Reserve	263	0		263	0	0	263
Insurance Reserve	129	50	0	179	50	0	229
Corporate Change Reserve	192	0	0	192	0	0	192
Technology Investment	252	0	252	0	0	0	0
Welfare Reform Reserve	200	0	0	200	0	108	92
Total	**1,061**	**50**	**252**	**859**	**50**	**108**	**801**

4.9 Planned Movement in HRA Earmarked Reserves 2020/21

The HRA insurance reserve was established in 2016/17 to fund any damage to the Council's housing stock. All housing stock damage claims will go against the HRA insurance reserve, which was agreed to have a contribution of £50k per annum for the financial years 2016/17 through to 2020/21.

The Technology Investment reserve was set up to support the upgrading of out of date technology, to support the introduction of new technology, to support the move to digital delivery of services and improve customer experience and to support the move to more agile working. The reserve of £252k was utilised for a Dynamic Resource Scheduler, Repairs Module and Mobile licencing in housing repairs approved at Cabinet dated 21/01/2019. This investment should produce efficiency savings from 2020 onwards that will return the initial investment over three years.

The Welfare Reform Reserve was created to support and react to the high volume of issues raised with the roll out of Full Service Universal Credit that commenced in November 2018. This is resulting in a significant increase in customer contact, as the vast majority of tenants now have to liaise with us directly to make their rent payments. To help mitigate the adverse impact of the changes on the Council, five fixed term housing positions will be in place during the financial year 2020/21 using funding from this reserve.

5. Capital Programme 2019/20 to 2022/23

5.1 The proposed Capital Programme and funding is summarised in Table 10 below. Appendix 1 shows a detailed breakdown of all the schemes below.

The three areas of the Capital Programme (Area Schemes, General Fund and HRA) are discussed in more detail below.

Table 10 – Capital Programme (2019/20 to 2023/24)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Capital Expenditure						
Area Schemes	1,038	885	0	0	0	1,923
General Fund	51,819	28,135	22,153	3,289	20	105,416
Housing Revenue Account	7,947	12,615	14,495	10,338	9,897	55,292
Grand Total	**60,804**	**41,635**	**36,648**	**13,627**	**9,917**	**162,631**
Capital Financing						
Developers Contributions - Area Schemes	332	567	0	0	0	899
Borrowing	185	305	0	0	0	490
Direct Revenue Financing	41	1	0	0	0	42
Other Capital Grants and Contributions - Area Schemes	480	12	0	0	0	492
Sub Total - Area Schemes	**1,038**	**885**	**0**	**0**	**0**	**1,923**
Prudential Borrowing - General Fund	49,364	26,914	21,335	2,495	20	100,128
Direct Revenue Financing - General Fund	191	0	0	0	0	191
Developers Contributions - General Fund	211	187	0	0	0	398
Capital Receipts	0	0	0	0	0	0
Other Capital Grants and Contributions - General Fund	2,053	1,034	818	794	0	4,699
Sub Total - General Fund	**51,819**	**28,135**	**22,153**	**3,289**	**20**	**105,416**
Funded from HRA Reserves	6,461	11,422	12,472	9,158	8,717	48,230
Future 1-4-1 Capital Receipts Funding Recently Built and New Schemes	406	313	1,143	300	300	2,462
Non 1-4-1 Capital Receipts	1,080	880	880	880	880	4,600
Sub Total - HRA	**7,947**	**12,615**	**14,495**	**10,338**	**9,897**	**55,292**
Grand Total	**60,804**	**41,635**	**36,648**	**13,627**	**9,917**	**162,631**

Area Capital Programme

5.2 These consist of mainly self-financed schemes that enhance the local environment. Developers' contributions (known as Section 106 funding) make up the largest funding source. Additional grant funding is sought wherever possible to maximise the benefit to local communities. Area schemes are included in Table 11.

Table 11 – Area Schemes (2019/20 to 2023/24)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Area						
Hucknall Area	475	80	0	0	0	555
Kirkby Area	221	598	0	0	0	819
Sutton Area	185	205	0	0	0	390
Rural Area	157	2	0	0	0	159
Total	**1,038**	**885**	**0**	**0**	**0**	**1,923**
Funded by						
Borrowing	185	305	0	0	0	490
Donation	2	0	0	0	0	2
Friends of Cromford Canal	2	0	0	0	0	2
Hucknall and Linby Committee	10	0	0	0	0	10
Nottinghamshire County Council (NCC)	440	0	0	0	0	440
Reserves	41	1	0	0	0	42
Rural Payments Agency	0	4	0	0	0	4
Section 106	197	566	0	0	0	763
Selston Parish Council	21	0	0	0	0	21
Skanska	5	8	0	0	0	13
Sustainable Transport S106	135	1	0	0	0	136
Total	**1,038**	**885**	**0**	**0**	**0**	**1,923**

Table 12 below shows where changes to capital schemes by Area are proposed due to project delays (slippage) or additional project spend.

Table 12 – Area Schemes (changes in proposed expenditure)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Approved Area Scheme	**1,116**	**804**	**0**	**0**	**0**	**1,920**
Changes to Hucknall Schemes	-66	65	0	0	0	**-1**
Changes to Sutton Area Schemes	-13	13	0	0	0	**0**
Changes to Kirkby Area Schemes	-1	3	0	0	0	**2**
Changes to Rural Area Schemes	2	0	0	0	0	**2**
Proposed Area Schemes to be Approved	**1,038**	**885**	**0**	**0**	**0**	**1,923**

Table 13 – Area Schemes (changes to budget – by scheme)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Hucknall Area						
Papplewick Green Public Art Work	-1	0	0	0	0	-1
Play Areas	-65	65	0	0	0	0
Sub Total	**-66**	**65**	**0**	**0**	**0**	**-1**
Sutton Area						
Ashfield Estate Footpaths	-2	2	0	0	0	0
Brand Lane / Wharf Road Open Space Improvements	-1	1	0	0	0	0
Kingsmill Reservoir footpath links	-1	1	0	0	0	0
Kingsmill Reservoir management plan: Implementation Works	-8	8	0	0	0	0
Sutton Lawn Play Area	-1	1	0	0	0	0
Sub Total	**-13**	**13**	**0**	**0**	**0**	**0**
Kirkby Area						
Annesley Art Project	-2	2	0	0	0	0
Kirkby footpaths/cycle ways	2	0	0	0	0	2
Morven Park / West Park Play Area	-1	1	0	0	0	0
Sub Total	**-1**	**3**	**0**	**0**	**0**	**2**
Rural Area						
Jacksdale Car Park Extension	2	0	0	0	0	2
Sub Total	**2**	**0**	**0**	**0**	**0**	**2**
Grand Total	**-78**	**81**	**0**	**0**	**0**	**3**

5.3 Changes to Existing Area Projects

Table 13 above shows the proposed changes to budget on a scheme by scheme basis. Many of the schemes planned for 2019/20 are not now expected to be completed until 2020/21. The Papplewick Green Public Art Work is now completed and no further works are required. The actual funding allocation to each project is shown at Appendix 1. Two schemes have increased value:

- **Kirkby footpaths/cycleways –** A grant of £2k has been made available from Nottinghamshire County Council.

- **Jacksdale Car Park Extension –** The Council has received additional funding of £2k from Friends of Cromford Canal.

5.4 General Fund Capital Programme

Changes to the General Fund Capital Programme are explained below and summarised in the Table 14 and 15 below. Details of the full General Fund Capital Programme are shown in Appendix 1.

Table 14 - General Fund Schemes Summary Reconciliation of Current Capital Programme to Proposed February 2020 Capital Programme

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Current Capital Programme	**53,473**	**26,481**	**22,153**	**3,289**	**20**	**105,416**
Changes to Current Projects	-1,654	1,654	0	0	0	**0**
Proposed February 2020	**51,819**	**28,135**	**22,153**	**3,289**	**20**	**105,416**

Table 15 – General Fund Projects (changes in budget – by scheme)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Changes to Current Projects						
Hucknall Leisure Centre	-121	121	0	0	0	0
Kirkby Leisure Centre	-1,354	1,354	0	0	0	0
Leisure Transformation Programme	-74	74	0	0	0	0
Office Accommodation Works to Accommodate DWP at Central Offices	-2	2	0	0	0	0
Office Accommodation Works to Accommodate Police at Central Offices	-5	5	0	0	0	0
Kings Mill Reservoir Car Park Expansion	-98	98	0	0	0	0
Grand Total	**-1,654**	**1,654**	**0**	**0**	**0**	**0**

5.5 Key changes to Existing General Fund Projects.

It is not expected that there will be any change in total costs for the General Fund Capital Programme. However, several of the 2019/20 schemes will be delayed until the 2020/21 financial year. The actual allocation to each project is shown at Appendix 1.

Table 16 – General Fund – Financing of the Capital Programme

The tables below show the changes in financing required to move from the existing Capital Programme to the proposed 2019/20 – 2023/24 Capital Programme.

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Current Capital Programme	**53,473**	**26,481**	**22,153**	**3,289**	**20**	**105,416**
Capital Grants	-5	5	0	0	0	**0**
Capital Receipts - General Fund	0	0	0	0	0	**0**
Prudential Borrowing	-1,575	1,575	0	0	0	**0**
Developers Contributions - General Fund	-74	74	0	0	0	**0**
Direct Revenue Financing	0	0	0	0	0	**0**
Proposed November 2019 Capital Programme	**51,819**	**28,135**	**22,153**	**3,289**	**20**	**105,416**

5.6 Housing Revenue Account (HRA) Capital Programme

There have been changes to the profiling of HRA capital schemes. However, with the exception of a £2k saving for the Darlison Court scheme, which is now complete, the total HRA capital expenditure remains unchanged. These are shown in Table 17 below.

The HRA Vehicle purchases are proposed to increase overall by £409k due to the addition of the next year into the programme for 2023/24. The capital programme has been increased by £1m per year for years 2019/20 – 2023/24 to fund additional investment via the acquisition of dwellings to supplement the current Housing stock. There has been a small increase of £8k in the cost of the new Persimmon Homes in Hucknall.

The 2019/20 non 1-4-1 housing capital receipts to date have been higher than originally anticipated. This has resulted in an extra £200k being available to fund decent home schemes.

Full details of the HRA Capital Programme are shown in Appendix 1.

Table 17 – Housing Revenue Account (changes to budget)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Expenditure Approved	**9,232**	**14,142**	**11,685**	**10,338**	**9,897**	**55,294**
Changes to Current Projects						
Catch up and Major Repairs	-1,056	1,056	0	0	0	**0**
Service Improvements	15	-15	0	0	0	**0**
Contingent Major Repairs	-30	30	0	0	0	**0**
Exceptional Extensive Works	4	-4	0	0	0	**0**
Disabled Adaptations	-82	82	0	0	0	**0**
Electronic Document and Records (EDRM) System	-12	12	0	0	0	**0**
Darlison Court (New Builds)	-2	0	0	0	0	**-2**
Investment in New or Existing Dwellings	-44	44	0	0	0	**0**
Major Repairs Temporary Accomodation	-18	18	0	0	0	**0**
Davies Avenue Housing Project	-60	-2,750	2,810	0	0	**0**
Firewalls	0	0	0	0	0	**0**
SAN Hardwear	0	0	0	0	0	**0**
Switch Network Hardware	0	0	0	0	0	**0**
Grand Total	**7,947**	**12,615**	**14,495**	**10,338**	**9,897**	**55,292**
Capital Funding						
Funded from HRA Reserves	6,461	11,422	12,472	9,158	8,717	**48,230**
Future 1-4-1 Capital Receipts Funding Recently Built and New Schemes	406	313	1,143	300	300	**2,462**
Non 1-4-1 Capital Receipts	1,080	880	880	880	880	**4,600**
Total Capital Funding	**7,947**	**12,615**	**14,495**	**10,338**	**9,897**	**55,292**

6. MTFS Update

6.1 There remains significant uncertainty around the level of resources which will be available to the Council beyond 2020/21. This uncertainty is in relation to the outcome of the Fair Funding Review and the impact it will have on 'assessed need' and subsequent resource allocation levels through a Business Rates re-set and the proposal to change levels of business rates retention from 2021/22, and potential changes to the distribution methodology for New Homes Bonus.

6.2 Because of the above significant uncertainty indications of the future financial challenge for the Council (like all other Councils) will potentially be subject to considerable variation. However, based on use of the LG Futures financial model and our current estimate of expenditure required for the next five years the current estimated funding gaps are shown in Table 18 below:

Table 18 – MTFS Estimated Funding Gap 2020/21 to 2024/25

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Estimated Expenditure	13,135	12,220	13,020	13,815	14,245
Estimated Income	(13,135)	(11,137)	(10,739)	(10,632)	(10,716)
Estimated Cumulative Funding Gap	0	1,083	2,281	3,183	3,529
Estimated Annual Funding Gap	0	1,083	1,198	902	346

6.3 The above estimated funding gaps currently include the following assumptions (which may change on further review):

- Pay inflation (2%)
- Contract Inflation (2.4%)
- Utilities Inflation (5%)
- No allowance for any inflationary increase in District Council Tax increase from 2020/21
- No allowance for any growth in the Council Tax Base (Number of properties)

The above assumptions will all be revisited over the Summer as part of the MTFS review (See 6.8 below).

6.4 The Corporate Leadership Team (CLT) and Cabinet continue to meet regularly to identify and agree options to address this estimated financial challenge in the Medium Term Financial Strategy for 2021/22 to 2024/25 and beyond; ensuring the Council has a sustainable future.

6.5 Consideration will be given to options for additional income generation, including the potential acquisition of further Investment properties, the identification of efficiencies (service reviews, procurement savings, asset rationalisation, alternate service delivery models, etc.) and potential savings through Invest to Save – in particular via the Council's Digital Transformation Programme.

6.6 An updated MTFS will be brought back to Cabinet after the 2019/20 accounts have been closed and audited and further updates will be provided as greater certainty around future funding becomes available.

7. Section 151 Officer Comments

7.1 Section 25 of The Local Government Act 2003 requires that the 'Chief Financial Officer' (The Corporate Finance Manager at Ashfield District Council) reports to Council on the following matters in making decisions on the budget and financial strategy:

The robustness of the estimates made for the purposes of the calculations; and
The adequacy of the proposed financial reserves.

It is also recognised good financial management for the Council to identify target levels for reserves and balances that are based on a thorough understanding of its risks and needs.

7.2 The content of this report is the mechanism by which positive assurances are made by the Corporate Finance Manager about the adequacy of the proposed financial reserves.

7.3 The Corporate Finance Manager gives his assurance that the budget estimates for 2020/21 are robust. There is a forecast deficit in future years as public sector funding gets tighter and there is recognition that this will have to be addressed for the Council to remain sustainable in the longer term but that there are options available for development, consideration and subsequent implementation to do this. Early progress of any of the supported options during 2020/21 may also deliver in year savings.

7.4 The key fundamental principles which underpin the Corporate Finance Managers' assurances are:

- Directorates manage their finances within the clearly defined cash limited budgets within this report
- The Council recognises the need to explore income and savings options to ensure the future financial sustainability of the organisation
- The General Reserves (General Fund) Minimum Balance is maintained at its current level and is not called upon for other purposes save in exceptional circumstances with the agreement of the Leader of the Council, Chief Executive and the Corporate Finance Manager and approved by the appropriate body of the Council in accordance with the Constitution.
- In considering the robustness of the Budget for 2020/21 account has been taken of the need to call on funding from the Corporate Transformation Earmarked Reserve.

Implications

Corporate Plan:

The proposed 2020/21 General Fund budget, HRA Budget and the 2019/20 to 2023/24 Capital Programme reflects the priorities in the Corporate Plan.

The financial position of the HRA has a direct impact on the Corporate Plan. Sustainability of the HRA will assist in maintaining existing homes and increase the supply of affordable homes in the district in the future.

Legal:

When setting the Revenue Budget and Council Tax the Council has various legal and fiduciary duties. The Council is required by the Local Government Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the calculation of the Council Tax Requirement and the setting of the overall Budget and Council Tax for the year. The amount of the council tax requirement must be sufficient to meet the Council's legal and financial commitments, ensure proper discharge of its statutory duties and lead to a balanced budget.

In exercising its fiduciary duty the Council should be satisfied that the proposals put forward are a prudent use of the Authority's resources in both the short and long term; that the proposals strike the right balance between the interests of Council Tax payers and ratepayers on the one hand and the community's interests in adequate and efficient resources on the other; and that they are acting in good faith for the benefit of the community whilst complying with all statutory duties. It is believed that the proposals in this Budget Report do strike that right balance.

All capital projects require input from Legal Services in relation to contracts. The Council must ensure that robust contractual arrangements are in place, specifications are clearly defined, and it is clear which project risks are the responsibility of the Contractor and which remain with the Council. This is to avoid potential contractual disputes and to limit the potential financial impact on the Council should they arise.

The Council is required by the LGHA 1989 to have a separate Housing Revenue Account.

If supported by Cabinet, this report will require approval by Council as this forms part of the Council's Budgetary Framework (Financial Regulation B.1 and Article 4 of the Constitution).

Finance:

Budget Area	Implication
General Fund – Revenue Budget	The financial implications are set out in the body and appendices of this report.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
That the budget set may be insufficient to provide the required services and subsequently services overspend.	Monthly budget monitoring arrangements are in place with reports produced monthly from June onwards for CLT and periodically for Cabinet. Any pressures and potential mitigation of pressures is included in these reports.

Human Resources:

There are no direct HR implications contained in this report.

Equalities:

Projects within the Capital Programme will ensure that as far as possible Council buildings are accessible, to enable all users to access Council services. In addition, the various projects within the Council's Digital Transformation Strategy will ensure that individual customer needs are optimised.

Environment/Sustainability:

There are no environment/sustainability implications resulting from the recommendations detailed in this report.

Other Implications:
None

Reason(s) for Urgency
Not Applicable

Reason(s) for Exemption
Not Applicable

Background Papers

2020/21 Council Tax Base report
Housing Rents report 2020/21 – Cabinet 27 January 2020
Final Local Government Settlement – 6th February 2020
Budget and Council Tax 2019/20 Report – Council 4th March 2019
CIPFA – The Prudential Code for Capital Finance in Local Authorities 2011 (as amended 2012) and related Guidance Notes 2013.

Report Author and Contact Officer

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	Lead Officer	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000	Funding: Loan £'000	Section 106 £'000	Grant £'000	Grant Funder e.g. Lottery	Capital Receipts £'000	Reserves £'000	Total £'000
General Fund														
Cemeteries	Theresa Hodgkinson	42	0	0	0	0	**42**	**42**	**0**	**0**		**0**	**0**	**42**
Demolition of Hucknall Toilets	Paul Parkinson	1	0	0	0	0	**1**	**1**	**0**	**0**		**0**	**0**	**1**
Firewalls	Craig Bonar	0	11	0	0	0	**11**	**11**	**0**	**0**		**0**	**0**	**11**
Flood Support Schemes	Craig Bonar	49	0	0	0	0	**49**	**0**	**0**	**49**	**CLG**	**0**	**0**	**49**
Hucknall Car Park - Titchfield Street	Theresa Hodgkinson	0	115	0	0	0	**115**	**22**	**93**	**0**		**0**	**0**	**115**
Hucknall Leisure Centre	Theresa Hodgkinson	60	121	0	0	0	**181**	**140**	**0**	**41**	**Insurance**	**0**	**0**	**181**
Idlewells Market Hall	Theresa Hodgkinson	16	0	0	0	0	**16**	**16**	**0**	**0**		**0**	**0**	**16**
Improvement Grants 1996 Act Disabled Facility Grant	Paul Parkinson	900	1,004	794	794	0	**3,492**	**0**	**0**	**3,492**	**BCF £3,420k & RHB £72k**	**0**	**0**	**3,492**
Investment Properties	Craig Bonar	45,585	20,000	20,000	0	0	**85,585**	**85,585**	**0**	**0**			**0**	**85,585**
Kings Mill Reservoir Car Park Expansion	Theresa Hodgkinson	0	196	0	0	0	**196**	**176**	**0**	**20**	**NCC**	**0**	**0**	**196**
Kings Mill Reservoir (The King and Miller to Kingfisher)	Theresa Hodgkinson	1,403	25	24	0	0	**1,452**	**209**	**31**	**1,091**	**HLF £871k, Network Rail £15k NCC £136k, MDC £48k & Development (HLF) £21k**		**121**	**1,452**
Kirkby Leisure Centre	Theresa Hodgkinson	646	5,354	0	0	0	**6,000**	**6,000**	**0**	**0**		**0**	**0**	**6,000**
Leisure Transformation Programme	Theresa Hodgkinson	200	74	0	0	0	**274**	**0**	**274**	**0**		**0**	**0**	**274**
Market Stalls	Theresa Hodgkinson	1	0	0	0	0	**1**	**1**	**0**	**0**		**0**	**0**	**1**
Members' IT	Craig Bonar	35	0	0	35	0	**70**	**70**	**0**	**0**		**0**	**0**	**70**
New Cross Support Scheme	Theresa Hodgkinson	1	0	0	0	0	**1**	**0**	**0**	**1**	**RHB**	**0**	**0**	**1**
New Servers	Craig Bonar	0	30	20	20	20	**90**	**90**	**0**	**0**		**0**	**0**	**90**
Northern Depot Office Rationalisation and Wireless CCTV Infrastructure	Theresa Hodgkinson	11	0	0	0	0	**11**	**11**	**0**	**0**		**0**	**0**	**11**
Office Accommodation Works to Accommodate DWP at Central Offices	Paul Parkinson	0	2	0	0	0	**2**	**2**	**0**	**0**		**0**	**0**	**2**
Office Accommodation Works to Accommodate Police at Central Offices	Paul Parkinson	0	5	0	0	0	**5**	**0**	**0**	**5**	**Police**	**0**	**0**	**5**
Officers' IT for Agile Working (General Fund)	Craig Bonar	77	40	40	40	0	**197**	**197**	**0**	**0**		**0**	**0**	**197**
Piggins Croft Car Park	Paul Parkinson	154	0	0	0	0	**154**	**154**	**0**	**0**		**0**	**0**	**154**
Purchase of Vehicles	Theresa Hodgkinson	2,529	1,075	922	2,400	0	**6,926**	**6,926**	**0**	**0**		**0**	**0**	**6,926**
Retail Improvement Scheme	Theresa Hodgkinson	70	0	0	0	0	**70**	**0**	**0**	**0**	**S106 Revenue**	**0**	**70**	**70**
SAN Hardwear	Craig Bonar	36	0	0	0	0	**36**	**36**	**0**	**0**		**0**	**0**	**36**
Solar Panels - Northern Depot	Paul Parkinson	3	0	0	0	0	**3**	**3**	**0**	**0**		**0**	**0**	**3**
Switch Network Hardware	Craig Bonar	0	83	0	0	0	**83**	**83**	**0**	**0**		**0**	**0**	**83**
Vehicle Tracking Scheme	Theresa Hodgkinson	0	0	353	0	0	**353**	**353**	**0**	**0**		**0**	**0**	**353**
Total General Fund		**51,819**	**28,135**	**22,153**	**3,289**	**20**	**105,416**	**100,128**	**398**	**4,699**		**0**	**191**	**105,416**

