

# **MEDIUM TERM FINANCIAL PLAN**

**2020- 2023**

**Liberal Democrat Group**



3. FINANCIAL PLANNING 2020 - 2023

RECOMMENDATIONS OF THE LIBERAL DEMOCRAT GROUP

1. Council notes that there is significant uncertainty around the future level of Government financial support for local authorities, including redistribution of NNDR and New Homes Bonus, and that Council has adopted a prudent approach in assuming a significant reduction in future income from these sources. Council requests officers to (a) monitor announcements from Government in the coming months which may provide greater clarity and certainty; (b) investigate all potential sources of additional income and (c) review staffing levels in all departments to ensure that medium term expenditure is matched with available resources.
2. Council further notes the following achievements, enabling services to be protected without steep increases in its council tax:
  - Cashable efficiency savings averaging over £0.3m per year, sustained over the last fourteen years; and further cashable efficiency gains and additional income planned over the course of the medium term financial plan;
  - Increased income, excluding government grants and council tax, rising from £6.1m in 2013/14 to £9.2m in 2020/21. This includes returns on the investment into property assets of £1m.

3. Council agrees the following actions;

- (a) That the 2019/20 revised revenue budget be approved giving a balance on the general fund at 31 March 2020 of **£4.419m**.
- (b) That the revenue budget for 2020/21 totalling net expenditure of **£12.772m** and the draft revenue estimates for the period 1 April 2020 to 31 March 2023 giving a balance on the general fund at 31 March 2023 of **£2.068m** be approved. **(Appendix 1)**
- (c) That **£2.0m** be considered as a prudent minimum balance for the general fund.
- (e) That the total capital investment programme for 2019/20 of **£15.879m** and the arrangements for funding the programme resulting in an estimated balance of capital resources at 31 March 2019 of **£6.610m** be approved. **(Appendix 2 pages 16 & 17)**
- (f) That the total capital investment programme for 2020/21 of **£9.624m** and the capital strategy for the period 1 April 2020 to 31 March 2023 be approved and notes the capital balances carried forward for future years. **(Appendix 2 pages 16 & 17)**
- (h) That the financial and budgetary risks be approved and their management monitored by the Audit Committee. **(Appendix 3)**
- (i) That the Council notes the position on the reserves **(Appendix 4)** and the Director of Finance's advice on the robustness of the estimates and the adequacy of the financial reserves.

## STATEMENT OF CHIEF FINANCIAL OFFICER

Under Section 25 of the Local Government Act 2003, I have a duty to report on the robustness of the estimates and the adequacy of the financial reserves.

With regard to the robustness of the estimates, I have advised the Council that a minimum prudent revenue balance of £2.0m is appropriate having taken into account the risks identified in the financial planning reports presented to members. The estimates should also avoid unsustainable revenue deficits.

The Liberal Democrat Group's proposals for the Medium Term Financial Plan;

1. allows for an increase of £5 in the district's average council tax charge for 2020/21, and thereafter.
2. uses the assumptions in the Officer base budget presented to the Policy and Resources Committee on 21 January 2020.
3. Includes the additional growth and additional income to those included in the Officer base budget presented to the Policy & Resources Committee on 21 January 2020. (**Appendix 1a**)
4. Asks officers to (a) monitor announcements from Government in the coming months which may provide greater clarity and certainty; (b) investigate all potential sources of additional income and (c) review staffing levels in all departments to ensure that medium term expenditure is matched with available resources (**recommendation 1**)

Under the assumptions used, the estimates have been correctly calculated, and do not significantly vary the level of risk already identified. They result in a revenue deficit of **£1.049m** in 2022/23 and an estimated revenue balance of **£2.068m**. Capital resources are estimated to be of **£2.316m** at 31 March 2023. These reserves are considered to be adequate.

Alison Scott  
Director of Finance (Shared Services)  
25 February 2020

## MEDIUM TERM FINANCIAL PLAN

Funding	2019/20	2019/20	2020/2021	2021/2022	2022/2023
	Original Budget	Revised	Proposed	Draft	Draft
Council Tax Base (No.)	39,092.00	39,092.00	39,212.60	39,408.66	39,605.71
<b>Council Tax Base Increase (%)</b>			<b>0.31</b>	<b>0.50</b>	<b>0.50</b>
Band D Council Tax (£)	173.90	173.90	178.90	183.90	188.90
<b>Council Tax Increase - TRDC (%)</b>	<b>2.96</b>	<b>2.96</b>	<b>2.88</b>	<b>2.79</b>	<b>2.72</b>
Council Tax (£)	(6,798,099)	(6,798,099)	(7,015,134)	(7,247,253)	(7,481,518)
<i>Parish Precepts (£)</i>	<i>(1,962,314)</i>	<i>(1,962,314)</i>	<i>(2,063,812)</i>	<i>(2,105,090)</i>	<i>(2,147,210)</i>
<b>Total Taxation (£)</b>	<b>(8,760,413)</b>	<b>(8,760,413)</b>	<b>(9,078,946)</b>	<b>(9,352,343)</b>	<b>(9,628,728)</b>
Business Rates (£)	(2,932,820)	(2,932,820)	(2,895,000)	(2,495,000)	(2,495,000)
Collection fund deficit	(57,560)	(57,560)	0	0	0
New Homes Bonus Grant	(358,350)	(358,350)	(310,257)	(110,840)	(110,840)
Dividend (£)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
<b>Total Grant Funding (£)</b>	<b>(3,398,730)</b>	<b>(3,398,730)</b>	<b>(3,255,257)</b>	<b>(2,655,840)</b>	<b>(2,655,840)</b>
<b>Total Taxation &amp; Grant Funding (£)</b>	<b>(12,159,143)</b>	<b>(12,159,143)</b>	<b>(12,334,203)</b>	<b>(12,008,183)</b>	<b>(12,284,568)</b>
<b>Financial Statement - Summary</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2020/2021</b>	<b>2021/2022</b>	<b>2022/2023</b>
	<b>Original Budget</b>	<b>Revised</b>	<b>Proposed</b>	<b>Draft</b>	<b>Draft</b>
	£	£	£	£	£
<b>Committee - Net Cost Of Services</b>					
Infrastructure, Housing & Economic Development	1,264,440	1,495,480	1,430,930	1,458,270	1,542,620
Leisure, Environment & Community	4,659,793	4,586,863	4,480,803	4,374,988	4,359,933
Policy & Resources	4,693,112	4,752,492	4,768,093	4,864,151	5,101,711
<b>Further Growth &amp; Savings (Appendix 1a)</b>			<b>168,590</b>	<b>139,060</b>	<b>79,410</b>
<b>Sub-Total</b>	<b>10,617,345</b>	<b>10,834,835</b>	<b>10,848,416</b>	<b>10,836,469</b>	<b>11,083,674</b>
<b>Other</b>					
Parish Precepts	1,962,314	1,962,314	2,063,812	2,105,090	2,147,210
Net Transfer from Reserves	(59,910)	(59,910)	(59,910)	(59,910)	(59,910)
Interest Payable & Borrowing costs	375,308	352,950	450,150	381,220	252,150
Interest Received	(465,200)	(528,510)	(530,634)	(390,011)	(90,000)
<b>Sub-Total</b>	<b>1,812,512</b>	<b>1,726,844</b>	<b>1,923,418</b>	<b>2,036,389</b>	<b>2,249,450</b>
<b>Net Expenditure</b>	<b>12,429,857</b>	<b>12,561,679</b>	<b>12,771,834</b>	<b>12,872,858</b>	<b>13,333,124</b>
<b>Income from Council Tax, Government Grants &amp; Business Rates</b>	<b>(12,159,143)</b>	<b>(12,159,143)</b>	<b>(12,334,203)</b>	<b>(12,008,183)</b>	<b>(12,284,568)</b>
<b>(Surplus)/Deficit</b>	<b>270,714</b>	<b>402,536</b>	<b>437,631</b>	<b>864,675</b>	<b>1,048,556</b>
<b>Movement on General Fund Balance</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2020/2021</b>	<b>2021/2022</b>	<b>2022/2023</b>
	<b>Original Budget</b>	<b>Revised</b>	<b>Proposed</b>	<b>Draft</b>	<b>Draft</b>
	£	£	£	£	£
General Fund Balance Brought Forward at 1 April	(4,085,790)	(4,821,407)	(4,418,871)	(3,981,240)	(3,116,565)
Revenue Budget (Surplus)/Deficit for Year	<b>270,714</b>	<b>402,536</b>	<b>437,631</b>	<b>864,675</b>	<b>1,048,556</b>
<b>General Fund Balance Closing Balance at 31 March</b>	<b>(3,815,076)</b>	<b>(4,418,871)</b>	<b>(3,981,240)</b>	<b>(3,116,565)</b>	<b>(2,068,009)</b>