Housing Revenue Account

	Lead Officer	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
HOUSING REVENUE ACCOUNT							
Decent Homes Schemes							
Management Fee	Paul Parkinson	557	568	579	591	591	**2,886**
Catch up and Major Repairs	Paul Parkinson	4,506	8,241	6,885	7,011	7,011	**33,654**
Service Improvements	Paul Parkinson	65	1,172	1,192	610	610	**3,649**
Contingent Major Repairs	Paul Parkinson	20	264	239	145	145	**813**
Exceptional Extensive Works	Paul Parkinson	469	568	881	10	10	**1,938**
Disabled Adaptations	Paul Parkinson	441	537	455	500	500	**2,433**
Grand Total		**6,058**	**11,350**	**10,231**	**8,867**	**8,867**	**45,373**
Other Housing Revenue Account Schemes							
Electronic Document and Records (EDRM) System	Paul Parkinson	12	12	0	0	0	**24**
Investment in Additional Council Dwellings in Hucknall	Paul Parkinson	4	0	0	0	0	**4**
Investment in New or Existing Dwellings	Paul Parkinson	1,350	1,044	1,000	1,000	1,000	**5,394**
Davies Avenue Housing Project	Paul Parkinson	0	60	2,810	0	0	**2,870**
Major Repairs Temporary Accomodation	Paul Parkinson	12	48	30	30	30	**150**
Firewalls	Paul Parkinson	0	4	0	0	0	**4**
SAN Hardwear	Paul Parkinson	14	0	0	0	0	**14**
Switch Network Hardware	Paul Parkinson	0	27	0	0	0	**27**
Officers' IT for Agile Working (HRA)	Paul Parkinson	80	40	40	40	0	**200**
Housing Vehicles	Theresa Hodgkinson	417	30	384	401	0	**1,232**
Grand Total		**1,889**	**1,265**	**4,264**	**1,471**	**1,030**	**9,919**
Total Housing Revenue Account		**7,947**	**12,615**	**14,495**	**10,338**	**9,897**	**55,292**

	Lead Officer	2019/20	2020/21	2021/22	2022/23	2023/24	Total	Funding					
								Loan	Section 106	Grant	Grant Funder	Reserves	Total Funding
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	e.g. Lottery	£'000	£'000
Hucknall Area													
Butlers Hill Allotment Access	Theresa Hodgkinson	0	0	0	0	0	**0**	**0**	**0**	**0**		**0**	**0**
Common Farm	Theresa Hodgkinson	0	0	0	0	0	**0**	**0**	**0**	**0**	**POS S106**	**0**	**0**
Hucknall Mining Memorial	Theresa Hodgkinson	0	0	0	0	0	**0**	**0**	**0**	**0**		**0**	**0**
Lime Tree Recreation Ground	Theresa Hodgkinson	13	0	0	0	0	**13**	**0**	**13**	**0**		**0**	**13**
Nabbs Lane	Theresa Hodgkinson	68	0	0	0	0	**68**	**40**	**16**	**10**	**MHCLG**	**2**	**68**
Papplewick Green Public Art Work	Theresa Hodgkinson	0	0	0	0	0	**0**	**0**	**0**	**0**		**0**	**0**
Play Areas	Theresa Hodgkinson	3	77	0	0	0	**80**	**80**	**0**	**0**		**0**	**80**
Titchfield Park Brook	Theresa Hodgkinson	385	0	0	0	0	**385**	**0**	**0**	**385**	**NCC**	**0**	**385**
Titchfield Park and Hucknall Cemetery: implementation of park masterplan	Theresa Hodgkinson	6	3	0	0	0	**9**	**0**	**9**	**0**		**0**	**9**
Total Hucknall Area		**475**	**80**	**0**	**0**	**0**	**555**	**120**	**38**	**395**		**2**	**555**
	Lead Officer	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total**	**Loan**	**Section 106**	**Grant**	**Grant Funder**	**Reserves**	**Total Funding**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**e.g. Lottery**	**£'000**	**£'000**
Sutton Area													
Ashfield Estate Play Area	Theresa Hodgkinson	3	0	0	0	0	**3**	**0**	**0**	**3**	**NCC SLC**	**0**	**3**
Ashfield Estate Footpaths	Theresa Hodgkinson	4	2	0	0	0	**6**	**0**	**6**	**0**		**0**	**6**
Brand Lane / Wharf Road Open Space Improvements	Theresa Hodgkinson	39	1	0	0	0	**40**	**0**	**0**	**0**		**40**	**40**
Brierley Forest Park Management Plan	Theresa Hodgkinson	7	4	0	0	0	**11**	**0**	**5**	**6**	**Donations £2k &RPA £4k**	**0**	**11**
Brierley Forest Park Car Park Extension	Theresa Hodgkinson	0	55	0	0	0	**55**	**0**	**55**	**0**		**0**	**55**
Football Changing Rooms	Theresa Hodgkinson	0	15	0	0	0	**15**	**0**	**15**	**0**		**0**	**15**
Kingsmill Reservoir footpath links	Theresa Hodgkinson	0	1	0	0	0	**1**	**0**	**1**	**0**		**0**	**1**
Kingsmill Reservoir management plan: Implementation Works	Theresa Hodgkinson	5	8	0	0	0	**13**	**0**	**0**	**13**	**Skanska**	**0**	**13**
Play Areas	Theresa Hodgkinson	0	108	0	0	0	**108**	**108**	**0**	**0**		**0**	**108**
Roundhill Recreation Ground	Theresa Hodgkinson	94	0	0	0	0	**94**	**24**	**40**	**30**	**LIS**	**0**	**94**
Sutton Lawn management Plan	Theresa Hodgkinson	14	0	0	0	0	**14**	**0**	**6**	**8**	**NCC SLC**	**0**	**14**
Sutton Lawn Play Area	Theresa Hodgkinson	19	1	0	0	0	**20**	**0**	**13**	**7**	**LIS**	**0**	**20**
Taylor Crescent Recreation Ground	Theresa Hodgkinson	0	10	0	0	0	**10**	**0**	**10**	**0**		**0**	**10**
Total Sutton Area		**185**	**205**	**0**	**0**	**0**	**390**	**132**	**151**	**67**		**40**	**390**

	Lead Officer	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000	Loan £'000	Section 106 £'000	Grant £'000	Grant Funder e.g. Lottery	Reserves £'000	Total Funding £'000
Kirkby Area													
Acacia Avenue Rec - General Improvements	Theresa Hodgkinson	12	0	0	0	0	**12**	**0**	**12**	**0**		**0**	**12**
Annesley Art Project	Theresa Hodgkinson	24	28	0	0	0	**52**	**0**	**52**	**0**		**0**	**52**
Forest Road Nature Area	Theresa Hodgkinson	0	30	0	0	0	**30**	**0**	**30**	**0**		**0**	**30**
Kingsway Park: implementation of management plan	Theresa Hodgkinson	10	32	0	0	0	**42**	**0**	**42**	**0**		**0**	**42**
Kirkby footpaths/cycle ways	Theresa Hodgkinson	131	0	0	0	0	**131**	**0**	**129**	**2**		**0**	**131**
Lindleys Lane Play/Youth Area	Theresa Hodgkinson	0	103	0	0	0	**103**	**0**	**103**	**0**		**0**	**103**
Morven Park / West Park Play Area	Theresa Hodgkinson	35	1	0	0	0	**36**	**0**	**36**	**0**		**0**	**36**
Kirkby Park and Play Areas	Theresa Hodgkinson	0	365	0	0	0	**365**	**120**	**245**	**0**		**0**	**365**
Portland Park Management Plan: General Improvements	Theresa Hodgkinson	5	0	0	0	0	**5**	**0**	**2**	**3**	**NCC £3k**	**0**	**5**
Sports pavilion, Titchfield Park	Theresa Hodgkinson	0	39	0	0	0	**39**	**0**	**39**	**0**		**0**	**39**
Warwick Close	Theresa Hodgkinson	4	0	0	0	0	**4**	**0**	**4**	**0**		**0**	**4**
Total Kirkby Area		**221**	**598**	**0**	**0**	**0**	**819**	**120**	**694**	**5**		**0**	**819**

	Lead Officer	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000	Loan £'000	Section 106 £'000	Grant £'000	Grant Funder e.g. Lottery	Reserves £'000	Total Funding £'000
Rural Area													
Friezeland Recreation Ground - Scooter Park	Theresa Hodgkinson	118	2	0	0	0	**120**	**92**	**7**	**21**	**Selston Parish Council**	**0**	**120**
Jacksdale Bridge Links	Theresa Hodgkinson	9	0	0	0	0	**9**	**0**	**9**	**0**		**0**	**9**
Jacksdale Car Park Extension	Theresa Hodgkinson	30	0	0	0	0	**30**	**26**	**0**	**4**	**NCC LIS Friends of Cromford Canal**	**0**	**30**
Total Rural Area		**157**	**2**	**0**	**0**	**0**	**159**	**118**	**16**	**25**	**0**	**0**	**159**
Total Area		**1,038**	**885**	**0**	**0**	**0**	**1,923**	**490**	**899**	**492**		**42**	**1,923**

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Agenda Item 6

Report To:	**CABINET**	**Date:**	**24th FEBRUARY 2020**
Heading:	**TREASURY MANAGEMENT STRATEGY (TMS)**		
Portfolio Holder:	**COUNCILLOR RACHEL MADDEN – CABINET MEMBER FOR FINANCE**		
Ward/s:	**ALL**		
Key Decision:	**YES**		
Subject to Call-In:	**YES**		

Purpose of Report

This report outlines the Council's Treasury Management Strategy for the financial year 2020/21. The report includes:

- Treasury Management Policy;
- Treasury Management Strategy Statement (TMSS)
- Borrowing Strategy
- Annual Investment Strategy
- Minimum Revenue Provision Policy;
- Prudential Indicators and Treasury Management Indicators
- Treasury Management Practices: Risk Management.

It has been prepared in accordance with the Treasury Management in the Public Services Code of Practice (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and Ministry for Housing, Communities and Local Government (MHCLG) Local Government Investment Guidance.

Recommendation(s)

1) For Cabinet to review and note the contents of the Treasury Management Strategy (TMS) for 2020/21

2) For Cabinet to recommend to Council that they approve the Treasury Management Policy Statement incorporating:
   - Treasury Management Strategy Statement (TMSS)
   - Borrowing Strategy
   - Annual Investment Strategy
   - Minimum Revenue Provision (MRP) Policy;
   - Prudential Indicators and Treasury Management Indicators
   - Treasury Management Practices: Risk Management.

Reasons for Recommendation(s)
In accordance with Financial Regulation C.31. The Audit Committee is responsible for providing effective scrutiny of the Treasury Management Strategy and policies.

Alternative Options Considered
None. It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy (TMS) and a requirement of MHCLG Statutory Guidance on Local Government Investments to have an Investment Strategy.

Detailed Information
The TMS contains:

- Treasury Management Strategy Statement (TMSS), which outlines what treasury management is and how it is managed by its borrowing an investment activities
- Annual Borrowing Strategy, which outlines sources of borrowing
- Annual Investment Strategy for Treasury Management investments, which sets the limits for the maximum amounts to be invested and the types of investments the Council may consider.
- MRP Policy which states how the Council will apply MRP charges.
- Annex A of Appendix 1 contains the proposed Prudential Indicators and Treasury Management Indicators for the Authority,
- Annex B shows the borrowing and investment position of the Council as at 30th September 2019 as well as projections for future interest rates
- Annex C shows the Treasury Management Practice (TMP) for risk management of the Authority.

1. Operational Boundary and Authorised Limits

   The Authority is looking to increase its borrowing requirement primarily to fund the proposed acquisition of new Investment Properties and the borrowing requirements associated with the new Kirkby Leisure Centre. The additional borrowing is added to the Capital Financing Requirement (CFR). The CFR represents capital expenditure which is still to be financed. The Council should under normal circumstances not borrow any more than its CFR. The Operational Boundary sets a warning level for which total external debt should not exceed.

The proposed Operational Boundary has been set at a level which is slightly above the CFR to allow for working capital requirements. The Authorised Limit is the absolute maximum level for external debt. The proposed Authorised Limit has been set at a level which is greater than the proposed Operational Boundary by a level which matches the financed part of the Capital Programme. The rationale for doing this is to ensure the capital programme can still be financed, should the expected non borrowing funding not be available.

2. Minimum Revenue Provision (MRP) Policy

The Minimum Revenue Provision charge is the means by which capital expenditure which is financed by borrowing or credit arrangements, is paid for by council tax payers. Local Authorities are required each year to set aside some of their revenues as provision for this debt.

The Council is proposing the following minor changes (largely increasing transparency) to its MRP policy:

- Details of the annuity rates to be used in the MRP calculation. This being the average annual PWLB certainty rate when calculating the annuity rate for projects where payments are likely to phased, and using the PWLB certainty rate applicable on the day where expenditure is incurred in a single transaction e.g. Investment Properties.
- The Council will not charge MRP on Housing Revenue Account borrowing (no change)
- Voluntary Revenue Provision (VRP) may be made at the discretion of the Section 151 Officer. VRP may be reversed in future financial years if required.
- For leases that are included on the balance sheet the MRP charge will be the same as the principal repayment on the lease.

3. Prudential Indicators

Prudential Indicators are designed to show the Council’s capital expenditure plans are affordable, prudent and sustainable. They include the estimated effect that future capital expenditure will have on individual council tax payers and on individual rent payers.

The estimate of the ratio of financing costs to net revenue stream for the Housing Revenue Account (HRA) remains relatively static over the three years. (See paragraph a) Annex A). The reason for this is that there is not expected to be any new borrowing costs; the ratios will fall slightly as HRA historic debt costs are expected to remain static in future years and HRA revenues are expected to increase slightly.

The estimate of the ratio of financing costs to net revenue stream for the General Fund is expected to increase significantly as a result of additional borrowing for the proposed acquisition of Investment Properties and for new Kirkby Leisure Centre (but with no net additional cost to the revenue budget).

Estimates of the incremental impact of capital investment decisions on Council Tax Band D equivalents is £59.62 in 2020/21, £39.40 in 2021/22 and £21.92 in 2022/23. This represents the estimated amount of Council Tax within the District’s annual Council Tax charge from each Band D equivalent that will be used to fund future capital investment. These levels also reflect the use of borrowing to purchase Investment Properties and the new Kirkby Leisure Centre. There is no incremental impact to Council Dwelling Rent payers as there is no borrowing proposed for the HRA.

4. Treasury Management Practices (TMPs)

   The Treasury Management Practices were last revised as part of the TMS for 2019/20. The Council has revised its criteria for specified and unspecified investment for TMP1 Risk Management (See Annex D). TMP1 also now includes the Treasury Management Role of the Section 151 Officer. All other TMPs remain unchanged.

Implications

Corporate Plan:
The Treasury Management Strategy will support delivery of the priorities in the Corporate Plan.

Legal:
It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy. It is a requirement of MHCLG Statutory Guidance on Local Government Investments to have an Investment Strategy.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	The Council will be required to make an MRP provision for leased assets this will replace the existing rental payment so should have no overall General Fund impact. The option to charge voluntary revenue provision may increase the charge in year but the total charged to finance the borrowing over the asset lives remain unchanged. The financial implications of this Strategy are factored into the Medium Term Financial Strategy.
General Fund – Capital Programme	No implications
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
The Minimum Revenue Provision (MRP) policy is no longer suitable.	Careful monthly monitoring of Capital Expenditure should ensure an appropriate and prudent MRP provision is made annually. Revisions to the Policy in line with Code of Practice updates.

The Annual Investment Strategy is no longer suitable for the Authority.	Information received from our Treasury Management Advisors should allow the Council to take necessary action to mitigate against any risks.

Human Resources:
Not applicable.

Environment / Sustainability
Not Applicable.

Equalities:
Not applicable.

Other Implications:
Not applicable.

Reason(s) for Urgency
Not applicable.

Reason(s) for Exemption
Not applicable.

Background Papers

- CIPFA Prudential Code 2017 Edition
- CIPFA Treasury Management Code 2017 Edition
- Statutory Guidance on Local Government Investments (3rd Edition) Issued under Section 15(1)(a) of the Local Government Act 2003.

Report Author and Contact Officer

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<u>**Appendix 1**</u>

Ashfield District Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2020/21

1 INTRODUCTION

1.1 Background

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

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

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

1.1.4 CIPFA defines treasury management as:

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

1.2 External Context

1.2.1 The information relating to the overall global position of the UK financial markets is provided by the Council's Treasury Management Advisers, Link Asset Services. They continue to update the Council with information including on-going market activity surrounding inflation, interest rates and the banking sector.

1.2.2 Brexit uncertainty continues to have an impact on the UK economy. A general election took place on the 12th December 2019 and the current expectation is that the UK will leave the EU on the 31st January 2020.

1.2.3 Consumer Price Inflation has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August and September. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the Monetary Policy Committee (MPC) of the Bank of England at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

1.2.4 The Bank Rate has remained unchanged since 2nd August 2018 at 0.75%. If there was a no deal Brexit, there will be a significant level of disruption to the economy and growth could weaken even further than currently: the MPC would then be likely to cut Bank Rate in order to support growth. The MPC has relatively little room to make a big impact and it would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction.

1.2.5 Historically, the cheapest method of long-term borrowing has been from the Public Works Loans Board (PWLB). All PWLB interest rates were increased by 1% on 9th October 2019, meaning other sources of borrowing may be cheaper. The Council will consider other sources of borrowing. However, it is likely that the administration arrangements needed for alternative sources of long-term borrowing result in the PWLB remaining the preferred source. For short term and medium term loans, borrowing from other local authorities will be considered if the interest rates are lower than those offered by the PWLB.

1.3 Key Principles

1.3.1 The Council will follow three key principles with regards to its treasury activity:

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

1.4 Reporting requirements

1.4.1 The Cabinet are required to receive and approve, as a minimum, three main treasury management reports each year, which incorporate a variety of policies, estimates and actuals. Council are required to approve the Treasury Management Strategy including the Annual Investment Strategy.

1.4.2 **Treasury Management Strategy including Annual Investment Strategy, prudential and treasury indicators (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).

1.4.3 **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. This report is presented to the Audit Committee.

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

1.5 **Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to the Council or/and Cabinet. This role is undertaken by the Audit Committee.

Table 1 below shows the reporting timetable for Treasury Management reports

Table 1 – Reporting timetable

Report to Council and Cabinet	**Frequency**
Treasury Management Strategy / Annual Investment Strategy and MRP Policy	Annually before the start of the year (1st April)
Reports to Cabinet	**Frequency**
Mid-Year Treasury Management Report	Annually mid year (November/December)
Treasury Outturn Report	Annually after the year end and by the 30 September
Reports to Audit Committee	**Frequency**
Receives each of the above reports in advance of Council/Cabinet (where applicable) and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September

1.6 **Capital Strategy**

1.6.1 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. The revised Prudential Code requires all local authorities to produce a Capital Strategy report, which is intended to provide the following: -

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

1.6.2 The aim of this report is to ensure that all elected Members of the Council fully understand the overall strategy, governance procedures and risk appetite entailed in this Strategy.

1.6.3 The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.6.4 The Capital Strategy is required to be approved by Council before the start of the new financial year in accordance with the Prudential Code 2017. The capital strategy will be received by Audit Committee in advance of Council for scrutiny and recommendations.

1.7 **Non-Treasury Management Investments**

1.8.1 The MHCLG issued revised Statutory Guidance on Local Government Investments (2018). The statutory guidance extended the definition of investment and states that the:

"The definition of an **investment** covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

The Guidance requires that for each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council.

1.7.1 This Council will ensure that all the organisations non-treasury management investments are included in a non-treasury management investment strategy, which will be incorporated into the Capital Strategy. This will set out, where relevant, the organisations risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

1.7.2 The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investment in subsidiaries, and investment property portfolios.

1.7.3 The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisations risk exposure.

1.8 **Treasury Management Strategy**

1.8.1 The Treasury Management Strategy 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;
- Apportioning interest to the Housing Revenue Account and
- the policy on use of external service providers.

1.8.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.9 **Cash and Cash Flow Management**

1.9.1 It is important that the Council maintains regular cash flow projections to ensure that the Council has enough cash to meet its liabilities in a timely manner, minimises borrowing costs and, where practical to do so, invest surplus cash balances.

1.10 **Money Laundering**

1.10.1 Money Laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- Concealing, disguising, converting transferring or removing criminal property.
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property.
- Acquiring, using or possessing criminal property.

1.10.2 These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money laundering activity in the UK risks a criminal conviction.

1.10.3 The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism.

1.10.4 The Money Laundering Regulations 2007, whilst not legally obliged to apply by public sector bodies, responsible public bodies should employ policies and procedures which reflect the essence of the UK's anti-terrorism and anti-money laundering regimes.

1.11 **Training**

1.11.1 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.

1.11.2 Those charged with governance have a personal responsibility to ensure they have the appropriate skills and training for their role.

1.11.3 A training session delivered by Link Asset Services, the Council's treasury management advisors was held for the Audit Committee and extended to all members on the 16 December 2019. The training needs of Members and treasury management officers will be reviewed in year.

1.12 **Treasury management consultants**

1.12.1 The Council currently uses Link Asset Services, Treasury solutions as its external treasury management advisors.

1.12.2 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.

1.12.3 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.

1.12.4 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council has a Commercial Manager to undertake this activity seeking external advise as appropriate.

2 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS

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

2.2 The Council will ensure that all of its capital and investment plans and borrowing are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt (including through MRP) and consideration of risk and the impact, and potential impact, on the authority's overall fiscal sustainability. While indicators for sustainability are required to be set over a minimum 3 year rolling period, indicators should be set in line with a capital strategy and asset management plan that is sustainable over the longer term. There should also be separate indicators for the Housing revenue Account (HRA).

2.3 **Capital expenditure**

Table 2 below summarises the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Capital Programme for 2019/20 to 2022/23 has been agreed by Cabinet and final approval being sought by Council in March 2020. Members will be asked to approve the capital expenditure forecasts at least annually.

Table 2 - Capital Expenditure

Capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	**1.943**	**9.004**	**7.285**	**2.153**	**3.289**
HRA	**5.932**	**9.232**	**14.142**	**11.685**	**10.338**
Commercial activities/ non-financial investments	**8.767**	**45.585**	**20.000**	**20.000**	**0.000**
Total	**16.642**	**63.821**	**41.427**	**33.838**	**13.627**

Table 3 below summarises how the capital expenditure plans will be financed by capital or revenue resources. Any shortfall of resources results in a borrowing need.

Table 3 - Financing of the Capital Expenditure

Financing of capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital receipts	1.349	1.299	1.180	1.180	1.180
Capital grants	1.797	3.167	1.706	0.818	0.794
Capital reserves	3.767	7.933	12.962	10.505	9.158
Direct Revenue Financing	0.870	0.233	0.000	0.000	0.000
Borrowing Requirement	**8.859**	**51.189**	**25.579**	**21.335**	**2.495**

Table 4 identifies the capital expenditure and borrowing requirement within table 3, which specifically relates to the planned level of investment in Commercial Investment Property.

It shows the forecast Commercial Investment Property borrowing requirement as a percentage of the overall borrowing requirement and the financing costs associated with the borrowing requirement for Commercial Investment Property.

Table 4 Commercial Investment Property

Commercial activities / non-financial	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Expenditure	8.767	45.585	20.000	20.000	0.000
Borrowing Requirement	**8.767**	**45.585**	**20.000**	**20.000**	**0.000**
Percentage of total net financing need %	**99.0%**	**89.1%**	**78.2%**	**93.7%**	**0.0%**
Cumulative Financing costs	0.017	0.505	2.172	3.215	3.917

2.4 **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 the historic unfunded capital expenditure). It is essentially a measure of the Council's indebtedness and therefore its underlying borrowing need. Any capital expenditure above, which is financed by borrowing 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 indebtedness in line with each assets life, and so charges the economic consumption of capital assets to revenue as they are used. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no PFI schemes or other long-term liabilities.

2.5 IFRS 16 Lease accounting becomes effective on 1st April 2020. This accounting standard requires that both finance leases and operating leases are included on the Balance Sheet. Previously the requirement was only for finance leases to be shown on the Balance Sheet. This in effect means that any existing operating leases and any new leases the Council enters into will need to be treated as capital expenditure and increase the CFR. The Council is currently assessing the impact of the introduction of this new standard, although it is not expected to be material. The capital prudential indicators will be revised once the effect of the standard is known.

2.6 Core funds and expected investment balances
As outlined above the underlying borrowing for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to

maintain actual borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.7 Table 5 below outlines the Balance Sheet Summary and Forecast excluding the Planned Commercial Investment Property. It shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (CFR), highlighting the Council's level of under/over borrowing. It also includes a forecast for the year-end balances for usable reserves and working capital (the resources available to internally borrow against), and shows the forecast level of investment or new external debt.

Table 5 - Balance Sheet Summary and Forecast (Excluding Planned Commercial Investment Property)

31st March:	2019	2020	2021	2022	2023
Capital Financing Requirement	124.7	136.9	138.6	146.8	147.7
Less: External Borrowing	-81.7	-80.7	-80.7	-80.7	-74.2
Under(Over) Borrowing	**43.0**	**56.1**	**57.9**	**66.1**	**73.5**
Less: Usable Reserves	-51.7	-56.1	-53.7	-48.0	-46.8
Plus: Working Capital Required	0.6	-1.8	-1.8	-1.8	-1.8
Investments / (New Borrowing)	**8.1**	**-1.8**	**-2.4**	**-16.3**	**-24.9**

2.8 The Council has an increasing CFR due to the future planned unfunded capital expenditure. The above position for 2019/20 assumes a loan due to mature in February 2020, will be re-financed. It is forecast by the end 2020/21 there will be a need to borrow, however this is likely to be a short term borrowing need as the level of cash falls each year-end, due to the profile of Council Tax income, after which cash levels increase. From 2021/22 there is a forecast long term borrowing need. This position is continually reviewed due to the level of reserves and working capital having many variables and due to slippage in delivery of the capital programme making forecasting with certainty difficult. The associated costs for this level of borrowing have been provided for in the Medium Term Financial Strategy.

Table 6 below outlines the Balance Sheet Summary and Forecast including the Planned Commercial Investment Property programme. Therefore showing a higher CFR reflecting the net of the increase in unfunded capital expenditure less the increase in MRP associated with the Planned Commercial Investment Property programme.

Table 6 - Balance Sheet Summary and Forecast (Including Planned Commercial Investment Property)

31st March:	2019	2020	2021	2022	2023
Capital Financing Requirement	124.7	165.6	186.9	214.5	214.4
Less: External Borrowing	-81.7	-80.7	-80.7	-80.7	-74.2
Under(Over) Borrowing	**43.0**	**84.9**	**106.2**	**133.8**	**140.2**
Less: Usable Reserves	-51.7	-56.1	-53.7	-48.0	-46.8
Plus: Working Capital Required	0.6	-1.8	-1.8	-1.8	-1.8
Investments / (New Borrowing)	**8.1**	**-27.0**	**-50.7**	**-84.0**	**-91.6**

2.9 This shows that if the Planned Commercial Investment Property capital expenditure is incurred there will be additional new borrowing required. The interest costs on the new borrowing and the MRP charge associated with the Planned Commercial Investment Property are included in the appraisal of individual Commercial Investment Property decisions and the purchases are only completed, if the interest and MRP costs are recovered from the associated income stream, and a minimum target return is achieved.

2.10 **Affordability prudential indicators**
The strategy details 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.

2.11 **Ratio of financing costs to net revenue stream (See Appendix A Table 1)**
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. The estimates of financing costs include current commitments and the proposals in the budget report.

2.12 **Treasury indicators for debt (See Appendix A Table 8 and 9)**
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.

2.13 **Treasury Indicators: limits to borrowing activity**

2.13.1 **The operational boundary (See Appendix A Table 6)**. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

2.13.2 **The authorised limit for external debt (See Appendix A Table 5)**. 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. 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.

<u>The latest Affordability Prudential Indicators and Treasury Indicators are attached at Appendix 'A'.</u>

TREASURY MANAGEMENT STRATEGY STATEMENT

2.14 The capital expenditure plans set out 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 and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

2.15 This Council defines its treasury management activities as:

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

This Council 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, and any financial instruments entered into to manage these risks.

This Council 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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.16 The investment policy objective of this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA code and MHCLG guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The generation of investment income to support the provision of local authority services is important, but secondary, objective.

2.17 The Council's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003 and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

2.18 **Current portfolio position**
The Council's current treasury portfolio position is set out in **Appendix 'B'**.

2.19 **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 details of their latest view is shown in **Appendix 'C'** to this report.

2.20 **Borrowing strategy**

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

2.20.2 Against this background and the risks within the economic forecast, caution will be adopted within the treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to the appropriate decision making body at the next available opportunity.

2.20.3 The approved sources of long term and short term borrowing are:

- 2.20.3.1 Public Works Loans Board (PWLB) and any successor body.
- 2.20.3.2 Any institution approved for investments (see Annual Investment Strategy below)
- 2.20.3.3 Any bank or building society authorised to operate in the UK.
- 2.20.3.4 UK public bodies including pension funds (excluding Nottinghamshire County Council Pension Fund)
- 2.20.3.5 Capital Market bond investors.

2.20.4 In addition, capital finance may be raised by the following methods that are not classed as borrowing, but may be classed as other debt liabilities:

- 2.20.4.1 Operating and Finance leases
- 2.20.4.2 Hire Purchase
- 2.20.4.3 Sale and leaseback

2.20.5 **LOBOs:** The Council holds £25.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option either to accept the new rate or to repay the loan at no additional cost. No LOBOs have options during 2020/21. The next option will be in 2023/24. The Council understands that lenders are unlikely to exercise their options in the current low interest rate environment; there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. It is unlikely that the Council will take out any new LOBO loans in the future.

2.21 **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.

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

2.21.2 The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the 2020/21 annual budget report.

2.22 Debt rescheduling

2.22.1 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).

2.22.2 The reasons for any debt 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).

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

2.23 Apportioning interest to the Housing Revenue Account

2.23.1 The Council currently operates a one pool approach. The interest charges are initially charged to the General Fund and recharged to the Housing Revenue Account (HRA) through the Item 8 (item 8 of Part I and item 8 of Part II of Schedule 4 to, the Local Government and Housing Act 1989) adjustment. The Council has fixed an interest rate of 4.43% by which it will charge the Capital Financing Requirement (CFR) of the HRA. The HRA CFR currently is £80.081m. If this does not change the annual interest amount charged to the HRA will be £3.548m.

2.23.2 The Council will credit the HRA each year with its share of interest receivable. This will be calculated by multiplying the average HRA reserve balance by the average interest receivable percentage.

3 ANNUAL INVESTMENT STRATEGY

3.9 Investment policy

3.9.1 The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be security first, portfolio liquidity second, and then return.

3.9.2 In accordance with the above guidance from the MHCLG 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.

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

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

3.10 Creditworthiness policy

3.10.1 The primary principle governing the Council's investment criteria is the security of its investments, followed by liquidity, 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. This is set out in the specified and non-specified investment sections below; and
- 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.

3.10.2 The S151 Officer 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. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

3.10.3 Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

3.10.4 The intention of the strategy is to provide security of investment and the minimisation of risk. The aim is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

highest priority - security of the invested capital;
followed by - liquidity of the invested capital (this enables the Council to react to changing circumstances);
finally - an optimum yield which is proportionate with security and liquidity.

Investments made by the Council's Officers are restricted to the following organisations:-

(a) Banks or Building Societies who currently meet the Link Asset Services suggested investment duration
(b) Nationalised Industries and Statutory Corporations
(c) Other Government Institutions
(d) Other Local Authorities
(e) Money Market Funds
(f) Bills of Exchange which have been accepted by authorised institutions
(g) United Kingdom Gilt-edged Securities
(h) Negotiable instruments such as Certificates of Deposit, Treasury Bills and Corporate Bonds
(i) Approved counterparties from countries with a minimum sovereign credit rating of AAA with reference to the lowest rating from Fitch, Moody's or Standard & Poor's, with the exception of UK.

Total investments with any one institution shall not exceed £5m.

Total investments of over 365 days shall not exceed £5m in total.

The Council's operational bank account is currently provided by Barclays Bank and a new contract has been entered into to be effective from April 2020 (5+1+1 years).

3.10.5 **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. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

3.11 **Specified investments/unspecified investments**

3.11.1 Investments are categorised as specified and non-specified investments.
Specified investments defined by MHCLG guidance as those:

- Denominated in pound sterling,
- Due to be repaid within 12 months of arrangements,
- Not defined as capital expenditure by legislation,
- Invested with one of:
  - The UK Government
  - A UK local authority, parish council, or community council, or

- A body or investment scheme of “high credit quality”

The Council now defines “high credit quality” organisations as those having a minimum sovereign credit rating of AAA.

Non-specified investments - those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity.

3.11.2 The Council does not currently hold any non-specified investments. The Council is setting a limit of £5m for non-specified investments to allow for use of non-specified investments, should it be considered appropriate to use these in the future and so the Council it is not restricted by the strategy. Non-specified investments will be limited to long-term investments, i.e. those that are due to mature 365 days or longer from the date of arrangements, and instruments that are more complex such as diversified or property funds.

3.12 **Country and sector limits**

Due care will be taken to consider the country, group, and sector exposure of the Council’s investments. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from rating agencies.

Total investments with any one group shall not exceed £5m.

Sector limits will be monitored regularly for appropriateness.

3.13 **Investment strategy**

3.13.1 **In-house funds**. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations. Bank Rate is forecast to increase steadily but slowly over the next few years to reach 1.25% by quarter 1 2022/23. Table 7 below shows the forecast Bank Rates for financial year ends (31 March):

Table 7 - Forecast Bank Rates for financial year ends (31 March):

Year	Base Rate
2019/20	0.75%
2020/21	1.00%
2021/22	1.00%
2022/23	1.25%

3.13.2 Table 8 below shows the forecast investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Table 8 – Forecast Investment Rates

Year	Average Return
2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later Years	2.25%

3.13.3 The overall balance of risks to these forecasts is currently towards the downside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

3.13.4 **Investment treasury indicator and limit** - **Total principal funds invested for greater than 365 days**. This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. It is based on the availability of funds beyond each year-end. The Council's investment treasury indicator and limit for 2020/21 is to be £5m.

3.14 **Investment Liquidity**
In consultation with the external treasury advisors, the Council will review its balance sheet position, level of reserves and cash requirements in order to determine the length of time for which investments can be prudently committed. Investments will be placed at a range of maturities, including having money on-call in order to maintain adequate liquidity.

3.15 **External Fund Manager**
External fund managers can be appointed to manage a portfolio of investments. The Council currently has no funds externally managed and is unlikely to do so in the short to medium term.

3.16 **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 MINIMUM REVENUE PROVISION (MRP) STATEMENT

4.1 An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue. The amount charged to the revenue budget for the capital expenditure is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

4.2 The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing Communities and Local Government (MHCLG) 'Guidance on Minimum Revenue Provision'. The latest guidance was issued in February 2018.

4.3 The broad aim of the MHCLG Guidance is to ensure a prudent provision is made from revenue over time to cover the total amount of capital expenditure needed to be met from revenue. A prudent provision is considered to be, where the period over which MRP is charged is aligned to the period over which the capital expenditure provides benefits (asset life). MRP cannot be negative, and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 50 years can be used, unless in the opinion of an appropriately qualified professional advisor the life of the asset is expected to exceed 50 year.

4.4 The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. However, the guidance gives flexibility in how MRP is calculated, providing the calculation is 'prudent'. The following policy included in the statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

4.5 In accordance with the latest MHCLG Guidance, for capital expenditure financed by borrowing, the Council has four broad options:

- The 4% reducing balance method.
- The straight line asset life method
- The annuity asset life method
- The Depreciation method.

4.6 Minimum Revenue Provision Policy

4.7 Regulation 28 of the 2003 Regulations requires the Council to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over the capital expenditure provides benefits (asset life).

4.8 For pre 2008 supported borrowing, the Council will move to a 50 year Annuity method, charging MRP based on a corresponding 50 year PWLB borrowing rate. This is more prudent than the current 4% reducing balance as this calculation extends to over 300 years.

4.9 For post 2008 it is proposed that unsupported borrowing, and any new borrowing, MRP will be calculated as follows:

- For assets with a life of 10 years or less, the straight line asset life method (as is currently the case).
- For assets with a life in excess of 10 years, the annuity asset life method will be used.

4.10 The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Chief Financial Officer (S151), with regard to the statutory guidance and advice from professional valuers if required.

4.11 The annuity rate used for the MRP charge will be the Public Works Loans Board (PWLB) certainty rate on the date the capital expenditure is incurred, where a one-off capital payments is made i.e. for investment properties. For all other capital expenditure funded from borrowing, where the expenditure is incurred over a period of time, the average annual PWLB certainty rate for the financial year will be used.

4.12 The Chief Financial Officer (S151) may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used.

4.12.1 MRP will be not be charged until the later of: the year after capital expenditure is incurred or the year after the asset becomes operational.

4.13 Capital Receipts from the sale of investment properties funded as prudential borrowing will be used to reduce the Capital Financing Requirement by the outstanding prudential borrowing for the asset sold.

4.14 No MRP will be charged for assets in the Housing Revenue Account.

4.15 Voluntary Revenue Provision (VRP) may be made at the discretion of the S151 Officer.

4.16 For leases that are included on the balance sheet the MRP charge will be the same as the principal repayment on the lease.

Annex A Prudential Indicators

Prudential Indicators of Affordability

The Council is required to consider all of its available resources in the medium term (usually defined as three years) together with total plans for expenditure. Any known significant variations beyond this timeframe also need to be taken into account.

The Prudential indicators for affordability are as follows:

a) <u>Estimate of the ratio of financing costs to the net revenue stream for the next three years split between the Housing Revenue Account and the General Fund</u>

For the next three years the Council is required to calculate an estimated ratio of its financing costs to net revenue stream for both the General Fund and the Housing Revenue Account (HRA). For the HRA this is calculated by dividing the HRA capital financing costs by the total estimated Council Dwelling Income. For the General Fund this is calculated by dividing the General Fund capital financing costs by the estimated Council Tax Receipt plus Central Government Grants. The General Fund indicator is shown both including and excluding the capital financing costs for the Investment Properties still to be acquired.

The suggested indicators for the next three years are displayed in Table 1 below.

Table 1 – Ratio of financing costs to net revenue stream for the Housing Revenue Account and General Fund.

	2020/2021 %	**2021/2022 %**	**2022/2023 %**
Housing Revenue Account	13.79	13.12	12.42
General Fund	26.60	43.90	58.01
General Fund – Excluding Investment Properties still to be purchased	14.59	20.63	27.48

b) <u>Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels</u>

Authorities are required to estimate for the next three years the impact on the Council Tax (General Fund) and Rent levels (HRA) of the capital programme including running costs and financing costs. These indicators have been prepared using the revised Capital Programme, approved by Cabinet on the 25th November 2019. The capital financing costs for the Investment Properties have been included in the indicators in table 2 below. It is expected that the rental income for the Investment Properties will exceed their capital financing costs.

The suggested indicators for the incremental impact for the next three years are shown in Table 2 below.

Table 2 - Incremental Impact of capital investment decisions on Council Tax and Rent Levels

	2020/2021 £	2021/2022 £	2022/2023 £
General Fund (Band D)	59.62	39.40	21.92
General Fund (Band D) – Excluding Investment Properties still to be purchased	36.31	7.72	13.95
HRA (52 weeks)	0	0	0

Table 2 includes Minimum Revenue Provision (MRP) and interest payable as the incremental charges for capital investment funded by borrowing. MRP is not charged until the later of i) the year following purchase or ii) the year the asset becomes operational. Therefore, the MRP charges are included in the calculations in the year it is estimated the MRP charges will be made. The ratio for the General Fund is calculated by estimating the interest payable on the average capital borrowing requirement plus the MRP charges and dividing this by the estimated number of band D equivalents.

There is not anticipated to be any new borrowing for the HRA between 2020/21 – 2022/23.

c) Net borrowing and the Capital Financing Requirement split between the General Fund and the Housing Revenue Account

In order to ensure that in the medium term borrowing is only undertaken for capital purposes, local authorities are required to ensure that external borrowing does not exceed, except in the short term, the total of their capital financing requirement over the planning period. In broad terms the capital financing requirement reflects an authority's need to borrow for capital purposes and is a measure of the assets contained on the balance sheet which have as yet not been fully financed, i.e. there is still some indebtedness outstanding.

It is necessary to estimate the capital financing requirement at the end of the forthcoming year and the subsequent two years for both the Housing Revenue Account and General Fund activities these are presented in Table 3 below.

Table 3 – Estimates of Capital Financing Requirement.

	31st March 2021	31st March 2022	31st March 2023
	£m	£m	£m
Housing Revenue Account	80.081	80.081	80.081
General Fund	107.724	136.360	136.259
Total	187.805	216.441	216.340

d) Capital Expenditure

Estimates of capital expenditure for the next three years split between the General Fund and the Housing Revenue Account

The estimated total capital expenditure per year for 2020/21 to 2022/23, as detailed in the Capital Programme Report approved by Cabinet on the 25th November 2019, is shown below in Table 4:

Table 4 – Housing Revenue Account and General Fund Capital Expenditure estimates.

	2020/2021	2021/2022	2022/2023
	£m	£m	£m
Housing Revenue Account	14.142	11.685	10.338
General Fund	27.285	22.153	3.289
Total	41.427	33.838	13.627

External Debt

e) Authorised Limit

For the next three years the authority is required to set an authorised limit for its total external debt, gross of investments. This is calculated by taking into account current external debt, new borrowing for loans which mature or for capital purposes and the need to borrow on a short term basis to cover for temporary shortfalls in revenue income and expenditure.

The future authorised limits for the next three years are contained in Table 5 below.