## GROWTH &amp; SAVINGS

Additional Service Growth & Income to the Officer base budget reported to the Policy and Resources Committee on 21 January 2020	2020/21	2021/22	2022/23
	Proposed Budget	Draft Budget	Draft Budget
	£	£	£
<b>Growth</b>			
Development & Project Manager (Major Projects)	30,000	20,000	20,000
Corporate Climate Change Officer	80,000	80,000	80,000
Oak Processionary Moth and Tree Health	20,000	17,000	17,000
Police Community Support Officers	4,370	4,690	5,040
Lone Worker Devices	12,000	12,000	12,000
Customer Experience Strategy	50,000	50,000	0
Additional new community shopper service	6,220	6,220	6,220
<b>Sub total</b>	<b>202,590</b>	<b>189,910</b>	<b>140,260</b>
<b>Revenue implications of Capital Programme</b>			
Mod.Gov Committee Management System	3,000	10,250	10,250
ASB Casework Management System	0	1,400	1,400
Watersmeet Stage Lighting Replacement	0	(500)	(500)
Property Information System	10,000	10,000	10,000
<b>Sub total</b>	<b>13,000</b>	<b>21,150</b>	<b>21,150</b>
<b>Total Growth</b>	<b>215,590</b>	<b>211,060</b>	<b>161,410</b>
<b>Income/Savings</b>			
Additional Property Income (net)	(25,000)	(50,000)	(60,000)
Garage rents	(22,000)	(22,000)	(22,000)
<b>Total Income/Savings</b>	<b>(47,000)</b>	<b>(72,000)</b>	<b>(82,000)</b>
<b>Total Service Growth &amp; Savings</b>	<b>168,590</b>	<b>139,060</b>	<b>79,410</b>

**CAPITAL STRATEGY 2020 – 2023**

- 1 The capital strategy (the Strategy) is designed to give a clear and concise view of how the council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 2 The framework the government uses to control how much councils can afford to spend on capital investment is known as the Prudential Framework. The objectives of the Prudential Code, which sets out how this framework is to be applied, are to ensure that local authorities' capital investment plans are:
  - affordable, prudent and sustainable;
  - that treasury management decisions are taken in accordance with good professional practice; and
  - that local strategic planning, asset management planning and proper option appraisal are supported.

- 2 This capital strategy sets out how the Council will achieve the objectives set out above.

***Capital Investment Programme - Expenditure***

- 4 Capital Investment is the term used to cover all expenditure by the council that can be classified as capital under legislation and proper accounting practice. This includes expenditure on:
  - property, plant and equipment
  - heritage assets, and
  - investment properties.
- 5 Property plant and equipment includes assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes. They are expected to be used during more than one financial year. Expenditure on the acquisition, creation or enhancement of these assets is capitalised on an accruals basis, provided that the Council is likely to benefit from the future economic benefits or service potential and the cost of the item can be measured reliably. Expenditure on repairs and maintenance is charged to the revenue account when it is incurred.
- 6 Heritage Assets are held with the objective of increasing knowledge, understanding and the appreciation of the Council's history and local area.
- 7 Investment properties are those that are used solely to earn rentals and/or for increases in value. The definition is not met if the property is used in any way for the delivery of services or production of goods or is held for sale.
- 8 Detailed accounting policies in relation to assets and capital expenditure may be found in the annual statement of accounts.
- 9 The 2019/20 programme has decreased from the latest approved budget by due to re-phasing of schemes to 2020/21. Some of the larger schemes that contribute to this consist of the following:
  - Waste Services Depot - £1,000,000
  - Garage Improvements - £130,000

- Three Rivers House Transformation - £244,470
  - Temporary Accommodation - £356,000
- 10 Following the re-phasing, the capital programme for 2019/20 now totals **£15.879 million**. The services capital programme included in MTFP shows schemes totalling **£9.624 million** in 2020/21; **£3.326 million** in 2021/22 and **£2.882 million** in 2022/23.
- 11 The larger capital schemes over the next three financial years include:
- Disabled Facility Grants (£1.586 million)
  - Waste and Recycling Vehicles (£1.900 million)
  - Waste Services Depot – (£1.000 million)
  - Garage Improvements (£0.655 million)
  - Provision of Temporary Accommodation (£1.156 million)
  - Leisure Facility South Oxhey (£1.754 million)
  - Investment in local property opportunity (£2.295 million)
- 12 The Committee should note that for 2020/21 there are proposals for five new schemes. Project Initiation Documents (PIDs) have been prepared and presented to the relevant service Committee at the November/December meetings.
- 13 The proposed new schemes are;
- ASB Casework Management System (£18,750)
  - Watersmeet External Roof Access (£55,750)
  - Watersmeet Stage Lighting Replacement (£112,000)
  - ModGov Committee Management System (£15,000)
  - Property Information System (£50,000)

### ***Capital Investment Programme - Funding***

- 14 The Capital Investment Programme can be funded from the following sources:
- 15 Government Grants & Other Contributions: These are grants for specific purposes which may be available from the Government, e.g. Disabled Facility Grants. The Council can also attract partnership funding from other local authorities and agencies e.g. Local Enterprise Partnership (LEP). The Council has also benefited in the past from other funding such as lottery grants.
- 16 Section 106 Contributions: These are contributions from developers to the public services and amenities required for the development. These have been in part replaced by the Community Infrastructure Levy. Current Section 106 monies are guaranteed. Council has previously agreed to use £1.500 million of the affordable housing s.106 for the provision of additional affordable housing as part of the South Oxhey Initiative (SOI) project.
- 17 Capital Receipts Reserve: Capital receipts are derived when selling assets such as land. The main receipt relates to the arrangements made when the Council sold its housing stock to Thrive Homes Ltd in 2008; the Transfer Agreement included a Right to Buy (RTB) Sharing Agreement whereby the Council is entitled to a share of the post-transfer receipts from RTB sales and a 'VAT Shelter Agreement' whereby the Council benefits from the recovery of VAT on continuing works carried out by Thrive. The current MTFP forecasts that this reserve will be fully utilised to support the capital programme.

- 18 Revenue Contributions: Revenue balances from the General Fund may be used to support capital expenditure.
- 19 Future Capital Expenditure Reserve: The Council has a general reserve which it has put aside for future capital expenditure. It has the ability, should it wish, to re-designate this reserve for revenue use.
- 20 New Homes Bonus Reserve: New Homes Bonus is a grant relating to the number of new homes delivered in a local authority area. There are no government restrictions on whether this is capital or revenue, nor is there any ring-fence imposed. It is anticipated that this form of funding will cease from 2020/21, although this may be compensated for by an increase in business rate baseline funding. However until the implementation of changes to local Government funding in 2021/22, it is prudent to leave the position as it currently stands.
- 21 Borrowing: The Council is allowed to borrow to support its capital expenditure as long as this is prudent, sustainable, and affordable. Presently, the Council has borrowed to support the new leisure centre provision in South Oxhey, and the costs of this are covered in the income received from the leisure contractor. Other than this, it not proposed to borrow to fund 'business as usual' capital expenditure in the medium-term.
- 22 The capital programme includes an assessment of likely available resources to finance capital expenditure and includes assumptions regarding capital receipts, which have been estimated at £1.100 million in 2020/21 and future years.

### ***Future Investment***

- 23 Future Investment Schemes will be assessed on the basis of a full business case which will include full resourcing for the project and an assessment of affordability. Priority areas for future capital investment are:
- Schemes that generate a financial surplus for the Council; and in particular those that increase the supply of housing locally (for example through the joint ventures with Watford Community Housing and Thrive).
  - Schemes that generate revenue budget savings for the Council.
  - Schemes that allow the Council to benefit from future economic regeneration potential within the local area; especially those that attract additional investment into the local area from regional or national agencies.
  - Schemes that provide additional or improved services to the Council's residents, in line with the Council's Strategic Plan.

### ***Treasury Management***

- 24 The Council is required to operate a balanced budget over the medium term which, after allowing for contributions to and from reserves, 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 the requisite liquidity before considering investment return.
- 25 The Treasury Management Policy Statement details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitored by the Audit Committee. The Council's investment strategy's primary objectives are safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The strategy allows the Director of Finance, in consultation with the Lead Member, the delegated authority to approve any variation to the Treasury



Management Strategy during the year which may be brought about by investigating the opportunity to invest for greater than one year and also to invest in other investment instruments i.e Government bonds, Gilts and investment property with a view of maximising the Council's returns without significantly increasing risk.