Table 5 – Authorised Limits for External Debt

	2020/2021	2021/2022	2022/2023
	£m	£m	£m
Borrowing	206	232	231
Other Financial Instruments	0	0	0

f) Operational Boundary

As well as an authorised limit the local authority must also set an operational boundary for its external debt for the next three years. The operational boundary is based on the most likely or prudent but not worst case scenario in relation to cash flow.

The future Operational Boundary for the next three years are shown in Table 6.

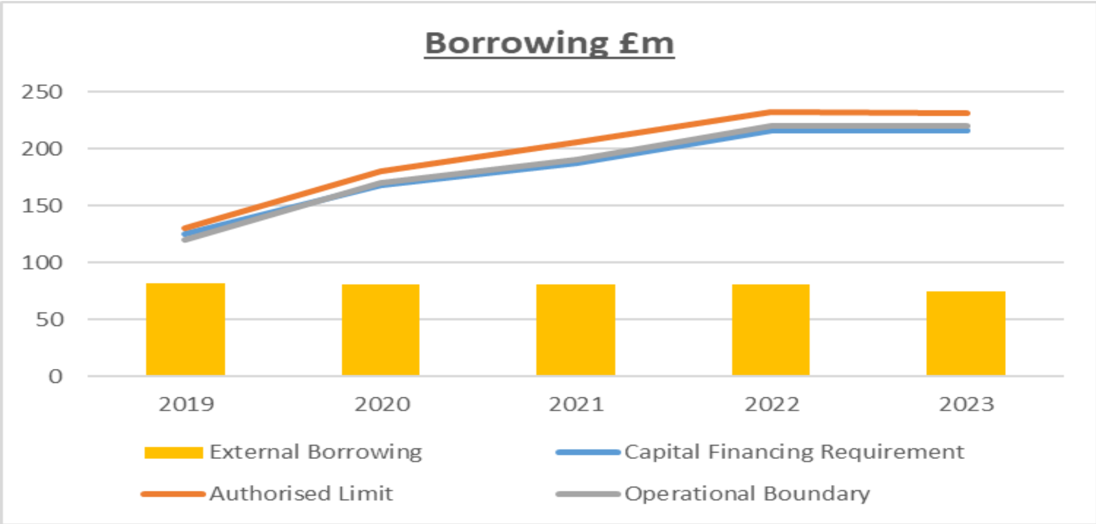
Table 6 – Operational Boundary for External Debt

	2020/2021	2021/2022	2022/2023
	£m	£m	£m
Borrowing	191	220	220
Other Financial Instruments	0	0	0

g) Comparison of External Debt to Capital Financing Requirement, Operational Boundary and Authorised Limit

Table 7 below shows the gap between the existing external debt to the Capital Financing Requirement, Operational Boundary and Authorised Limit

Table 7 – Borrowing



Prudential Indicators for Treasury Management

The prudential indicators for prudence have to be set taking into account those relating to affordability as outlined above and are as follows:

Treasury Management

a) Interest rate exposure

Local authorities are required to set limits for the next three years for the upper limits on exposure to the effects of changes in interest rates. The indicators relate to both fixed and variable rate interest, and are net of any investments.

Depending on the level of interest rates and their expected movement in the year, the Council may take up all of its new borrowings in the form of either fixed or variable rate debt. The figures Table 8 give the following maximum levels, when compared to the operational boundary, of exposure to fixed and variable interest rates, which are prudent limits for the forthcoming years:

Table 8 - Interest Rate Exposure

Principal Outstanding	**2020/2021**	**2021/2022**	**2022/2023**
	£m	**£m**	**£m**
Fixed Rates	206.0	232.0	231.0
Variable Rates (No more than 40% of the operational boundary).	82.4	92.8	92.4

b) Maturity Structure of borrowing

For the next three years' the authority is required to set both lower and upper limits for the maturity structure of its borrowing. This indicator relates only to fixed rate debt and is therefore a measure of the longer-term exposure to interest rate risk.

Table 9 shows the proposed lower and upper limits for all three years, given the current structure of the Council's debt portfolio:

Table 9 - Maturity Structure of Debt

Maturity Structure of Fixed Rate Borrowing	Forecast Position for 31/03/2020	Lower Limit (%)	Upper Limit (%)
Under 12 months	0.00%	0%	5%
Under 24 months	0.00%	0%	10%
Under 5 years	16.00%	0%	20%
Under 10 years	22.38%	0%	25%
Under 20 years	38.45%	0%	40%
Under 30 years	38.45%	0%	50%
Under 40 years	74.58%	0%	80%
Under 50 years	100.00%	0%	100%
50 years and above	0.00%	0%	0%

c) Principal sums invested for more than 364 days

Where a local authority invests, or plans to invest for periods of more than 364 days it must set an upper limit for each year for the maturity of such investments. The purpose of setting this limit is to contain any exposure to losses, which might arise in the event of having to seek early repayment of the investment and / or adverse movements in shorter-term interest rates.

It is suggested, that the use of longer-term investments be limited to a maximum of £5m in each of the next three years to tie in with the Council's already approved policy of not investing more than £5m with any one bank or building society at the same time.

Annex B Council's current treasury portfolio position

Table 1 - Current Debt and Investment Portfolio Position 30th September 2019

External Borrowing:	**£m**
Fixed Rate PWLB	40.236
Fixed Rate Other Loans (Banks)	15.000
LOBO Loans	25.500
Total Gross External Debt	**80.736**
Treasury Investments:	
Money Market Funds	(6.450)
Call Accounts	(3.719)
Fixed Term Deposits	(4.000)
Total Treasury Investments	**(14.169)**
Total Net External Debt	**66.567**

Table 2 – Council Loans at the 30th September 2019

Market Loans	**£m**
Fixed Rate Loans (Banks)	
Barclays Bank	5.000
Barclays Bank	5.000
Hampshire County Council	5.000
Sub Total	**15.000**
Lender Option Borrower Option (LOBO)	
Commerzbank AG Frankfurt am Main	1.000
FMS Wertmanagement AöR	1.500
Dexia Credit Local	5.000
Lancashire County Council	2.000
Danske Bank	5.000
Dexia Municipal Agency	5.000
Commerzbank AG Frankfurt am Main	6.000
Sub Total	**25.500**
Public Works Loans Board (PWLB)	**40.236**
Grand Total	**80.736**

Table 3 – Council Money Market Fund investments as at the 30th September 2019

Money Market Fund	**£m**
Aberdeen GBP Liquidity Fund	5.000
Insight Sterling Liquidity Fund	1.450
Total	**6.450**

N.B. for both of these investment the Authority is classed as professional investor under MIFID II regulation.

Table 4 – Council Call Account Investments as at 30th September 2019

Call Accounts	**£m**
Barclays Bank	£0.169
Handelsbanken	£3.550
Total	**£3.719**

Table 5 - Fixed Term Deposits as at 30th September 2019

Fixed Term Deposits	**£m**
Suffolk County Council	2.000
Thurrock Council	2.000
Total	**4.000**

Annex C - 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 our central view.

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a major assumption and so forecasts may need to be materially reassessed in the light of events over the coming weeks or months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

Investment and borrowing rates

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

- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management.

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

Annex D Treasury Management Practices

TMP1 RISK MANAGEMENT
a) GENERAL STATEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 04/03/2019 and will apply its principles to all investment activity. In accordance with the Code, the Corporate Finance Manager has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by at least two of the three main rating agencies i.e. Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society For category 5 this covers bodies with a minimum Short Term rating of Standard and Poor's P-2 or the Moody's and Fitch equivalent).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are a maximum investment of £5m in any one institution and a maximum duration of up to 1 year or duration as advised by our treasury management advisers.

Non-specified investments – are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£)**
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings £5m £5m
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£5m
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£250k

NOTE 1. This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Within category c, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in this body. The intention will be to keep overnight balances to a minimum. Any balance on this account will be when the Authority has not had the opportunity to transfer balances to an approved counterparty.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

b) APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AAA. The Authority will continue to invest with counterparties in the UK despite the UK only currently having an AA rating.

Based on lowest available rating

AAA

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

AA

- U.K.

THIS LIST IS AS AT 16.12.19

c) TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

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

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

d) THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer *(see TM Code page 38 (iv)*

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management). *Further responsibilities also include:*

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following *(TM Code p54): -*
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Agenda Item 7

Ashfield
DISTRICT COUNCIL

Report To:	**CABINET**	**Date:**	**24th FEBRUARY 2020**
Heading:	**CAPITAL STRATEGY**		
Portfolio Holder:	**COUNCILLOR RACHEL MADDEN – CABINET MEMBER FOR FINANCE**		
Ward/s:	**ALL**		
Key Decision:	**YES**		
Subject to Call-In:	**YES**		

Purpose of Report

The Council's Proposed Capital Strategy has been prepared in accordance with the Chartered Institute Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code in respect to the Capital Strategy are:

1. To ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.
2. A requirement to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long term financing implications and potential risks to the authority.
3. To ensure that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.
4. The Capital Strategy should set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

In accordance with the MHCLG revised Statutory Guidance on Local Government Investments (2018), each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council. The investment strategy must include non-treasury management investments.

This Commercial Property Investment Strategy, included at Annex 1 to the capital strategy is this Council's non-treasury management investment strategy.

The MHCLG Guidance and CIPFA's Prudential Property Investment guidance requires the Commercial Property Investment Strategy to include quantitative indicators to allow risk exposure as a result of its non-treasury management investments to be assessed. The indicators are included as Annex 2.

Recommendation(s)

1) For Cabinet to review and note the contents of the Capital Strategy (CS) for 2020/21 including the Annexes 1-3;

2) For Cabinet to recommend that Council approves:
    - Capital Strategy
    - Commercial Property Investment Strategy;
    - Commercial Property Indicators.

Reasons for Recommendation(s)

It is a requirement of the CIPFA Prudential Code for all Local Authorities to have a Capital Strategy approved by Full Council.

MHCLG Statutory Guidance on Local Government Investments require that the Council has an Investment Strategy that covers non-treasury management investments and includes quantitative indicators approved by Full Council.

Alternative Options Considered

None. It is a requirement of the CIPFA Prudential Code for all Local Authorities to have a Capital Strategy and a requirement of MHCLG Statutory Guidance on Local Government Investments to have an Investment Strategy covering non-treasury management investments.

Detailed Information

The proposed Capital Strategy is contained in Appendix 1. There are three Annexes to Appendix 1 of the report which are:

1. Annex 1 describes the Commercial Property Investment Strategy.
2. Annex 2 Commercial Investment Property indicators which are required by MHCLG guidance and CIPFA .
3. Annex 3 shows the process for acquiring Commercial Investment Properties.

The Commercial Property Investment Strategy details the target minimum net income return, this was previously set at 3.5% this has reduced to 2.5% as a consequence of the increase of 1% in the Public Works Loans Board (PWLB) borrowing rate in October 2019.

Implications

Corporate Plan:

This Capital Strategy will allow delivery of the priorities in the Capital Programme.

Legal:
It is a statutory requirement to produce a Capital Strategy from 2019/20. Relevant statutory powers and requirements are described in the Appendix to this report.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	No Implications
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
The detailed Capital Strategy is not fit for purpose	The Capital Strategy is reviewed and updated annually for changes in direction and changes to guidance and legislation.

Human Resources:
Not Applicable.

Environment / Sustainability:
Not Applicable.

Equalities:
Not applicable.

Other Implications:
Not applicable.

Reason(s) for Urgency
Not applicable.

Reason(s) for Exemption
Not applicable.

Background Papers
- CIPFA Prudential Code 2017 Edition
- CIPFA Treasury Management Code 2017 Edition
- CIPFA Prudent Property Investment

- MHCLG Statutory Guidance on Local Government Investments (3rd Edition) Issued under Section 15(1)(a) of the Local Government Act 2003.

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Appendix 1

ASHFIELD DISTRICT COUNCIL
CAPITAL STRATEGY 2019/20 – 2023/24

1 Introduction

1.1 Ashfield District Council's Corporate Capital Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Council's services and informs decisions on capital spending priorities contained within the Council's 5 year Capital Programme.

1.2 Capital investment is technically described as "Expenditure on the acquisition, creation, or enhancement of 'long term assets'". Capital investment seeks to provide long-term solutions to the Council's priorities and operational requirements. Expenditure for capital purposes therefore gives rise to new assets, increases the value and/or useful life of existing assets or, generates an income stream to the Council via non-treasury investments. Expenditure outside this definition will be, by definition, 'revenue' expenditure.

1.3 Most of the Council's long term assets are properties that are used in service delivery. The Council's land, buildings and infrastructure asset base of some 7,600 properties has a current use Balance Sheet value of £317m (2018/19 published accounts).

1.4 The Capital Strategy is presented to Council as a Policy Framework document, and links with the Treasury Management Strategy, Medium Term Financial Strategy (MTFS) and the approved Capital Programme. Although this Strategy focuses on the Council's management of its own investment in assets, a wider view of capital investment throughout the area by both the public and private sectors will have a major influence on meeting Council aims and objectives.

1.5 The Capital Strategy (and specifically the Commercial Investment Strategy element of the Capital Strategy) are key drivers to secure the future financial sustainability of the Council.

1.6 The legal background to Capital Expenditure is contained in the Local Government Act 2003, particularly the following sections:

- S1 – power to borrow
- S3 – affordable borrowing limit
- S15 – regard to Guidance issued

1.7 Guidance is also issued by Government, the latest guidance issued by the Ministry of Housing Communities and Local Government - MHCLG (formerly the Department of Local Government (DCLG)) being Investment Guidance (2018) and Minimum Revenue Provision (MRP) Guidance (2018).

1.8 Council's should also comply with professional codes that are issued, the key ones being:

- CIPFA Prudential Property Investment (November 2018). This is new guidance issued after the previous Capital Strategy had been approved.
- CIPFA Prudential Code (2017)
- CIPFA Treasury Management Code of Practice (2017).

1.9 The Capital Strategy sets out a number of guiding principles. In considering the principles, the Council needs a balance between guidance and prescription to allow a flexible approach to be taken but reflective of times of uncertainty. This Strategy focuses on the key policies for the allocation of capital resources to schemes in line with Council priorities and statutory responsibilities. The management of the Council's operational Capital Programme which 'sits' under this Capital Strategy is also supported by the Council's approved Financial Regulations.

1.10 CIPFA Treasury Management Code 2017 states:

- 'Where a capital strategy is produced by a local authority this may include the setting of detailed treasury management policies, while being clear that overall responsibility remains with full Council.'
- 'This organisation will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, *(that is this strategy for Ashfield District Council and contains both)* and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.'

2 Identifying Need

2.1 There are a number of internal and external influences that will affect the Council's Capital Strategy in the short, medium and long term.

2.2 External influences will include, but are not limited to potential partners such as central government, priorities of the Local Enterprise Partnership (LEP), County Council and the private sector.

2.3 Internal influences will be driven by the Council's Corporate Plan which sets out the Council's vision and priorities for the District and is available on the Council's website **https://www.ashfield.gov.uk/your-council/about-the-council/corporate-plan/.** A new Corporate Plan is developed every four years, the current corporate plan was approved by Council on the 26th September 2019.

2.4 The Council's Corporate Plan 2019-2023 sets out the following six priorities;

- Health & Happiness
- Homes & Housing
- Economic Growth & Place

- Cleaner & Greener
- Safer & Stronger
- Innovate & Improve

2.5 Aligned to the Corporate Plan are a number of subsidiary and complementary plans and strategies. Examples include;

- Medium Term Financial Strategy
- Treasury Management Strategy
- 30 Year HRA Business Plan
- Housing Strategy
- Digital Transformation Strategy
- Commercial Investment Strategy
- Service Plans

Capital investment will therefore be made in a range of areas to support the Council's core activities and priorities including asset investment to support its existing asset base and service plans, ICT and business improvement investment to support its Transformation programme. Investment in other delivery vehicles such as a Housing Company are being considered to deliver priorities regarding housing units.

3 Capital Scheme Prioritisation

3.1 Due to competing demands for limited resources, the Council prioritises capital investment based on a number of different factors such as:

- Its contribution to corporate priorities
- Whether it facilitates delivery of statutory or non-statutory and essential/non-essential services.
- The ability of the project to leverage additional funding, or secure a future income stream – therefore preference will be given to those projects with:
    - A payback of 10 years or less
    - A positive net present value over the life of the asset based on a discount rate reflecting use of capital resources (Treasury Green book figure 3.5 %)
- The affordability of the revenue implications of the project
- The risk of not undertaking the capital expenditure, eg Health and Safety implications or legislative requirements.

3.2 Non financial indicators can also be used, for example, there are many benefits to including sustainability or environmental criteria in the decision-making process when it comes to allocating capital resources. Outcomes (for example jobs created or safeguarded) and outputs (for example, number of new homes built) should also be considered.

4 Prudential Approach

4.1 The Prudential Code requires Councils to consider six things when it agrees its Capital Programme:

- Service objectives – are spending plans consistent with our aims and plans?
- Stewardship of assets – is capital investment being made on new assets at the cost of maintaining existing assets?
- Value for money – do benefits outweigh the cost?
- Prudence and sustainability – can the Council afford the borrowing now and in the future?
- Affordability – what are the implications for council tax? (revenue implications)
- Practicality – can the Council deliver the programme?

4.2 Prudence is a difficult concept to define. In deciding whether an investment decision is prudent there should, as a minimum, be an initial consideration of the relationship between:

- the capital cost and
- the business cost (being the revenue costs associated with the use of the asset).

4.3 The authority needs to consider whether this choice represents the best use of resources having looked at all available options. Above all, the authority should be confident that the preferred option is the best value for money, and the quality is sufficient to meet the Council's needs.

4.4 Investments in property are seen as medium to long term investments therefore the value for money is assessed on this basis to ensure that over a longer period of time the investment is value for money and provides a return to the Council which, as a minimum exceeds what could be earned through investing in Money Markets.

4.5 The question of affordability in relation to capital projects is easier to address as the list of cost components is easier to define. Whilst the list is not exhaustive, it will typically include:

- Capital Costs
    - Feasibility costs
    - Initial build/purchase
    - Disposal/demolitions/decommissioning costs
    - Project management costs - internal and external
    - Fees: Surveyors, Clerk of works

- Revenue costs
    - Ongoing rental charges
    - Ongoing facilities management charges
    - Utilities costs
    - Maintenance (planned and reactive)
    - Financing costs (where appropriate, Minimum Revenue Provision (MRP) and Interest costs)
    - staffing implications
    - Business Rates

4.6 Feasibility costs may be capitalised provided the scheme leads to the eventual construction of an asset, if not, any such costs incurred must be charged to revenue.

4.7 In assessing whether an investment is sustainable, the authority should consider:

- how it fits into any future policy or environmental framework
- the future availability of resources to implement and continue to maintain any capital asset arising
- the potential for changes in the need for the asset, e.g. demographic developments
- the potential for changes in the nature of the driver, problem, or policy the capital expenditure is seeking to address.
- The security on loans made
- The liquidity of investments

4.8 In terms of Practicality, the Council must ensure it has the right skills and resources available at the right time to be able to fully resource and deliver its Capital Programme ambitions. Some of the projects may be specialist in nature and, as such, will require external expertise and support in order to deliver the schemes, including good project management skills.

5 Capital Funding

5.1 Capital Funding Sources:

5.1.1 The Council's Capital Programme is currently funded from the following sources;

- Capital Receipts
- Prudential Borrowing
- Developers Contributions e.g. s106 receipts
- Partner contributions
- Revenue Contributions/Reserves
- Capital Grants e.g. Disabled Facilities Grant
- Proportion of Housing Right to Buy receipts
- Major Repairs Reserve (for Council Housing investments)

5.1.2 The Council can recycle capital receipts generated from the disposal of assets back to fund both General Fund and HRA capital projects. The Council also has in place a Flexible Use of Capital Receipts Strategy (Originally approved October 2018) which may be used to support delivery of the Council's Transformation Programme.

5.1.3 However with limited property available for sale, capital receipts are gradually being eroded. And with continuing budgetary pressures being placed on the Council's General Fund the ability to use Direct Revenue Financing (use of reserves) is reducing and consequently the Council may need to either find alternative sources or curtail its ambitions for capital spend in future years.

5.1.4 The Council owns a number of assets including investment properties and through on going monitoring of assets and stock condition information, the continuation of holding such assets is reviewed in the light of suitability and sufficiency and decisions are taken on whether to:

- Hold and continue to maintain and refurbish them, or
- Dispose of and generate a capital receipt for funding the Capital Programme.

5.1.5 The Council has entered into an agreement with the MHCLG in which the authority will recycle within a rolling 3 year period Right to Buy (RTB) receipts arising from retaining “additional” receipts from RTB disposals into new social housing dwellings within the District. The RTB receipts retained, must be applied to fund up to 30% of the capital costs of new build and acquisitions of affordable housing. The Council currently anticipates all receipts will be utilised on eligible schemes as and when they arise.

5.2 Prudential Borrowing

5.2.1 Under the Prudential Framework local authorities are free to make their own judgements as to whether new borrowing is affordable and prudent, subject to a duty to follow agreed professional principles, which are contained within the Prudential Code.

5.2.2 Prudential borrowing to fund capital projects may, depending on the nature of the capital investment, bring with it the need to make a charge to revenue to reflect the cost of borrowing. This includes Minimum Revenue Provision (MRP) and interest. The MRP policy that applies to capital decisions funded by prudential borrowing is set out within the Council’s Treasury Management Strategy.

5.3 S106 Developer Contributions

5.3.1 Developer contributions are sought, as part of the planning application process to mitigate the impact of development and overcome what would otherwise be a potential reason to potentially refuse a planning application. These S106 Developer Contributions are a means of supporting infrastructure costs such as play areas, transport networks, schools, etc.

5.4 Housing Revenue Account

5.4.1 Capital commitments are funded via surpluses from within the Council’s Housing Revenue Account (HRA). The production of a 30 year HRA Business Plan, which is regularly reviewed, enables the funding needs of the Council’s housing stock to be planned for and accommodated.

5.4.2 The HRA originally had a debt cap which was set at £80.081m in 2012. However, the Government recently announced the removal of this cap allowing Councils to once again borrow against the value of its housing stock for improving the existing stock as well as delivering new stock.

5.4.3 The HRA Capital Programme is to a large extent driven by the amount of surplus generated which in turn is influenced by:

- The amount of income raised from rents which for four years from 1/4/2016 has been limited by Government to a year on year decrease of 1%. Increases of CPI plus 1% will again be permissible from 2020/21.
- The number of Right to Buy sales that take place and impact on the HRA stock and therefore future rent income receivable.

5.4.4 The resulting HRA Capital Programme provides for renovation and improvement of existing housing stock, refurbishment and limited estate regeneration.

6 New Delivery Models

6.1 In response to reducing capital resources the Council has looked to new delivery models to continue its capital investment in the District, which levers in other partners and innovative financing. These include a Housing Company, which the Council may establish to deliver new affordable rented properties in the District.

6.2 In the context of the Capital Strategy, the Council is investing in property to produce an on-going revenue stream to contribute to the funding of the Council's revenue budget to sustain the delivery of key services to the District's residents. This capital expenditure will be funded where available, in the form of capital receipts and/or prudential borrowing.

6.3 At the time of writing the Council currently has a portfolio of 'investment properties' of around £36.243m generating gross investment income of £2.85m per annum. The purchase of the investment properties is funded by prudential borrowing and results in revenue costs of MRP and potentially interest. Prudential borrowing can be internal borrowing, against cash-backed reserves and working capital or external borrowing, loans from a third party. Interest costs are incurred where external borrowing in undertaken. The Council's strategy in respect of 'investment properties' is detailed in the Commercial Investment Strategy (Non- Treasury Management Investment Strategy) included at Annex 1.

6.4 In September 2019 both Kirkby-in-Ashfield and Sutton-in-Ashfield were named in the list of 100 towns invited to develop proposals to receive funding through a Town Deal, with up to £25m available for each town. Sutton has also been included on the list of 100 towns which can apply for funding through the Future High Streets Fund (FHSF) of up to £25m which is a competitive process. Proposals and bids are currently being progressed.

7 The Current Capital Programme 2019/20 – 2023/24

7.1 A copy of the current 5 year Capital Programme can be found on the Council's website and the latest update to the Capital Programme was reported to Cabinet at November 2019. The current programme covers the following key areas and major schemes:

- Area schemes & General Fund Schemes
    - Investment Properties
    - Kirkby Leisure Centre
    - Purchase of Vehicles
- Housing Revenue Schemes
    - Decent Homes schemes
    - New Build and acquisitions of affordable housing
    - Davies Avenue Scheme – affordable housing

7.2 In assessing what schemes are included in the Capital Programme, the Council will ensure all schemes are properly appraised and prioritised through a scoring matrix as agreed by Council. This appraisal process will take account of the key criteria set out in this Strategy.

8 Service Enhancements & Building Asset Maintenance

8.1 The Council has a property land and buildings portfolio utilised for service delivery (eg leisure centres) and for operational delivery (offices and depots). It is important that these are maintained on a regular basis and receive upgrades and replacement if required when resources allow. This programme will be informed by the stock condition surveys alongside any service developments that may be proposed. It may also be required that some surplus assets are either disposed of (including demolition) if no longer fit for purpose or required.

8.2 As part of the agile working initiative opportunities for rationalisation of operational land and buildings may be identified. Equally, the retained operational land and buildings may require enhancement.

8.3 Included in the land and buildings portfolio are a number of Commercial Properties, which are providing an income stream to the Council. They are not deemed to be investments properties as they are held to support the economic development of Ashfield and are not held solely for returns or capital appreciation. The Council's risk exposure to be managed, in relation to these Commercial Properties include loss of income stream due to voids periods and maintenance costs.

9. Grants & Contributions

9.1 The Council will make contributions to 3rd party schemes (including Disabled Facility Grants) as partner funding contributions to schemes not being directly delivered by the Council, to meet statutory grant requirements or to support particular initiatives.

9.2 The Council will also, where appropriate, seek grant funding and contributions to support the delivery of capital schemes.

10 Vehicles and Fleet

10.1 The Council has a significant fleet in order to deliver its operational services. The Council has traditionally purchased outright all of its fleet including refuse collection vehicles, which require a significant up-front investment. Whilst the current capital programme continues with this approach, other funding methods will be evaluated and may also be utilised (e.g. lease, Contract Hire with Maintenance, etc) in order to achieve the most cost effective approach to vehicle provision.

11 Service Transformation & Invest to Save

11.1 The Council still faces significant shortfalls in its revenue budget in the Medium term. Therefore, it will continue to invest in technologies and programmes which deliver ongoing savings to the Councils finances. These schemes will require initial Capital investment but must demonstrate a payback and ongoing savings as part of the evaluation process. A business case will need to be made for all proposals, which must include a financial appraisal.

11.2 These schemes can range from enhancements to buildings to make them more energy efficient, to ICT investment, to service transformation programmes. Where available, capital receipts will be used to fund one-off revenue costs associated with the Transformation Programme, in accordance with the Flexible Use of Capital Receipts Strategy.

12 Capital Project Delivery and Investment Risk Management

12.1 The Council, like all Council’s is exposed to a broad range of risks:

- **Financial risks** related to the investment of the Council’s assets and cash flow, market volatility, currency etc.
- **Macroeconomic risks** related to the growth or decline of the local economy, interest rates, inflation and to a lesser degree, the wider national and global economy amongst others.
- **Credit and counterparty risks** related to investments, loans to institutions and individuals and counterparties in business transactions.
- **Operational risks** related to operational exposures within its organisation, its counterparties, partners and commercial interests.
- **Strategic risks** related to key initiatives undertaken by the Council such as significant purchases, new ventures, commercial interests and other areas of organisational change deemed necessary to help the Council meet its goals.
- **Reputational risks** related to the Council’s dealings and interests, and the impact of adverse outcomes on the Council’s reputation and public perception.

- **Environmental and social risks** related to the environmental and social impact of the Council's strategy and interests.
- **Governance risks** related to ensuring that prudence and careful consideration sit at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks and balances that balance oversight and efficiency.

12.2 The Council must manage and mitigate these risks where possible but there is inherent risk in undertaking major Capital Projects (particularly acquisition of Investment Properties) and this needs to be recognised. Therefore, for each scheme, risk assessments and risk registers need to be prepared and monitored to ensure, as far as possible, risks are managed.

13 Governance & Monitoring

13.1 The Prudential Code sets out a clear governance procedure for the setting and revising of a Capital Strategy and Prudential Indicators i.e. this should be done by the same body that takes the decisions for the local authority's budget – i.e. Full Council.

13.2 The Prudential Code also states that decisions around capital expenditure, investment and borrowing should align with the processes established for the setting and revising of the budget. The Financial Procedure Rules (FPR) set out clear procedures for the approval of capital expenditure, including:

- approval of the capital programme – Full Council (FPRs para B.1)
- additions/changes to the capital programme – Cabinet/Council (FPRs para B.8)

13.3 The Audit Committee has delegated powers responsible for Governance and Treasury Management within the Council. They scrutinise and recommend an annual Treasury Management Strategy (incorporating an Investment Strategy and Borrowing Strategy) to Council for approval as part of the annual approval of budget. They also receive monitoring reports on Treasury activity and a year-end Annual Report.

13.4 The S151 Officer is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body for consideration. They also have to declare that they consider the strategy to be prudent and affordable, are integrated into the Treasury Management Strategy and other Strategic Plans, and that all the revenue implications are included in the MTFS.

14 Knowledge and Skills

14.1 In order to deliver this Capital Strategy it is important that the Council employs and /or has access to competently skilled people in order to manage the delivery of the Capital Programme. The Council's S151 Officer has the overall responsibility for the Capital and Treasury Management activities so needs to be professionally qualified and undertake ongoing CPD in these areas. This should be underpinned by experienced staff who can support the S151 Officer in meeting these requirements. Additionally, professional advice can be bought in from external providers. The Council currently retains Link Asset Services as its Treasury Management Advisors.

14.2 Training should also be provided to those Members and Officers that are involved in the monitoring and delivery of the Capital Strategy and Programme and this should be regularly updated. Appropriate project management training should also be provided to project leads, Officers and Members responsible for each of the Capital schemes.

Annex 1

ASHFIELD DISTRICT COUNCIL
COMMERCIAL PROPERTY INVESTMENT STRATEGY

1. Key Principles

1.1 The core function of the Council is to deliver statutory and other services to local residents. Reductions in government funding has required local authorities to look at the options for balancing the budget. Investing in property helps the Council to generate an additional on-going revenue income stream that it can then use to reduce its net costs of providing services.

1.2 This is achieved by buying property that has a tenant who pays rent to the owner of the property – the landlord. The tenant needs to be of good financial standing and the property and lease must meet certain standards such as being in a commercially popular location and have a number of years left on the lease providing a certain and contractually secure rental income stream into the future.

1.3 The Council funds the purchase of the property by prudential borrowing and/or use of Capital Receipts where these are available. The rental income paid by the tenant must exceed the cost of capital (MRP and interest). The annual surplus then supports the Council's budget position, and enables the Council to continue to provide services for local people.

1.4 Historically, property has proved to be one of, if not the best, investment in terms of capital growth over the last 50 years. If the Council owns the property for 20 years plus, and the property is managed and maintained appropriately, the Council can expect to see an increase in the value of the property as well as a net annual surplus of revenue.

1.5 The increase in value is realised when the property are sold. The sales proceeds from the sale of property result in a capital receipt for the Council. The capital receipt will be used to extinguish the debt outstanding in the Capital Financing Requirement in relation to the property sold, and the remaining capital receipt can be used to fund further capital investments or applied to revenue transformation costs under the Flexible Use of Capital Receipts Policy. In both cases, the additional capital receipt will support the delivery of services for local people.

Purpose

2.1 The Commercial Property Investment Strategy:

- Clarifies the legal powers used to operate the Strategy and ensure continued compliance.
- Sets out what the Council wants to achieve when acquiring property assets for investment purposes – primarily to provide an income stream with a margin over the cost of capital.

- Identifies criteria for acquiring and owning property assets for investment purposes to ensure risks are minimised.
- Includes an outline of the process involved in acquiring property assets for investment purposes.
- Is part of a wider policy framework supporting what the Council does and why.

2.2 Each acquisition will be evaluated on its merits to consider the relevant purpose(s), legal powers, financial powers and any other implications. The evaluation will address the potential within the market place for future uplift or loss in value of the asset being considered for acquisition, as well as the security of income from the tenant in occupation.

3. Legal Powers

3.1 Local authorities have very wide powers to acquire, sell, appropriate and develop land, such that it is rare to need to use the powers in the Localism Act 2011. Specific property related powers are very wide and include the following:

- Sections 120 to 123 of the Local Government Act 1972
- Section 227, Town and Country Planning Act 1990
- Section 233, Town and Country Planning Act 1990
- Local Authorities (Land) Act 1963 (development)
- Housing Act 1985
- Sections 24-26 Local Government Act 1988

3.2 There are various powers that would usually be sufficient for the Council to undertake any property acquisition, sale or related project in its area where at least part of the motivation is connected with the broad benefit or improvement of its area, as it is in the case of this strategy.

3.3 Section 120 of the Local Government Act 1972 to acquire land (inside or outside of their area) for the purposes of any of their functions, and then this gives us the power to borrow as contained in Section 1 of the Local Government Act 2003 - A local authority is empowered to borrow money for any purpose relevant to its functions under any enactment.

4. **Objectives of the investment activity**

4.1 Acquisition to generate an income stream is a natural progression from acquisition for regeneration purposes. The two can also be combined – an example of this is if an acquisition is made which offers a secure income stream and the option for future regeneration of a site. Therefore, the reasons for buying and owning property investments are primarily in this order:

1. Financial gain to fund our services to local people
2. Market and economic opportunity – the time is right

3. Economic development and regeneration activity in Ashfield

4.2 The UK commercial property investment market is very well established, attracts global investors and is defined as a 'mature asset class'. It has a wide range of new and established investors including institutions, pension funds, specialist property companies, charities, family trusts and individuals.

4.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as "…used solely to earn rentals or for capital appreciation or both…".

4.4 Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

4.5 Property prices and returns are a function of the property type, condition, use and location, together with the lease structure and covenant strength of the tenant (in the case of a let property). Lease contracts will reflect all liability and outgoings being the responsibility of the tenant.

4.6 What should be sought by the Council are property investments which produce the best returns possible, whilst carrying an acceptable level of risk. The main mitigation measure in managing risk is to target investments which are let to 'blue chip' tenants, on relatively long leases with little or no landlord management involvement – typically the tenant is responsible for all property costs such as repair, maintenance and outgoings. In this way, the Council will be primarily buying a secure income stream and the buildings themselves become almost secondary considerations.

4.7 Any property asset coming onto the market could be for a number of reasons. Investors seek to buy and sell in many different circumstances - rebalancing their portfolio, seeking cash to influence balance sheet or share price, requirement for a more "liquid" asset, short-term investment taking advantage of small capital growth, moving into different property classes, etc.

5. Priorities & Risk in Property Investment

5.1 The Priorities for the Council when acquiring property interests for investment purposes are (in order of importance):

- **Covenant Strength** - in the case of a let property, the quality of the tenant and, more importantly, their ability to pay the rent on time and in full. The Council's primary reason and objective for this strategy is financial gain to sustain delivery of key services to residents. The underlying principles of a Property Investment Strategy imply, assume and default to nothing taking higher priority than financial gain. It is however worth noting that the Council, as a public body, may not wish to invest in properties where the occupiers are generally seen to be undertaking a business which is contrary to its corporate values.

- **Lease length** - in the case of a let property, the unexpired length of the term of the lease or a tenant's break clause is of key importance in ensuring that the landlord's revenue stream is uninterrupted. The Council will take into consideration the risks associated with a tenant vacating and the potential to attract good quality replacement tenants at acceptable rental levels. Generally, occupiers are moving away from 25 year leases which were more common back in the late twentieth century with 10 to 15 years now becoming more acceptable unless some form of lease break provisions are included in favour of the tenant.

- **Rate of return -** the rate of return from the property (for example through annual rental incomes) will need to be equivalent or better to the returns that could be earned from alternate investments, such as placing monies on deposit, following adjustment for risks and potential growth. The property will also need to produce an annual return in excess of the cost of capital (Interest and MRP).

- **Risk** – rate of return is one side of the coin; risk is the other. In general, the higher the sought level of return from an investment, the higher level of risk that it carries. For example, if a property is let at an attractive rent which would create a good return, it could still be risky if the tenant does not possess good covenant strength and could default at any time.

- **Lease Terms** – The terms of leases vary and even those held on an "Institutionally acceptable basis" can be very different in nature particularly as such leases have developed over time. The Council is seeking to invest in modern leases with full repairing and insuring obligations on the Tenant and a full Service Charge recovery to include any management fees where applicable. This will ensure a certain income/return to the Council.

- **Growth -** property has the potential for both revenue and capital growth. The Council will take into account that potential when assessing the strength of the investment opportunity. Property values can fall as well as rise and mechanisms to minimise revenue reductions should be identified. Generally, the nature of standard, institutional leases is that rent review clauses are upward only which protects landlords from any downward pressure on rental income giving some security as to the level of income.

- **Location -** should a tenant default or vacate, the location of the property is the key factor in influencing the ability to re-let and find another tenant. Location is also important when considering future redevelopment or regeneration opportunities. Ideally the Council will be able to undertake inspections and to deal with any management issues without the need to employ specialists or agents. When appropriate opportunities surface in Ashfield, they will be evaluated against the same criteria as those opportunities located outside of the District. In this way, this investment activity does not discriminate against location. Any investment decision is subject to the appropriate justification, business case and governance.

- **Sector -** information as to the sector of use of the property (e.g. office, retail, industrial, leisure) will assist in deciding on the risks associated with specific properties and the mix of sectors within the portfolio.

- **Building Age and Specification -** in the case of a let property, whilst the Council, as an investor, may be principally concerned with the characteristics of the tenant and lease, the age and specification of the property will also affect the ability of the Council to let or sell the property in the future. It must also be taken into consideration in respect of the cost of protecting the investment. An example of this would be the undertaking of repairs and refurbishment if the cost cannot be fully recovered from the tenant.

5.2 In summary, the strategy for acquiring investment property assets is therefore to:

- Seek property let to tenants who are of strong covenant strength and sound financial standing with at least more than five years remaining on an FRI lease.
- Minimise risk.
- Maximise rental income and minimise management costs to ensure the best return is generated.
- Identify opportunities for future growth, redevelopment or regeneration via property in commercially popular or development areas.
- Prioritise the Ashfield area.
- Pursue opportunities to increase returns and improve the investment value of commercial assets

6. Reporting Requirements and Governance

6.1 Commercial Property Investment Strategy

6.1.1 In accordance with the MHCLG revised Statutory Guidance on Local Government Investments (2018), each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council. The investment strategy must include non-treasury management investments.

6.1.2 This Commercial Property Investment Strategy, which is incorporated into the Capital Strategy is this Council's non-treasury management investment strategy.

6.1.3 The MHCLG revised Statutory Guidance on Local Government Investments (2018) requires the Commercial Property Investment Strategy to include quantitative indicators to allow risk exposure as a result of its non-treasury management investments to be assessed. The indicators are included as Annex 2.

6.2 Acquisition Decision Making and Reporting

6.2.1 The acquisition process has been defined, and implemented to ensure roles and responsibilities are clearly defined, outcomes are understood, and unnecessary risk has been avoided. This process is included in Annex 3 of this Strategy.

6.2.2 Where time constraints allow, which is more often not the case, a collective Cabinet decision will be sought; however a faster, robust decision-making process must be available to ensure Ashfield's competitiveness is maintained.

In most, if not all, circumstances where the Council is negotiating an acquisition by Private Treaty, the Vendor is likely to want to proceed swiftly with the transaction for financial reasons. Furthermore, where the Council may purchase at auction, the contract is signed at the end of the auction; therefore, authorisations/delegations must be in place in advance. As such, the Officers will look to use existing provisions within the Scheme of Delegation and Access to Information Procedure Rules to ensure a decision can be taken expediently. In all cases, a full written report and decision record will be prepared and required notices will be published in accordance with Governance requirements. Specifically:

1. Where timeframes do not allow a collective Cabinet decision, the Leader of the Council will take a delegated Executive Decision.
2. Where a potential purchase is a key decision and/or will contain exempt information but the full 28 days' notice cannot be given due to the urgency of the matter it is anticipated that a General Exception will be applied (Rule 15). This will give five clear days' notice of the decision which is about to be made. The Monitoring Officer will inform the Chairman of the Overview and Scrutiny Committee and publish the required notices.
3. Where there is a greater urgency and 5 clear days' notice cannot be given, the Special Urgency provisions will be used (Rule 16). In this case, the permission of the Chairman of the Overview and Scrutiny Committee (or if they are unable to act, the Chairman of the Council or, in their absence, the Vice Chairman of the Council) will be obtained before making the decision. The Rule 16 notice will be published.
4. In such cases it is expected that the decision will need to be implemented without delay and therefore it is anticipated that the decision will not be subject to call in.
5. The report will explain the reasons in each case as to why a decision is not to be called in.
6. The Leader must report to the next available Council meeting any decisions, which are made pursuant to Rule 16.

6.3 **Post Acquisition Monitoring Arrangements**

6.3.1 A Commercial Investment Working Group operates within the Council and is attended by:

- Chief Executive/Deputy Chief Executive
- Director of Resources and Business Transformation
- Monitoring Officer/Deputy Monitoring Officer
- Section 151 Officer/Deputy Section 151 Officer
- Commercial Development Service Manager

6.3.2 The Group meets bi-monthly and discusses:

- Progress of commercial investments being pursued
- New opportunities for commercial investments
- Factors impacting or influencing opportunities for commercial investments
- Performance of and factors impacting or influencing existing commercial investments

6.3.3 A quarterly Commercial Property Performance Report is presented to the group which details:

- the rentals payment performance of the Commercial Property Investment tenants;
- financial performance of Commercial Property (as defined in 8.3 of the Capital Strategy) and Commercial Property Investments;
- the state of the market which covers how each sector e.g. industrial, office, retail, leisure is performing;
- Tenant Covenant, which covers default risk (payments not being made), failure risk (business failure) and delinquency risk (payments being late).

6.3.4 A mid-year report and outturn report on Commercial Property Investment Performance detailing the information in 6.3.3 is reported to Audit Committee.

6.3.5 The Commercial Development Service Manager will periodically visit and inspect Commercial Property Investments. A visit to all existing the Commercial Property Investments has been undertaken in January 2020.

7. Risk Management

7.1 Risk Mitigation on acquisition

7.1.1 In order to mitigate the risks of investing in commercial property, the considerations outlined 5.1 are always evaluated and the processes in 6.2. are undertaken. An acquisition process has been defined, and implemented to ensure roles and responsibilities are clearly defined, outcomes are understood, and unnecessary risk has been avoided. This process is included in Annex 3 of this Strategy.

7.1.2 A fair value assessment is conducted on purchase and provides sufficient security for the underlying capital invested.

External Advice

7.1.3 The Council’s Commercial Property team has the relevant investment and management knowledge/experience to manage the investment property portfolios. Nevertheless, officers take external advice on a number of occasions such as:

- Appointing a representing agent in line with Contract Procedure Rules to represent and advise Ashfield on potential acquisitions.

- Seeking external legal advice, via the Legal Shared Service, on various matters during conveyancing and indeed, to represent Ashfield directly, in complex transactions or in jurisdictions where English Law does not apply.
- Commissioning external Chartered Surveyors to carry out surveys on properties prior to purchase, with their reports forming a key part of the decision-making process and to carry out valuations of investment properties.