### ***The Council's Borrowing Need - The Capital Financing Requirement (CFR)***

26 The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR. An increase in the CFR does not necessarily mean that the council will borrow externally to fund the increase. The Council manages its cash balances as a whole and may choose to use internal cash (generated by holding reserves and through timing differences between income and expenditure).

27 The table below shows the estimate of the over the medium term.

	<b>2019/20 Revised</b>	<b>2020/21 Proposed</b>	<b>2021/22 Draft</b>	<b>2022/23 Draft</b>
	£M	£M	£M	£M
Total Proposed Capex	15.9	9.6	3.3	2.9
<u>Capital Financing</u>				
Grants	0.5	0.5	0.5	0.5
Reserves	1.1	2.7	1.1	1.0
Capital Receipts	4.0	0	1.4	1.4
s.106 and CIL	0.4	1.5	0	0
Funding	<b>6.0</b>	<b>4.7</b>	<b>3.0</b>	<b>2.9</b>
Gap	9.9	4.9	0.3	0
Opening CFR	17.1	27.0	32.8	33.1
Closing CFR	27.0	32.8	33.1	33.1

### ***Minimum Revenue Provision (MRP) Strategy and Policy Statement***

28 The Minimum Revenue Provision (MRP) is designed to pay off an element of the capital spend which has not already been financed from existing revenue or capital I resources. The Council is required to make prudent provision, by way of a charge to the revenue account, which means that the repayment of debt is enabled over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

29 The Council is also able to increase the rate it reduces its CFR by undertaking additional voluntary payments (voluntary revenue provision - VRP) in addition to any MRP; this is not currently the Council's policy.

30 Government Regulations require the Council to approve a MRP Statement in advance of each year. The following is the Council's MRP statement:

*For all unsupported borrowing (including PFI and finance leases) the MRP policy will be:*

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3)

*This option provides for a reduction in the borrowing need over the asset's estimated life. Repayments of PFI or Finance Leases are allowable to use as a proxy for the above methods.*

31 The Council's process is to produce for approval by the Director of Finance, in consultation with the Lead Member for Resources, a business case for each scheme intended to be unfunded from other resources. This will clearly show the level of MRP which is proposed to ensure that the repayment of any debt can be made in a period commensurate with the period over which the expenditure provides benefits or makes returns.

32 No MRP provision is made in respect of investments or payments to the joint ventures as such investments are intended to be time-limited and allow for the repayment of debt. For finance leases the council will charge MRP to its General Fund each year dependant on the life of the underlying asset for service assets and over the life of the lease for investment properties.

***Revenue Cost of Borrowing***

33 Where the council decides to borrow to fund capital expenditure the annual cost of borrowing is included within the revenue budget.

***Prudential Indicators***

34 There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

35 The first key control over the treasury activity is a Performance Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and next two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

It should be noted that the two financial investments do not increase net debt as any additional borrowing is offset by the value of the financial investment.

***Treasury Management Indicator - The Operational Boundary***

36 This is the limit beyond which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority's plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes. The Council may need to borrow, this limit represents a contingency should the need arise.

<b>Operational Boundary</b>	<b>2019/20 Revised</b>	<b>2020/21 Proposed</b>	<b>2021/22 Draft</b>	<b>2022/23 Draft</b>
Borrowing	£15m	£18m	£18m	£18m

### **Treasury Management Indicator - The Authorised Limit for External Borrowing**

- 37 This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which external long and short term borrowing is prohibited, and this limit needs to be set or revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (2) of the Local Government Act 2003

<b>Authorised Limit</b>	<b>2019/20 Revised</b>	<b>2020/21 Proposed</b>	<b>2021/22 Draft</b>	<b>2022/23 Draft</b>
Borrowing	£17m	£20m	£20m	£20m

### **Future Investments**

- 38 The Council will continue to seek opportunities to work in partnership with others to promote economic development and the provision of housing within Three Rivers wider economic area. Current partners include Countrywide Properties for the South Oxhey scheme, along with Watford Community Homes and Thrive Homes as the two major local registered social providers.
- 39 The Council has established Three Rivers Commercial Services to allow it to work more closely with providers and exploit future commercial opportunities. The Council currently has two joint ventures with Watford Community Housing, Three Rivers Development LLP and Three Rivers Homes Ltd. The Council is currently in the process of setting up a similar structure with Thrive Homes to allow future joint schemes to be considered.

### **Skills and Knowledge and Professional Advice**

- 40 The Council has a shared service with Watford Borough Council for the provision of the finance function allowing access to a greater range of professional skills than would otherwise be available if each council had a separate team. The council uses external advisers on all major projects.
- 41 The Council contracts with Link Asset Services for the provision of Treasury advice. Link Asset Services provide non-regulated advice on the management of the council's cash flows, investments and borrowings and a markets information service. The Councils VAT advisers are PSTax.

### **4 Risk**

- 42 Financial risks are closely monitored as a separately identifiable part of the corporate risk management framework. The Council's risk appetite is evolving as it becomes involved in a wider range of major property lead investments both within its economic area linked to regeneration and more widely for income generation purposes.
- 43 The Council takes advice from its professional advisers to both identify and mitigate the key risks it faces and ensures that all decisions are made with an understanding of the risks involved.
- 44 The council currently has an income target of £1.0M pa from its commercial investment activities. This is equivalent to 4.2% of its total gross income (excluding housing benefit

reimbursements from central government). The Council does not receive RSG and is entirely dependent upon locally raised taxes and locally generated income to fund services.

- 45 Whilst recognising the importance of generating income to support services, the Council will ensure that its external income is actively managed to safeguard the future financial sustainability of the council. In this respect it will continue to seek to balance income from its commercial investment activities against its overall level of risk and the amount of reserves available to mitigate this risk.
- 46 In assessing the risk of its commercial investments the Council will consider the level of risk inherent in the income stream, the security held, its ability to realise assets or other security should the need arise and the level of income received from commercial investments compared to the total income of the council. This will be continually monitored to allow appropriate mitigation to be put in place should risks increase.

## CAPITAL INVESTMENT PROGRAMME

<b>Leisure, Environment &amp; Community</b>					
<b>Community Safety &amp; Partnership</b>	<b>Original Budget 2019/20 £</b>	<b>Revised 2019/20 £</b>	<b>Proposed 2020/21 £</b>	<b>Draft 2021/22 £</b>	<b>Draft 2022/23 £</b>
Capital Grants & Loans	20,000	10,910	20,000	20,000	20,000
Community CCTV	6,000	32,410	6,000	6,000	6,000
<b>Total</b>	<b>26,000</b>	<b>43,320</b>	<b>26,000</b>	<b>26,000</b>	<b>26,000</b>
<b>Leisure</b>	<b>Original Budget 2019/20 £</b>	<b>Revised 2019/20 £</b>	<b>Proposed 2020/21 £</b>	<b>Draft 2021/22 £</b>	<b>Draft 2022/23 £</b>
Heritage & Tourism Initiative	0	341,517	0	0	0
Countryside Management	10,000	10,000	10,000	10,000	10,000
Watersmeet Refurbishment Toilets	24,100	28,000	0	0	0
Aquadrome	21,000	36,812	21,000	21,000	22,500
Allotments	5,000	10,000	5,000	5,000	5,000
Bury Lake Young Mariners	0	80,008	0	0	0
Scotsbridge-Chess Habitat Rest	0	11,390	0	0	0
South Oxhey Leisure Centre	0	6,890	6,000	0	0
Leisure Facilities Improvement	685,000	58,280	25,000	0	0
Open Space Access Improvements	50,000	93,000	50,000	50,000	50,000
Leavesden Management Plan	0	10,000	0	0	0
Improve Play Area-Future Schemes	0	118,855	50,000	100,000	100,000
New Play Area-Chorleywood	97,420	0	0	0	0
Leavesden CP Play Area	0	119,372	0	0	0
Aquadrome-Whole Life Costing	10,000	27,560	10,000	10,000	11,000
Watersmeet-Whole Life Costing	15,000	13,440	15,000	15,000	20,000
Pavilions-Whole Life Costing	10,000	20,000	10,000	10,000	11,000
Watersmeet - Hot Water pipework replacement	38,000	35,700	0	0	0
Watersmeet - cinema screen replacement	15,000	15,000	0	0	0
Fairway Inn-Whole Life Costing	2,000	2,000	0	0	0
The Swillet - Play area Refurbishment	0	128,540	18,880	0	0
Cassiobridge Play Area Refurbishment	88,340	84,310	4,030	0	0
<b>Total</b>	<b>1,070,860</b>	<b>1,250,674</b>	<b>224,910</b>	<b>221,000</b>	<b>229,500</b>