7.2 **Risk Mitigation post acquisition**

Annual Review of Fair Value

7.2.1 An annual review will be undertaken of the Commercial Property Investment portfolio fair value as per the Council's revaluation programme as outlined in the accounting policies and agreed with the external auditors. The fair value will be compared to the debt outstanding and appropriate provision will be made if there is a fall in the value of the assets.

Commercial Property Investment Earmarked Reserve

7.2.2 The Council has established a Commercial Property Investment Earmarked Reserve, which is to mitigate against the risk of business failure and lease events.

7.2.3 The reserve will be used to cover:

- Loss of investment return
- Capital financing costs (mrp and interest costs are still incurred, if the income stream is lost)
- Business Rates (the Council will be liable to pay the Business Rates, if the property is vacant)
- Capital Expenditure (may be necessary to fund dilapidation works to get the property to a standard to enable relet.

7.2.4 It will also be used to fund any debt outstanding following the sale of a Commercial Property Investment where the capital receipt does not extinguish the debt outstanding for the property.

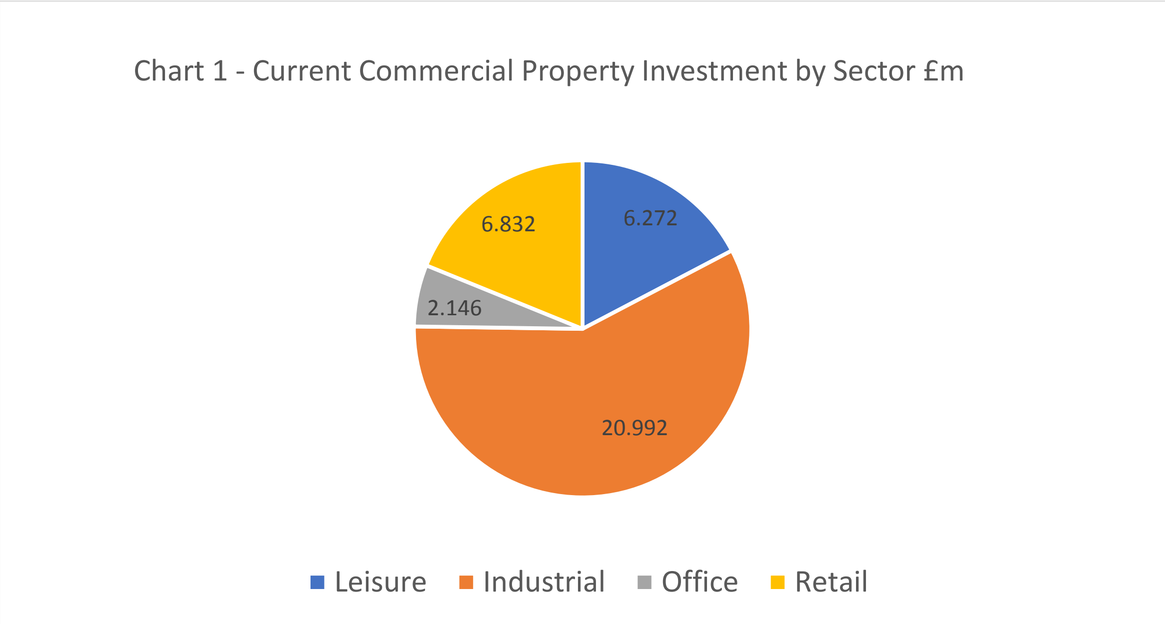
7.2.5 An annual review of the Commercial Property Investment Earmarked Reserve will be carried out as part of the Medium Term Financial Strategy to assess whether there are sufficient resources held in the Reserve. Where it is deemed there are insufficient resources, provision will be made to top up the reserve over a period of time as part of the budget setting process (through the Medium Term Financial Strategy).

Annex 2

Commercial Property Investment Portfolio and Indicators

Commercial Property Investments Portfolio

The Council currently hold 11 Commercial Property Investments at a cost of £36.242m. The costs of the existing Commercial Property Investments portfolio is shown by sector in Chart 1.



The current capital programme includes approval for further Commercial Property Investments as detailed in Table 1.

Table 1 – Approved Future Commercial Property Investments

	2019/20 Actual as at 24/01/2020	2019/20 (Forecast)	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Cumulative spend on Commercial Investment Property	36.242	58.560	85.000	105.000	105.000

The Ministry of Housing, Communities and Local Government (MHCLG) recommend the following indicators for non-treasury investments e.g. Commercial Property Investments.

a) Debt to Net Service Expenditure

Table 2 shows the gross external debt on Commercial Property Investments at the end of each financial year divided by the Net Service Expenditure for each financial year. It assumes all future planned Commercial Property Investments are funded from external borrowing and therefore increases the debt in the indicator.

Table 2 demonstrates how many times greater the Commercial Property Investments debt is to the estimated Net Service Expenditure.

Table 2 Debt to Net Service Expenditure

	2019/20 (Actual)	2019/20 (Forecast)	2020/21	2021/22	2022/23
Debt to Net Service Expenditure	2.50	4.05	6.49	7.71	7.03

The Debt to Net Service is increasing as the purchase of investment properties funded by borrowing increases in line with the approved capital programme, There are no investment property purchases planned for 2022/23. The level of debt outstanding reduces as MRP is charged to the General Fund.

b) Commercial Income to Net Service Expenditure

Table 3 shows the expected income from Investment Properties divided by the Net Service Expenditure. The Commercial Income to Net Service Expenditure is increasing as the annual Commercial Income increases as more Investment Properties are purchased.

Table 3 Commercial Income to Net Service Expenditure

	2019/20 (Actual)	2019/20 (Forecast)	2020/21	2021/22	2022/23
Commercial Income to Net Service Expenditure	17.4%	19.2%	39.9%	49.2%	50.4%

This is in line with the corporate strategy, to increase the acquisition of investment properties to deliver an income stream, which will be spent in Ashfield to sustain services for our residents and businesses. This also means the exposure to the risks associated with Commercial Property Investments are increasing. The strategy for risk mitigation is set out in Section 7 of the Commercial Property Investment Strategy.

c) Investment Cover Ratio

Table 4 shows the expected net income from Commercial Property Investments divided by the Interest Expense. The estimates for 2019/20 are substantially higher than future years as MRP is charged on investment properties in the year following purchase, reducing the net income in future years. In 2019/20 the purchase of investment properties is expected to be £45.6m.

The Council uses the Annuity Method to calculate its MRP for Investment Properties. The Annuity Method charges less MRP in the early years following purchase and more MRP in the later years. The total amount of MRP charged over the life of the asset will equal the amount of prudential borrowing. If after 2021/22 no further investment properties are purchased, then the Investment Cover ratio will reduce after 2022/23 as the net income reduces as MRP increases.

This indicator has been calculated on the basis that all the Commercial Property Investments have been funded by external borrowing, and interest is being incurred.

Table 4 Investment Cover Ratio

	2019/20 (Actual)	2019/20 (Forecast)	2020/21	2021/22	2022/23
Investment Cover	2.03	1.93	1.05	0.99	0.94

d) Loan to Value Ratio

Table 5 shows the Capital Financing Requirement (debt to be funded) for the Investment Properties divided by their estimated valuations.

Table 5 Loan to Value Ratio

	2019/20 (Actual)	2019/20 (Forecast)	2020/21	2021/22	2022/23
Loan to Value Ratio	102.05%	103.26%	102.70%	101.98%	100.53%

In the early years, the loan value is expected to exceed the asset value. The main reason for this is due to acquisition costs e.g. stamp duty, agent fees etc. being included in the cost of the Commercial Property Investments that have been funded by borrowing, these costs are not included in the property valuation.

The loan to value is expected to continue to reduce as the capital financing requirement (unfunded debt) reduces as MRP payments are made. The investment properties will be valued regularly. Any increase in Investment Property values will reduce the loan to value ratio and consequently any decrease in value is likely to increase the loan to value ratio.

e) Target Net Income Returns

Table 6 compares the Target Net Income Return with the Actual Net Income Return. The Actual Net Income Return is calculated by dividing the Estimated Investment Property Income less MRP and Interest Costs by the Investment Property Purchases. Similar to c) above the estimated net income return is expected to be greater in 2019/20 as MRP on the investment properties purchased in year is not charged until the following year or when the asset becomes operational.

Similar to see c) above if no further Investment Properties are purchased after 2021/22 then the Net Income Return is expected to reduce after 2022/23 as MRP increases.

Table 6 Target Net Income Returns

	2019/20 (Actual)	2019/20 (Forecast)	2020/21	2021/22	2022/23
Target Net Income Return	2.50%	2.50%	2.50%	2.50%	2.50%
Estimated Net Income Return	4.10%	2.78%	2.53%	2.52%	2.67%

The Target net income return was previously set at 3.5% this has reduced to 2.5% in line with the increase of 1% in the Public Works Loans Board (PWLB) borrowing rate in October 2019.

f) Gross and Net Income

Table 6 compares the estimated gross income with the estimated net income. The net income is the estimated gross income net of interest and MRP charges. As per e) above the net income assumes that interest on external borrowing will be paid.

Table 7 Gross and Net Income

	2019/20 Actual	2019/20 Forecast	2020/21	2021/22	2022/23
	£000s	£000s	£000s	£000s	£000s
Gross Income	£2,506	£2,706	£5,146	£6,546	£7,246
Net Income	£1,484	£1,628	£2,151	£2,646	£2,808

Again, as per c) and d) above if no further Investment Properties are purchased after 2021/22 then the Net Income is expected to reduce after 2022/23 as MRP increases.

Note: In all of the above indicators where net income return are included, the estimate assumes that interest on external borrowing will be incurred. The Council depending on its cash reserve position may choose to use internal borrowing to finance part or all of its investment property purchases. If internal borrowing is used the net income will increase as interest payable costs are saved.

g) Break Clauses or Lease Expiries

All of the investment property leases have either i) a break clause which gives the lessee the option to either continue leasing the property or to end the property lease or ii) an expiry date where the tenant vacates the property unless a new lease contract is signed.

There is a risk for the Council with both break clauses and lease expiries, if the existing tenant choose to leave the property. The risks this exposures the Council to and risk mitigation are, detailed in the Commercial Investment Property Strategy.

Risk mitigation includes spreading the dates when break clauses and lease expiries occur across the Council's Commercial Property Investment portfolio.

Table 8 below shows the years when the Council has a break clause or expiry on its current Commercial Property Investment portfolio.

Table 8 Break Clauses or Expiries

Financial Year	Number of Breaks or Expiries
2019/20	0
2020/21	0
2021/22	1
2022/23	1
2023/24	1
2024/25	2
2025/26	1
2026/27	0
2027/28	0
2028/29	1
2029/30	0
2030/31	0
2031/32	0
2032/33	3
2033/34	0
2034/35	0
2035/36	1

The Commercial Development Service Manager actively managers this position, by negotiating with tenants by re-gearing leases at the appropriate time, which includes changing the options for break clauses and lease expiry.

Annex 3

Investment Property Acquisition Process

2019-2023

Reviewed: January 2020

Process and Responsibilities for Commercial Property Investment

As a process, the investment portfolio will require work from various services within Ashfield District Council due to the complex nature of property selection, evaluation and acquisition. Adhering to this process will minimise risk and ensure adherence to Statute and the Prudential Code.

This document should be read alongside the Investment Property Acquisition process map found at the end of this document.

Stage 1 – Identification Stage

Stage 1 may be repeated several times in identifying suitable properties for purchase. The steps required help to ensure that only suitable properties are brought forward as potential investments. The due diligence undertaken here includes, and is not limited to, the tenant covenant, location, the overall market, assessment of risks and the details within the lease.

Step	Element	Document(s) Involved	Responsibility
1	**Opportunity identified** - This can be either by way of direct research by ADC employees or by outside approach from agents. Once a property is identified, an initial financial investment model is produced to determine if the minimum income target can be met.	• Property Brochure	Service Manager – Commercial Development
2	**Min NIY possible?** - The initial financial appraisal outlines the yield that would be obtained with the target of achieving at least 2.5% net initial yield (NIY). All evaluation is done on the basis of external borrowing from the PWLB at the rates current on the given day.	• Financial appraisal	Service Manager – Commercial Development
3	**Collate available documents and send to finance and legal –** Title(s) and Lease(s) may not be available in the first instance for every opportunity.	• Brochure • Financial appraisal • Dunn and Bradstreet reports • Titles and Leases	Service Manager – Commercial Development
4a	**Preliminary Finance due diligence –** Finance will examine the appraisal and credit reports to determine if there is any reason not to proceed; these reasons will be documented and circulated.	• Record of issues (email or otherwise)	Corporate Finance Manager
4b	**Preliminary Legal due diligence –** Legal will examine the available documents (and undertake their own research) to determine if there is any reason not to proceed; these reasons will be documented and circulated.	• Record of issues (email or otherwise)	Director of Legal and Governance
5	**Inspect Property** – Officers will undertake a visual inspection of the property and surrounding area. This inspection informs the	N/A	Service Manager –

	creation of the Briefing note and the Evaluation Matrix.		Commercial Development
6	**Appraise property against matrix and write briefing note –** Taking feedback received from Legal and Finance in conjunction with other sources, the Briefing note and risk assessment are completed and the Evaluation matrix is completed. These documents encapsulate the meaningful aspects of the work thus far and are prepared in order to submit the property for consideration by the Leader / Deputy Leader.	• Briefing note • Evaluation Matrix	Service Manager – Commercial Development
7	**Meet with leadership to present and obtain authority to make and offer –** a meeting will held to table the property as an option and discuss the findings of work to date. Normal attendees (at a minimum) are The Chief Executive Officer, the Service Manager – Commercial Development, the Corporate Finance Manager, and Director of Legal and Governance. After the meeting, and if agreed, the Leader will formally cascade approval to offer on the property. A maximum offer is approved after discussion; although opening offers are always placed below.	• Authority to bid	Service Manager – Commercial Development
8	**Place offer** – After receiving approval, offer letters are drafted, approved and submitted to the vendor's agent. The offer letter contains ADC's offer and terms , such as: • The proposed time for signed Executive Decision Records, surveys, completion • Conditions to be included in the Heads of Terms (HoT), such as receipt of a full legal pack before the process starts. • Exclusivity from agreed HoT. An accepted offer is notified normally by telephone and is followed by receipt of an email with Draft HoT attached.	• Offer letter	Service Manager – Commercial Development

Stage 2- Conveyancing Stage

This stage begins once a bid has been accepted for an investment property. The ongoing due diligence in the first stage would also be brought forward to mitigate risks. Further analysis of the tenant, the building, the lease etc, are evaluated to ensure risk is mitigated.

Step	Action	Document(s) Involved	Responsibility
9	**Agree the Heads of Terms** – After reviewing the received Draft Heads of Terms and making any required amendments, the revised Heads of Terms are returned to the vendor's agent. This process will repeat until both parties are satisfied that the Heads of Terms reflect the agreed position, at which point they are formally approved by both sides. These will then be sent to the Service Manager – Commercial Development and the Director of Legal and Governance.		Service Manager – Commercial Development
10	**Make contact with Vendor's solicitors; receive and verify Legal pack** – Once received by Legal, the appointed solicitor will make contact with the Vendor's solicitor via email or phone to indicate that they are representing ADC in the transaction. ADC Legal will provide the necessary details for receipt of the legal pack; upon receiving the Legal pack, the ADC's solicitor will verify its contents and raise any queries with the other side's solicitor whilst awaiting instructions from the Commercial Property team following a signed Executive Decision Record from the Leader.		Director of Legal and Governance
11a	**Instruct surveys (external) –** After agreeing Heads of Terms, quotes will be sought for conducting building surveys of the property in question. Generally, the property brochure provided at the beginning of the process is provided to at least three Survey firms, with the deadline by which inspections and reports must be completed and received by ADC (this element of the process has a 10 working day time limit from the date of Agreed Heads of Terms being received). Quotes are generally received within 24 hrs and the quote that represents best value for money (taking price, quality and time into account) is selected.		Service Manager – Commercial Development
11b	**Write Urgency Notice/ Report for the Executive Decision Record–** An urgency notice is required for these transactions which must be signed by the Chair of the Scrutiny Committee. The Leader, or delegated person, is obligated to contact the Chair to explain the details of the transaction prior to gaining a		Service Manager – Commercial Development

	signature. An urgency notice is required due to the Decision being Key and the constrained timeframe for the process to be completed. The Report for the Executive Decision Record is the briefing note written earlier with the addition of Recommendations, Implications, Reasons for Urgency, and Exemptions, as per the standard ADC report format. Once a draft is produced by the Service Manager, it is circulated to Legal and Finance for review/amends until it is finally complete and approved by all parties. Then the Leader, Chief Exec and the Service Manager will meet to review the report and answer any remaining questions. Once the Leader is satisfied, the EDR is signed by the Leader and forwarded to Democratic Services, along with the report. A copy of both should also be supplied to Legal for the case file.		
12a	**Notify other side of the EDR** – Once the EDR is signed, an email should be sent to the other side's solicitor noting that the EDR has been signed, meaning that the purchase is officially approved.		Director of Legal and Governance
12b	**Instruct legal** – The Estates Manager will complete the official instructions for Legal to undertake the conveyancing process.		Service Manager – Commercial Development
13	**Conveyancing process** – The conveyancing process is distinctly different for every property purchase, given the unique circumstances that each purchase presents, though each has common activities, i.e. examining titles, searches and queries, contract/Lease examination and amendment, etc.		Director of Legal and Governance
14	**Determine level of borrowing and source / Option to tax (if applicable) –** Finance will determine the level of borrowing need for the purchase as well as whether this should be internal or external borrowing. Finance work closely with their Treasury Management Advisers. They will seek advice to determine whether it is preferable to externally borrow now and risk the cost of carry i.e. interest payable being greater than the interest payable or whether it is best to borrow internally of temporarily if affordable. If the property is being sold as a Transfer of a Going Concern (TOGC), finance will complete a		Corporate Finance Manager

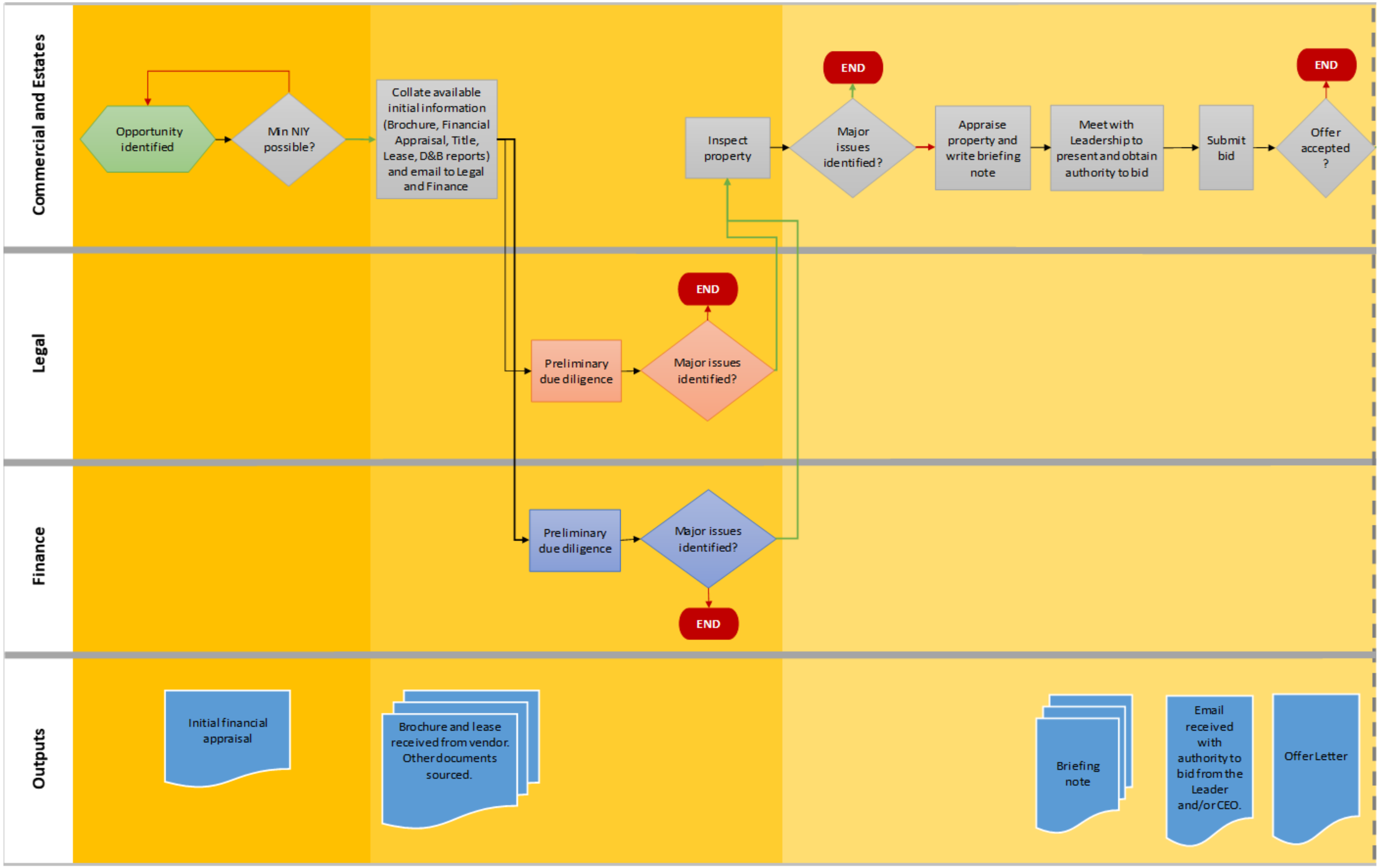
	form to Opt to Tax the property (VAT 1614A). When granted by HMRC, VAT must be paid and passed to HMRC on rents, but VAT will not apply on the purchase of the property. If for whatever reason the purchase does not complete then this can be rescinded by simply informing the HMRC.		
15	**Arrange Insurance –** Once the Surveys have been returned, the values provided therein by the Surveyor will be passed to Finance to arrange appropriate insurance cover for the property, with the date of commencement to be the completion date.		Corporate Finance Manager
16	**Secure funds –** Having previously determined the source of funding, Finance will take steps to secure the funds in anticipation of making payment.		Corporate Finance Manager
17	**Transfer payment** – Once Legal is satisfied that completion can occur, the solicitor will notify Finance that the money can be transferred. Funds will be transferred <u>no later than 1700hrs on the day prior to completion.</u> Failure to meet this deadline risks incurring additional costs in penalties as noted in the sale contract.		Corporate Finance Manager
18	**Complete –** At the agreed date/time, ADC's solicitor and the Vendor's Solicitor will carry out the completion process.		Director of Legal and Governance