<b><i>Environmental Services</i></b>	<b>Original Budget 2019/20 £</b>	<b>Revised 2019/20 £</b>	<b>Proposed 2020/21 £</b>	<b>Draft 2021/22 £</b>	<b>Draft 2022/23 £</b>
Waste Plant & Equipment	25,000	25,000	25,000	25,000	25,000
Waste Services Depot	931,200	408,940	1,000,000	0	0
Bulk Domestic Waste	15,000	28,570	20,000	25,000	30,000
Waste & Recycling Vehicles	310,000	459,382	500,000	1,000,000	400,000
Street Furnishings	10,000	10,000	10,000	15,000	15,000
Paladin Bins	25,000	25,000	25,000	30,000	60,000
Cemetery Car Park	0	7,000	0	0	0
Energy Performance Certificate	2,000	4,000	2,000	2,000	2,000
Cemetery-Whole Life Costing	5,000	8,781	5,000	5,000	5,000
Replacement Ground Maintenance Vehicles	323,000	538,443	93,000	40,000	280,000
<b>Total</b>	<b>1,646,200</b>	<b>1,515,116</b>	<b>1,680,000</b>	<b>1,142,000</b>	<b>817,000</b>
<b>Total Leisure, Environment &amp; Community</b>	<b>2,743,060</b>	<b>2,809,110</b>	<b>1,930,910</b>	<b>1,389,000</b>	<b>1,072,500</b>
<b>Infrastructure Housing &amp; Economic Development</b>					
<b><i>Economic Development</i></b>	<b>Original Budget 2019/20 £</b>	<b>Revised 2019/20 £</b>	<b>Proposed 2020/21 £</b>	<b>Draft 2021/22 £</b>	<b>Draft 2022/23 £</b>
Cycle Schemes	25,000	77,177	25,000	25,000	25,000
Disabled Parking Bays	2,500	1,500	2,500	2,500	2,500
Controlled Parking	85,000	184,580	50,000	50,000	50,000
Car Parking Services	0	4,400	0	0	0
Princes Trust-Business Start-up	10,000	10,000	10,000	10,000	10,000
Listed Building Grants	5,000	5,000	5,000	5,000	5,000
South Oxhey Initiative	0	192,791	0	0	0
Parking Bay & Verge Protection	110,000	17,760	254,240	60,000	40,000
Highways Enhancement	110,000	19,260	147,620	50,000	50,000
Bus Shelters	9,000	34,000	9,000	9,000	9,000
Retail Parades	30,000	48,000	135,780	30,000	30,000
Carbon Neutral Council	2,000	4,000	0	0	0
Rickmansworth Work Hub	39,000	0	39,000	0	0
Car Park Restoration	45,000	45,000	10,000	10,000	35,000
Estates, Paths & Roads	20,000	21,881	20,000	20,000	20,000
TRDC Footpaths & Alleyways	20,000	24,000	20,000	20,000	25,000
Integration of Firmstep to uniform Licensing applications	19,000	19,000	0	0	0
<b>Total</b>	<b>531,500</b>	<b>708,349</b>	<b>728,140</b>	<b>291,500</b>	<b>301,500</b>