Stage 3- Post-completion Stage

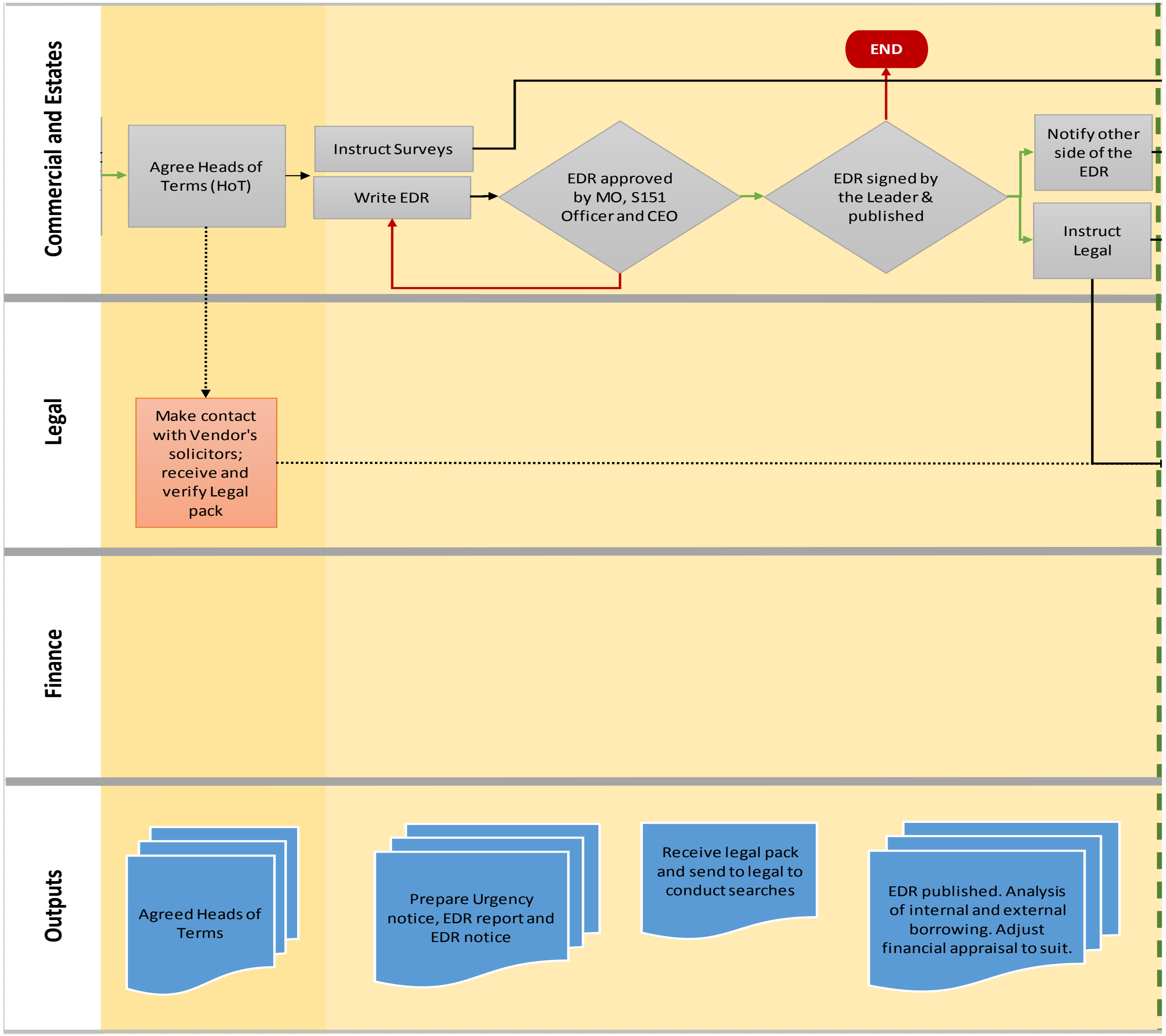
After completion, work remains to complete the entire process before day-to-day management begins.

Stage	Action	Document(s) Involved	Responsibility
19	**Post completion**		Director of Legal and Governance
20	**Authorise Stamp Duty payment to HMRC**		Service Manager – Commercial Development
21	**Update Budget –** The budget will be updated at the next available opportunity to include the expected Rental Income, Minimum Revenue Provision and Interest Payable, if applicable.		Corporate Finance Manager

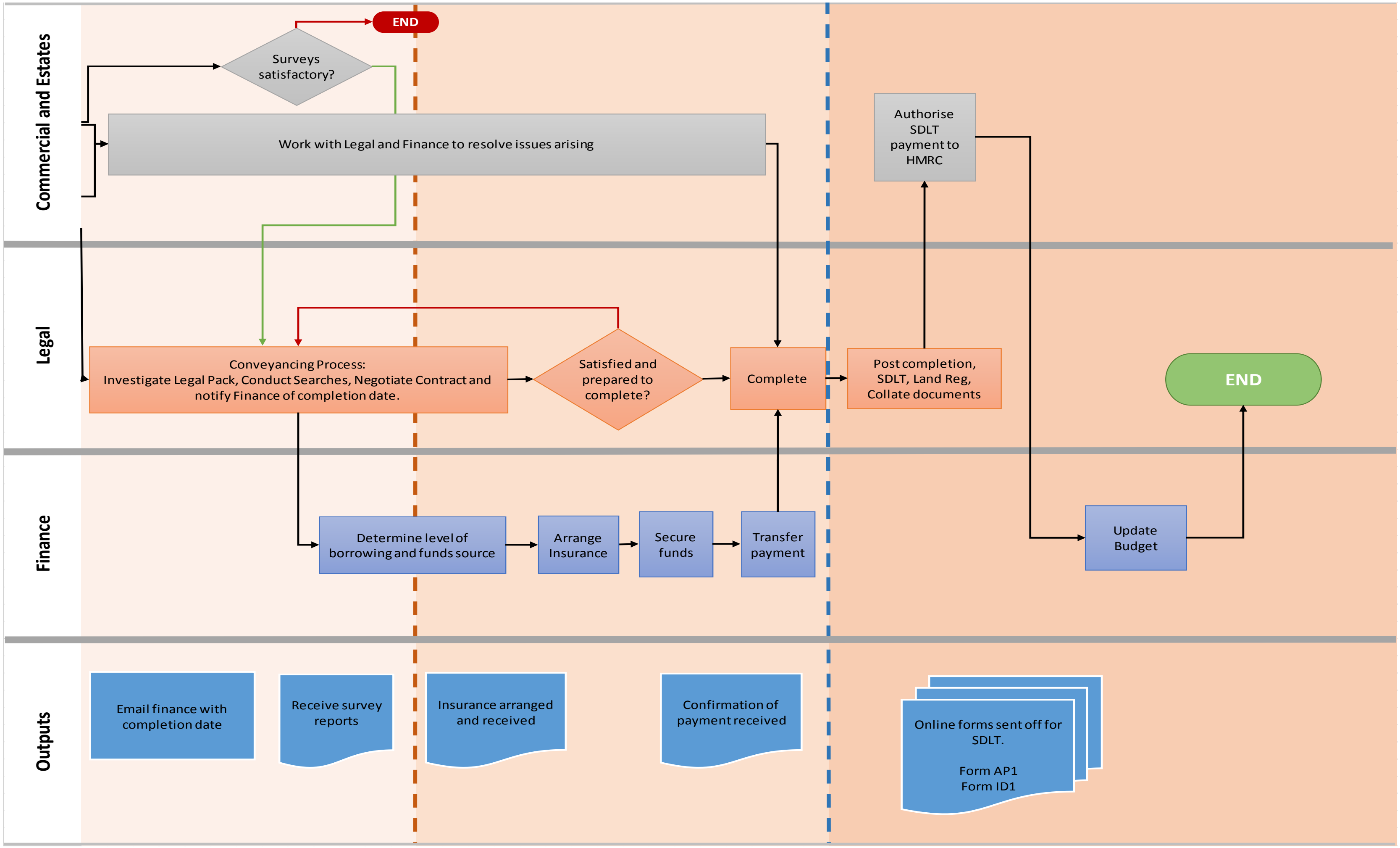
<u>Investment Property Acquisition Process Map</u> - Stage 1: Identification & Bid



Investment Property Acquisition Process Map - Stage 2:EDR and Instructions (Time Limited – 5 working days)



Investment Property Acquisition Process Map - Stage 3: Due Diligence, Completion and Post-completion (Time limited – 15 working days)



Ashfield
DISTRICT COUNCIL

Report To:	**CABINET**	**Date:**	**24th FEBRUARY 2020**
Heading:	**APPROVAL TO CONSULT ON THE DRAFT KIRKBY TOWN CENTRE SPATIAL MASTERPLAN**		
Portfolio Holder:	**CLLR M. RELF – PORTFOLIO HOLDER FOR PLACE, PLANNING AND REGENERATION**		
Ward/s:	**ABBEY HILL, KINGSWAY, KIRKBY CROSS & PORTLAND, LARWOOD, SUMMIT**		
Key Decision:	**NO**		
Subject to Call-In:	**YES**		

Purpose of Report

To seek approval to undertake a public and stakeholder consultation on the Draft Kirkby Town Centre Spatial Masterplan for 3 weeks commencing Monday 2nd March 2020.

Recommendation(s)

That Cabinet:

1) Approve the undertaking of a public and stakeholder consultation on the Draft Kirkby Town Centre Spatial Masterplan for a period of 3 weeks during March 2020.
2) Approve the Kirkby Town Centre Spatial Masterplan in principle subject to delegated authority being granted to the Director of Place and Communities in consultation with the Portfolio Holder for Place, Planning and Regeneration to make minor amendments to the Masterplan prior to adoption,

Reasons for Recommendation(s)

To enable the Council to carry out public and stakeholder consultation. Consultation will allow the Spatial Masterplan to have the greatest weight in the planning system once formally adopted.

Alternative Options Considered

Not to consult. This option is not recommended as participation with the public and stakeholders will enable valuable feedback. Consequently, the Spatial masterplan will hold more weight as a material planning consideration, and in the detailed formulation of subsequent projects where funding will need to be secured.

Detailed Information

Background

The Spatial Masterplan will replace part of the 2007 Masterplan for Sutton in Ashfield & Kirkby in Ashfield, undertaken by ARUP. A new masterplan for the Sutton Town Centre element of this document was adopted by the District Council in March 2019. The update takes into account recent work including:

- Council Officers – town centre walkabout to undertake a SWOT analysis.
- Council Members/Officer workshop – discussion of issues and opportunities.
- Latham's Consultants – Appraisal of town centre and potential regeneration opportunities.

The new Kirby Town Centre Masterplan aims to provide a framework for future investment and development which maximises the opportunities for Kirkby and capitalises on its existing assets. In particular it:

- Provides a consensus and common understanding of Kirkby Town Centre as a place - its character and identity.
- Establishes a clear Vision for Kirkby Town Centre to guide its development and improvement to 2029.
- Provides clear design principles for subsequent new development/projects with an emphasis on sustainability.
- Identifies sites and buildings where redevelopment and improvements will be encouraged.
- Aims to improve links to and within the Town Centre for pedestrians, cyclists and public transport users.
- Sets out how developments/projects and initiatives could be delivered, who would be involved in delivery, how they might be funded and by what mechanism.
- Provides an evidence base for the emerging Local Plan.

The Masterplan is not inflexible or prescriptive, and it is not intended to provide detailed projects or design solutions. Nor does it represent a commitment to funding by the District Council.

The Draft Kirkby Town Centre Spatial Masterplan can be accessed via the following link. Please note that this is a draft document and is subject to minor additions/amendments prior to consultation - in particular the maps and at Chapter 6.

https://www.ashfield.gov.uk/media/6672/final-2019-draft-kirkby-masterplan-cab-draft.pdf

Consultation and Community Engagement

Whilst there is no statutory requirement for the Council to carry out consultation with the Community and statutory bodies, it is considered to be good practice and will result in greater local support for the Spatial Masterplan.

Public consultation would allow Council Officers to explain and seek opinion on the Spatial Masterplan, and to understand concerns and issues relating to Kirkby Town Centre. The consultation would also allow Officers to explain what the Spatial Masterplan will mean for the Town Centre moving forward.

Following on from the Masterplan workshop with Councillors on the 10th December 2019, consultation and community engagement on the Masterplan proposals will be undertaken by the Forward Planning Team to obtain feedback from local residents, community groups and businesses.

The consultation period will be for a period of **3 weeks during March 2020.**

A copy of the Masterplan and a Consultation poster will be displayed within each ward – using one of the following accessible venues - ADC community centre / community venue / polling station

- Annesley and Kirkby Woodhouse – Acacia Centre
- Kingsway –The Café on Kingsway Park
- Kirkby Cross and Portland – Festival Hall Leisure Centre
- Abbey Hill – venue to be agreed
- Summit – Diamond Centre, Diamond Avenue
- Larwood – venue to be agreed

Officers are aiming to drop in on the following sessions *(subject to the venue's agreement) – need to contact* to *confirm ok* for **1 hour maximum** to ask local residents for their thoughts on the new masterplan and any issues or concerns they have about the town centre.

- **Annesley and Kirkby Woodhouse** – Acacia Centre. Work Club Tuesday 1-3pm
- **Kingsway** – St Thomas's Church
- **Kirkby Cross and Portland** – Festival Hall Leisure Centre – drop in lunchtime session in foyer
- **Abbey Hill** – spend an hour at Abbey Hill Primary and Nursery School with Year 6s for their thoughts on the town centre (or Bracken Hill School to get views of pupils with different abilities)
- **Summit** – Diamond Centre
- **Larwood –** Ashfield School takeover session at the main Council Offices – with Year 7s.

A flyer will be hand delivered to businesses and retailers within the town centre (with assistance from the Town Centre Manager) advising them of the consultation, and where they can give their comments on-line or view hard copies.

Hardcopies of the draft Masterplan will be made available to view during normal working opening hours at the following locations:

- Main District Council Offices at Urban Road, Kirkby-in-Ashfield.
- District Council Offices at Watnall Road, Hucknall, and Brook Street, Sutton in Ashfield.

- Sutton, Huthwaite, Skegby, Kirkby, Selston and Hucknall libraries.

Digital engagement on the Masterplan and an interactive consultation comment form will be made available on the Council website. The Council's social media accounts will also be used to encourage local resident and business engagement via / Twitter / Facebook / Babble and the Council's intranet Message of the Day.

Statement of Community Involvement

The Kirkby Town Centre Masterplan consultation will comply with the Council's Statement of Community Involvement (SCI). The SCI is a public document which sets out the Council's policy and approach to community involvement and public consultation in the preparation of Local Development Documents, including the Local Plan, and when dealing with planning applications.

The current SCI was adopted in October 2019. The Forward Planning Team will ensure that the following individuals / organisations and groups are consulted (by letter or email) as set out by the SCI and its appendices - Consultees - specific bodies/consultees under the Council's Duty to Cooperate

- County Council members
- General Circulation Bodies
- Specific Consultees (Statutory Consultees)
- Kirkby businesses and retailers
- Discover Ashfield Board
- ADC Councillors and ADC Citizens' Panel
- ADC internal officers
- Kirkby College and Kirkby Primary schools
- Community groups where ADC has authorisation for contact

Following public consultation, a report of the responses will be compiled and a further report put to Cabinet with a recommendation whether to adopt the Spatial Masterplan or not.

Implications

Corporate Plan:
This will contribute towards the strategic objectives in the Corporate Plan by developing a town centre masterplan to help:

- Re-invigorate and re-purpose the town centre by bringing empty buildings back into use, enhancing our town teams and diversifying the town centre economy
- Make the most of external funding to improve our town centres
- Use our town centre events, including specialist markets to attract visitors to our town centres

Legal:
There are no Legal implications contained within the Report.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	No financial implications contained within the Report.
General Fund – Capital Programme	No financial implications contained within the Report.
Housing Revenue Account – Revenue Budget	No financial implications contained within the Report.

Housing Revenue Account – Capital Programme	No financial implications contained within the Report.

Risk:

Risk	Mitigation
No known risks	N/A

Human Resources:
There are no Human Resources or diversity / equality implications contained within the report.

Equalities:
The Equality Act 2010 introduced a public sector equality duty and the Masterplan will have a direct impact on equality issues. Consequently, an Equality Impact Assessment has been undertaken, which identified no issues.

Environment/Sustainability
The Kirkby Town Centre Spatial Masterplan will provide the opportunity to enhance and invigorate the town centre, providing an attractive environment in which to shop, visit, live and work. Along with a potential for improved connectivity, this will encourage sustainable travel pattern by providing an offer which appeals to the local catchment population.

Other Implications:
No other implications have been identified

Reason(s) for Urgency
To ensure that the Kirkby Town Centre Spatial Masterplan is consulted on and subsequently adopted to enable the Council to apply for future funding sources, in particular the Towns Fund.

Reason(s) for Exemption
This report is not exempt.

Background Papers

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Agenda Item 9

Ashfield
DISTRICT COUNCIL

Report To:	**CABINET**	**Date:**	**24th FEBRUARY 2020**
Heading:	**THE STATIONS MASTERPLANS**		
Portfolio Holder:	**CLLR M. RELF – PORTFOLIO HOLDER FOR PLACE, PLANNING AND REGENERATION**		
Ward/s:	**SUMMIT WARD**		
Key Decision:	**NO**		
Subject to Call-In:	**YES**		

Purpose of Report

To seek approval to undertake a public and stakeholder consultation for 4 weeks on a draft Maid Marian Line Economic Growth Feasibility Study.

To adopt the final Maid Marian Line Economic Growth Feasibility Study (including stations masterplans) as a basis for future action for linking the Kirkby and Sutton Parkway stations to the proposed HS2 train station at Toton and alternative access to Nottingham, and to capitalise on the economic, social and environmental potential for development and improvement around the station locations.

Recommendation(s)

That Cabinet:

1. Approves the undertaking of a public and stakeholder consultation for 4 weeks on a draft Maid Marian Line Economic Growth Feasibility Study.

2. Approves the Maid Marian Line Economic Growth Feasibility Study in principle subject to delegated authority being granted to make any minor changes to the Study prior to publication to the Director of Place and Communities in consultation with the Portfolio Holder for Place, Planning and Regeneration.

3. Adopts the final Maid Marian Line Economic Growth Feasibility Study (including stations masterplans) as a basis for future action for linking the Kirkby and Sutton Parkway stations to the proposed HS2 train station at Toton, and to capitalise on the economic, social and environmental potential for development and improvement around the station locations.

4. Delegates production of an action plan for the study to the Director of Place and Communities in consultation with the Portfolio Holder for Place, Planning and Regeneration.

Reasons for Recommendation(s)

1. To carry out public and stakeholder consultation. Consultation will allow the Maid Marian Line Economic Growth Feasibility Study to have the greatest weight in the planning system once formally adopted.
2. To provide a spatial and economic framework which will allow the station locations to respond positively to the economic, social and environmental opportunities of the Maid Marian Line.
3. To provide a framework for future private/public investment in the areas around Kirkby and Sutton Parkway Stations.
4. To inform decisions in the emerging Local Plan.

Alternative Options Considered

Not to carry out consultation. This option would reduce the weight of the Maid Marian Line Economic Growth Feasibility Study in the planning process going forward.

Not to adopt the Maid Marian Line Economic Growth Feasibility Study. This option is not recommended as the study is needed to allow the station locations to take advantage of funding and potential transport connectivity opportunities for the economic benefit of Kirkby and Sutton-in-Ashfield.

Detailed Information

Ashfield and Mansfield District Councils jointly commissioned consultancy services from Lichfields and Ryder to understand the economic, social and environmental benefits of linking four existing train stations to the proposed HS2 station at Toton.

The Maid Marian Line proposal is a significant and ambitious part of Ashfield District Council's ambition to improve Ashfield's transport connectivity, providing improved access to UK and European markets and more convenient travel for local residents and businesses. The Council is a key strategic partner in the East Midlands HS2 Strategic Board (an alliance of East Midland Councils) and has worked consistently to promote the District's place and growth priorities that the HS2 line affords. The Maid Marian Line proposal compliments the HS2 proposals, but is not dependant on HS2 proceeding. It is a coherent proposal that can be taken forward on its own merits.

The draft report has identified the following key economic headlines, showing the progress Ashfield has made over the past ten years and how the improvements to the Maid Marian Line, along with associated development opportunities, could bring tangible economic benefits.

- Since 2015, employment in Ashfield has grown by 5.8%, compared to 2.5% in Mansfield and 2.9% across the East Midlands, suggesting that demand for labour in Ashfield has increased quicker over recent years than Mansfield and the wider region.
- In Ashfield, from 2008/09 to 2018/19 retail stock increased by 7,000 sq.m., office space increased by 20,000 sq. in; and industrial space increased by 39,000 sq. m,
- Ashfield has very strong representation in manufacturing and health.
- The 2 km impact corridor for the Maid Marian Line Study which covers Ashfield and Mansfield, is a net importer of 3,713 workers.

- All the stations are within or next to an area that falls within the 20% most deprived nationally. There is potential to positively affect social value of these areas through investment close to the stations and improved transport access for residents.
- It is estimated that the Maid Marian Line upgrade will directly generate between £3.55m and £5.63m each year during the 3 year construction period. Not all of those benefits would be retained within the local area.
- It is estimated that total net additional spending of just over £8 million per annum will be created by new residents of the masterplan developments(that are unlikely to come forward without improvements to the Maid Marian Line) and be retained within the local economy (in addition to £49m generated under the Study Reference Case). It is also estimated that this additional expenditure could support a further 107 Full time equivalent (FTE) jobs in retail, leisure, hospitality, catering and other service sectors, plus a further 682 FTE jobs under the Study Reference Case.
  Fiscal Impacts related to the developments that could come forward as a result of improvements to the Maid Marian Line are estimated as Council Tax Receipts (annual payment) £745,000, Business Rates Payable (gross annual) £379,000, New Homes Bonus (4-year payment) £2.6m.

The purpose of the consultancy was to -
- underpin the business case to link into the HS2 Toton Station via the proposed Maid Marian rail link by identifying sites for development and improvement. The feasibility of the Maid Marian link line itself has already been commissioned and is being undertaken separately by consultants AECOM on behalf of the HS2 Mitigation Group and forms part of a gateway scheme being developed by the HS2 Strategic Board.
- provide improved access to UK and European markets, and to reduce the need to travel by car.
- provide an understanding of how improved frequency and connectivity of public transport can create economic, social and environmental benefits within the four station locations (Kirkby-in-Ashfield, Sutton Parkway, Mansfield and Mansfield Woodhouse).

As part of the consultancy, masterplans were commissioned for each of the four stations and their surrounding areas to show how the potential improvement in and around these transport nodes could be capitalised on to create enhanced places and better connectivity for local residents and businesses.

The masterplans identified where opportunities can be maximised and what improvements (i.e. connectivity, investment, sense of arrival) would be required to ensure these benefits are fully realised.

The masterplans function as standalone documents, to be used in the event of the Maid Marian Line not proceeding, for the benefit of the immediate areas around the stations and their respective towns.

The study links to a suite of other Council documents, including:

- Corporate Plan
- Delivery Plan for Discover Ashfield
- Kirkby Town Centre Masterplan
- Ashfield and Mansfield Plan for Growth

The Maid Marian Line Economic Growth Feasibility Study aims to provide a high-level framework for future investment and development which maximises the opportunities for Kirkby and Sutton Parkway stations and capitalises on existing assets. In particular, it includes:

1. Economic Impact Analysis of the economic, social and environmental benefits for each of the four stations to the proposed HS2 station at Toton. The direct, indirect and induced benefits of the link for each station and the impacts which will be generated at both a strategic and local level have been considered. The findings support our case to HS2 for funding for the conversion of this line for passenger travel.
2. Master planning - review and recommend specific local interventions that could be delivered to each of the train stations and their surrounding areas to support them to maximise the impact of the proposed link up to HS2. The plans consider the sense of arrival at each of the stations, as well as connectivity and land uses within and round the stations. The masterplans identify sites for development around the stations and opportunities for public realm improvements.
3. Provision of an evidence base for the emerging Local Plan.

The Masterplans are not inflexible or prescriptive, and do not represent a commitment to funding by the District Council.

The Masterplan documents can be accessed via the following link:

https://www.ashfield.gov.uk/media/6673/final-stations-masterplan-documents.pdf

Implications

Corporate Plan:

This will contribute towards the strategic objectives in the Corporate Plan by developing the station masterplans.

Legal:

There are no legal implications contained within the report.

Finance: There are no financial implications contained within the report.

Budget Area	Implication
General Fund – Revenue Budget	None
General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	None
Housing Revenue Account – Capital Programme	None

Risk:

Risk	Mitigation
No known risks	N/A

Human Resources:
There are no direct HR implications contained within this report.

Equalities:
The Equality Act 2010 introduced a public sector equality duty and the Masterplan will have a direct impact on equality issues. Consequently, an Equality Impact Assessment has been undertaken, which identified no issues.

Environment / Sustainability
The Maid Marian Line Economic Growth Feasibility Study will promote sustainable travel options and promote the environmental benefits of improving the line for passenger travel.

Other Implications:
No other implications have been identified

Reason(s) for Urgency
Not applicable.

Reason(s) for Exemption

This report is not exempt.

Background Papers

None

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Report To:	**CABINET**	**Date:**	**24th FEBRUARY 2020**
Heading:	**REGENERATION SHARED SERVICE DISSOLUTION**		
Portfolio Holder:	**PORTFOLIO HOLDER- PLACE PLANNING AND REGENERATION**		
Ward/s:	**ALL**		
Key Decision:	**YES**		
Subject to Call-In:	**YES**		

Purpose of Report

To advise Members about the joint intention by both Councils to dissolve the shared regeneration service between Mansfield District Council and Ashfield District Council and seek Cabinet approval to do so.

Historically as the creation of the shared service was formally approved by Cabinet, it is also appropriate that Cabinet formally approve its dissolution.

Recommendation(s)

1) **To formally approve the decision to dissolve the Regeneration Shared Service between Mansfield District Council and Ashfield District Council with effect from 2 April 2020; and**
2) **To authorise the Chief Executive to formally serve written notice on Mansfield District Council in accordance with the Service Level Agreement.**

Reasons for Recommendation(s)

Since 2012 the Council's regeneration service has been delivered by Mansfield District Council on a shared service basis. This report recommends to dissolve the shared service, this will conclude following a period of consultation. The intention is for the service to return in-house and sit solely within each single local authority from 2nd April 2020.

It is important to add that the Council will continue to work very closely with Mansfield DC and other Partners. The decision to end the shared service is because the circumstances within Ashfield and Mansfield are very different to what they were in 2012 and there is an opportunity for the Council to further develop and improve the service.

Alternative Options Considered

To continue with the shared service. This was not considered as the circumstances are now very different to when the shared service was created, meaning that in-house is the most appropriate delivery model for both Councils.

Detailed Information

The Regeneration Shared Service (RSS) began in 2012 following consideration from the Shared Service Partnership Board. Considerations for the shared service at the time were; Resilience of the service, shared knowledge and efficiency savings.

The Service Level Agreement for the RSS was first agreed by Cabinet in March 2012, to deliver a suite of agreed joint priorities for both Ashfield and Mansfield District Councils and to provide economies of scale for both Authorities. This followed the adoption in 2011 of a Joint Economic Masterplan. A further 5 year extension of the SLA was agreed at Cabinet in November 2016.

The decision to end the shared service is because the circumstances within both Councils are very different to what they were in 2012 and there is an opportunity for each Council to further develop and improve the service.

This report is to seek approval to dissolve the RSS covering both Mansfield District Council and Ashfield District Council. The new arrangements will see the Regeneration function sit solely within each single authority from the 2nd April 2020.

Implications

Corporate Plan:
Regeneration is corporate priority, as is the delivery of a key set of projects including: Local plan, town centres, business investment and skills. This Cabinet Report is therefore fully in line with Corporate objectives.

Legal:
Appropriate legal advice has been provided regarding the dissolution of the service and the impact upon existing employees to ensure that the Service Level Agreement and relevant legislation are applied and policies and procedures followed.

The Service Level Agreement (clause 28) enables each Authority to terminate the Agreement at any time with a minimum of 12 months written notice to take effect on 31 March in any given year. However, the dissolution of the service is by mutual agreement between the parties to the service and, as such, the required 12 months notice period is consequently waived by both parties. It is recommended that the Chief Executive formally service written notice on Mansfield District Council following the formal Cabinet decision.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	Bringing the service back in-house and redesigning the service will deliver savings which will be included in the 2020/21 Revenue Budget.
General Fund – Capital Programme	Not applicable

Housing Revenue Account – Revenue Budget	Not applicable
Housing Revenue Account – Capital Programme	Not applicable

Risk:

Risk	Mitigation
	The risks associated with the recommended option relate to the ongoing capacity and resources available to deliver against Council objectives. The revised structure and service performance will be maintained under review to ensure that it delivers against expectations.

Human Resources:
The RSS team are employed by Mansfield District Council under their terms and conditions. Full consultation has been undertaken with affected staff by Mansfield District Council and adhered to appropriate legislation. HR have been fully involved with the dissolution process.

Both Authorities will determine what posts are required and once finalised the new in-house structure will be approved by the Chief Executive Office in accordance with the Scheme of Delegation (Part 3, paragraph 1.2 of the Constitution) and the appropriate recruitment processes will then be undertaken.

Equalities:
There are no equality and diversity impacts from the proposals.

Other Implications:
Not applicable

Reason(s) for Urgency
Not applicable

Reason(s) for Exemption
Not applicable

Background Papers
Cabinet (March 2012): Regeneration Shared Service – Service Level Agreement
Cabinet (November 2016): Regeneration Shared Service – Service Level Agreement

Report Author and Contact Officer

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Report To:	**CABINET**	**Date:**	**24 FEBRUARY 2020**
Heading:	**INTERNAL AUDIT PROVISION BY THE CENTRAL MIDLANDS AUDIT PARTNERSHIP – PARTNERSHIP EXTENSION**		
Portfolio Holder:	**COUNCILLOR DANIEL WILLIAMSON - PORTFOLIO HOLDER FOR CORPORATE COMMUNICATIONS, GOVERNANCE AND CROSS PORTFOLIO SUPPORT**		
Ward/s:	**NOT APPLICABLE**		
Key Decision:	**YES**		
Subject to Call-In:	**YES**		

Purpose of Report

The report seeks to extend the Council's partnership arrangement for Internal Audit services with the Central Midlands Audit Partnership (CMAP) for a further 5 years.

Recommendation(s)

Cabinet is asked to:

1. **Approve the extension of the Council's partnership arrangement for Internal Audit services with the Central Midlands Audit Partnership (CMAP) for a further 5 years;**

2. **Grant delegated authority for the Director of Legal and Governance (Monitoring Officer) to finalise and approve the terms of a revised Partnership Agreement; and**

3. **Grant authority for the Director of Legal and Governance (Monitoring Officer) to finalise, approve and sign an Information Management Agreement between the members of the Partnership.**

Reasons for Recommendation(s)

The Cabinet approved the Council joining CMAP commencing on 1 January 2016 for a term ending on 31 March 2020. The Partnership arrangement has proven to be a successful, resilient, sustainable and cost effective internal audit provision and the recommendation seeks to extend the Partnership for a further 5 years.

The Partnership Agreement requires some minor amendments to bring it up to date and by entering into an Information Management Agreement the Council and the Partnership will ensure compliance with data protection requirements.

Alternative Options Considered
(with reasons why not adopted)

The Cabinet approved joining CMAP in 2016 after an extended period of experiencing difficulties in internal recruitment such that an in-house team was no longer viable; the re-establishment of an in-house team remains unviable. At the time, a variety of options were explored such as shared services, outsourcing contract and other local authority audit consortia; following careful evaluation, the CMAP arrangement was considered to be the most suitable option based on the options available, capacity, resilience, cost and retained control through a partnership arrangement.

The Partnership has proven to be successful and it is therefore not recommended that the Cabinet considers other alternative options. All existing Partners intend, subject to their own approval processes, to extend their membership of CMAP.

Detailed Information

The Role of Internal Audit

The role of internal audit is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

Section 151 of the Local Government Act 1972 requires each authority (through its Responsible Financial Officer) to ensure the proper administration of the organisation's financial affairs. The work of the internal audit function supports the appointed S151 officer in this.

The Accounts and Audit Regulations 2015 set out the requirements for local authorities for internal audit:

> *A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

The Partnership (CMAP)

The Partnership was originally formed in January 2012 when the internal audit teams of Derby City Council and South Derbyshire District Council joined together to provide a single service. The Partnership was formed as a Joint Board under section 101 of the Local Government Act 1972 and Derby City Council was chosen to be the host authority. In April 2013, Derby Homes (Derby City Council's Housing Management Company) joined the Partnership.

At its meeting on 5 November 2015, the Cabinet approved the Council joining CMAP commencing on 1 January 2016 for a term ending on 31 March 2020 (min. CA.46 refers). At this time, CMAP expanded to also include Derbyshire Fire and Rescue and Amber Valley Borough Council in addition to Ashfield District Council.

CMAP is set up as a Public/Public "service delivery vehicle." It relies upon the "Teckal" European Court of Justice Case which established the principle that contracts between public bodies can in certain circumstances be regarded exempt from application of the EU procurement regime. This is because:

- The parent authorities will exercise control in equal rights over the Partnership which is similar to that which it currently exercises over its own departments; and
- The Partnership will continue to carry out the essential part of its activities for/with its parent authorities, (i.e. at least 80% of its function must be for the parent authorities).

CMAP is formally established through a Partnership Agreement which contractually binds the Partners. The governance arrangements for the Partnership are set out as an appendix to the Partnership Agreement. Each Partner has a representative on the Partnership Board who is either the Cabinet Member with responsibility for governance/audit or a representative from their Audit Committee; each Partner organisation has equal voting rights. The Partnership Board sets CMAP's strategy and makes key decisions regarding the governance structure, budgets and assets. It meets once a year for the Annual General Meeting (January/February) which is timed to enable the Board to set the CMAP vision, CMAP objectives and the budget for the financial year.

There is also an Operational Group which consists of a Senior Officer from each Partner organisation and meets at least twice a year (although in practice usually quarterly). The Director of Legal and Governance (Monitoring Officer) represents the Council on the Operational Group. The members of the Operational Group also attend the Board meetings.

CMAP operates in accordance with standards of best practice applicable to Internal Audit (in particular, the Public Sector Internal Audit Standards (PSIAS) which took effect from 1 April 2013 and revised in 2017). CMAP also adheres to its Internal Audit Charter. The Charter is taken to each Partner's Audit Committee (or equivalent) with the annual internal audit plan for approval.

Derby City Council (as Host Authority) provides all support services to the Partnership. CMAP cannot enter into contractual arrangements with any third parties in its own right; all such arrangements must be through the Host Authority.

CMAP Vision, Objectives and Performance

CMAP's Vision (subject to any changes at the next Partnership Board) is:

> *To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.*

CMAP's Objectives (subject to any changes at the next Partnership Board) are to:

- Constantly strive to improve the quality of the services we provide to ensure customer satisfaction.
- Comply with the relevant Standards.
- Be cost effective for each partner organisation.
- Ensure that the partnership is appropriately resourced, suitably experienced, and has the skills to deliver the partnership objectives.
- Maintain ongoing effective relationships with key stakeholders.
- Work in a positive manner alongside partners and clients, supporting them in the effective management of risk and service delivery.
- Seek to add value to each of the organisations we serve by improving their governance, risk management and controls.
- Contribute to the development and maintenance of an effective counter fraud culture

within each organisation.

- Contribute to the development and maintenance of an effective cyber security risk management culture within each organisation.

CMAP's Audit Charter

CMAP has produced an Audit Charter which formally defines the purpose, authority and responsibilities of the Partnership. It has been developed in accordance with Public Sector Internal Audit Standards (PSIAS) and demonstrates that the Partnership is consistent with this Code. The PSIAS came into force to create consistent standards for the practice of internal audit across the public sector and establish the basis for its quality assurance. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The standards are periodically self-assessed. The results of these self-assessments are reported to the Partnership Board and each organisation's Audit Committee. An external assessment is required at least every 5 years. The Partnership Board determines when and how such an external assessment is undertaken. CMAP was subject to an external assessment in 2017. The next external assessment will be required by November 2022 at the latest.

Performance - Balanced Scorecard

To assess the performance and effectiveness of the service provided by CMAP, a balanced scorecard approach has been developed which looks at four different perspectives:

1. **Financial - The following financial aspects of the Partnership are measured:**
    - Cost per Audit Day - The cost per audit day is calculated by taking the net cost of the Partnership divided by the number of productive days. This cost can also be compared with competitive day rates from the external market.
    - Operational Surplus/Deficit - This measure looks at the trading position of the Partnership and determines whether its operations result in a year-end surplus or deficit to carry forward into the following year.

2. **Business Process - The following business processes of the Partnership are measured:**
    - Service Delivery - Plan Completion - This is calculated by determining how complete each audit assignment is, in the revised plan. Each audit assignment is weighted in accordance with the number of days allocated. The target plan completion at the year-end is 90%.
    - Productive Percentage - The number of productive days expressed as a percentage of the overall days available. This measure compares the number of days spent on audit assignments, advice etc. compared with the number of days spent on administrative and managerial tasks.

3. **Customer - The following customer focused measures of the Partnership are produced:**
    - Customer Satisfaction - customer satisfaction questionnaires are issued at the end of the vast majority of CMAP's audit assignments. These surveys elicit the auditee's opinion on the service provided and provide an opportunity for them to pass comment. CMAP aims to achieve an average score of at least 44 out of 55 on all the Customer Satisfaction Surveys returned in the last 12 months.

- Days from Fieldwork Complete to Draft Report Issued - this measure aims to establish the average length of time it takes to produce, review and issue the draft audit report from completing all the fieldwork with the auditee.

4. **Innovation & Growth - The following measures are produced as an indication of the innovation and growth of the Partnership:**
    - Staff Qualifications & Experience - This measure will look at how CMAP has fared against the previous year. This measure will look at qualifications and experience combined. This will provide management with an indication of the direction of travel and give them an opportunity to question any variation from the previous year's performance.
    - Process Improvements - This is a measure of the process and service developments that have been introduced into the Partnership during the year. These are identified in the development objectives found in the Partnership's Business Plan and also in individual officer's personal objectives as part of the Host Authority's "Great Performance Conversation" process.

Partner Contributions & Reserves

The Partnership is responsible for its own budget and reports to the Partnership Board. All Partners make a contribution to the budget of the Partnership which is based on the number of annual audit plan days each Partner requires. Ashfield's contribution in 2019/2020 is £100,293; the 2020/2021 contributions will be agreed at the Partnership Board on 25 February 2020.

The Partnership maintains and manages a revenue reserve that is used to hold annual surpluses and meet any deficits. The reserve policy is to use a risk based approach to ensure that the Partnership builds up sufficient reserves to meet any unforeseen costs and contingencies, without requiring additional funding from each Partner. If a circumstance arises where additional funding is required by the Partnership and there are insufficient reserves to cover it, the additional cost will be shared as per the proportion of the overall contribution made.

Partnership Extension

The operational working relationship with CMAP's officers is excellent, functioning with a true partnership approach. The Audit Manager and Group Auditor meet formally at least monthly with the Director of Legal and Governance to monitor delivery of the Audit Plan and discuss audit work outcomes and recommendations. CMAP Officers are present in the Council Offices, generally on a daily basis. CMAP Officers meet regularly with Council Officers, Corporate Leadership Team and the Chairman of Audit Committee. CMAP provides training to Officers and Members as part of the Partnership offer.

The Partnership arrangement has proven to be a successful, resilient, sustainable and cost effective internal audit provision and it is recommended that the Partnership arrangement is extended for a further 5 years. Amendments are required to the Partnership Agreement to ensure it is up to date, together with the introduction of an Information Management Agreement; it is recommended that finalisation of these formal documents is delegated to the Director of Legal and Governance.

Implications

Corporate Plan:

Corporate governance is part of the overall control framework and contributes to the Council's robust governance arrangements.

Good corporate governance ensures organisations are doing the right things in the correct manner in an open, honest, inclusive and accountable way. Good governance leads to good management, performance and outcomes. It ensures the Council delivers the visions and priorities set out in its Corporate Plan.

The role of internal audit (in this case via CMAP) is to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively.

Legal:

Section 151 of the Local Government Act 1972 requires each authority (through its Responsible Financial Officer) to ensure the proper administration of the organisation's financial affairs. The work of the internal audit function supports the appointed S151 officer in this.

The Accounts and Audit Regulations 2015 set out the requirements for local authorities for internal audit:

> *A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

The Partnership is set up as a Public/Public "service delivery vehicle." It relies upon the "Teckal" European Court of Justice Case which established the principle that contracts between public bodies can in certain circumstances be regarded exempt from application of the EU procurement regime as set out above.

The Partnership is established in exercise of local authority powers under Sections 101, 102, 103, 111 and 113 of the Local Government Act 1972 and Section 20 of the Local Government Act 2000.

CMAP is formally established through a Partnership Agreement which contractually binds the Partners. The governance arrangements for the Partnership are set out as an appendix to the Partnership Agreement. As part of the extension of the Partnership arrangement, the Agreement will be refreshed to ensure it is up to date, in particular with new Data Protection legislation.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	No additional cost implication. Cost of the Internal Audit service provision via CMAP is budgeted annually.
General Fund – Capital Programme	N/A
Housing Revenue Account – Revenue Budget	No additional cost implication. Cost of the Internal Audit service provision via CMAP is budgeted annually.

Housing Revenue Account – Capital Programme	N/A

Risk:

Risk	Mitigation
Failure to extend the Partnership Agreement. The Council would be unable to meet its legal and financial obligations without putting in place alternative internal audit arrangements. As set out in the report, alternative arrangements are not viable or cost effective.	To extend the Partnership arrangement.
Failure to update the formal Partnership Agreement or enter into an Information Management Agreement would put the Council at risk of out of date provisions or failing to comply with new legislation.	To authorise the Director of Legal and Governance to finalise and approve a revised Partnership Agreement and Information Management Agreement.

Human Resources:

CMAP Officers are employed by Derby City Council and are subject to that Council's HR policies and procedures.

Equalities:

There are no equalities implications associated with the recommendation in this report.

Environmental/Sustainability

There are no Environmental/Sustainability implications associated with the recommendation in this report.

Other Implications:

None.

Background Papers

None.

Report Author and Contact Officer

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