<i>Housing</i>	<b>Original Budget 2019/20 £</b>	<b>Revised 2019/20 £</b>	<b>Proposed 2020/21 £</b>	<b>Draft 2021/22 £</b>	<b>Draft 2022/23 £</b>
Disabled Facilities Grant	500,000	539,339	500,000	500,000	586,000
Home Repairs Assistance	10,000	10,000	10,000	10,000	10,000
<b>Total</b>	<b>510,000</b>	<b>549,339</b>	<b>510,000</b>	<b>510,000</b>	<b>596,000</b>
<b>Total Infrastructure Housing &amp; Economic Development</b>	<b>1,041,500</b>	<b>1,257,688</b>	<b>1,238,140</b>	<b>801,500</b>	<b>897,500</b>
<b>Policy &amp; Resources</b>					
<i>Resources &amp; Shared Services</i>	<b>Original Budget 2019/20 £</b>	<b>Revised 2019/20 £</b>	<b>Proposed 2020/21 £</b>	<b>Draft 2021/22 £</b>	<b>Draft 2022/23 £</b>
Professional Fees-Internal	226,590	226,590	157,590	157,590	157,590
Election Equipment	6,000	9,000	6,000	6,000	6,000
Members' IT Equipment	15,060	15,060	16,260	16,260	16,260
Installation Solar system TRH	2,500	2,500	0	0	0
ICT-Managed Project Costs	60,000	0	60,000	60,000	60,000
Hardware Replace Prog	40,000	340,587	40,000	40,000	40,000
Garage Improvements	225,000	95,000	355,000	150,000	150,000
ICT Licence Costs	282,000	95,000	100,000	100,000	100,000
Customer Contact Programme	0	66,230	0	0	0
ICT Website Development	0	14,870	0	0	0
ICT Elections	17,000	18,800	17,000	17,000	17,000
ICT Hardware Replacement Prog	45,000	430,500	45,000	45,000	45,000
TRH Whole Life Costing	173,000	188,000	135,000	155,000	170,000
Basing House-Whole Life Costing	2,000	0	6,000	24,000	60,000
Investment Prop-Shops	0	11,900	0	0	0
Business Application Upgrade	227,000	12,500	90,000	90,000	90,000
Three Rivers House Transformation	394,470	150,000	244,470	0	0
<b>Total</b>	<b>1,715,620</b>	<b>1,676,537</b>	<b>1,272,320</b>	<b>860,850</b>	<b>911,850</b>

<b>Major Projects</b>	<b>Original Budget 2019/20 £</b>	<b>Revised 2019/20 £</b>	<b>Proposed 2020/21 £</b>	<b>Draft 2021/22 £</b>	<b>Draft 2022/23 £</b>
Leisure Facility - South Oxhey	7,719,420	6,029,328	1,527,943	226,823	0
South Oxhey Initiative	0	1,986,876	0	0	0
Property Investment Board	0	769,333	0	0	0
Temporary Accommodation	1,404,140	1,350,116	1,156,000	0	0
<b>Total</b>	<b>9,123,560</b>	<b>10,135,653</b>	<b>2,683,943</b>	<b>226,823</b>	<b>0</b>
<b>Total Policy &amp; Resources</b>	<b>10,839,180</b>	<b>11,812,190</b>	<b>3,956,263</b>	<b>1,087,673</b>	<b>911,850</b>
<b>Total Capital Programme</b>	<b>14,623,740</b>	<b>15,878,988</b>	<b>7,125,313</b>	<b>3,278,173</b>	<b>2,881,850</b>
<b><u>Capital Growth Items - PIDS</u></b>	<b>Original Budget 2019/20 £</b>	<b>Revised 2019/20 £</b>	<b>Proposed 2020/21 £</b>	<b>Draft 2021/22 £</b>	<b>Draft 2022/23 £</b>
: ASB Casework Management System			18,750	0	0
: Mod.Gov Committee Management System			15,000	0	0
: Watersmeet External Roof Access			55,750	0	0
: Watersmeet Stage Lighting Replacement			64,000	48,000	0
: Property Information System			50,000	0	0
Investment in local property - income generation opportunity			2,295,000	0	0
<b>Total Growth</b>	<b>0</b>	<b>0</b>	<b>2,498,500</b>	<b>48,000</b>	<b>0</b>
<b>Total Capital Programme</b>	<b>14,623,740</b>	<b>15,878,988</b>	<b>9,623,813</b>	<b>3,326,173</b>	<b>2,881,850</b>



## Funding the capital programme

Capital Programme - Services	2019/20	2019/20	2020/21	2021/22	2022/23
	Original Budget	Revised	Proposed	Draft	Draft
	£	£	£	£	£
<b>Balance Brought Forward</b>					
Govt Grants: Disabled Facility Grants	(192,138)	(239,088)	(421,908)	(421,908)	(421,908)
Other Contributions: Other external Sources			0	0	0
Section 106 Contributions	(2,866,184)	(2,974,426)	(2,637,699)	(1,137,699)	(1,137,699)
Capital Receipts Reserve	(3,433,243)	0	0	(58,630)	0
Future Capital Expenditure Reserve	(2,610,165)	(2,610,155)	(2,610,155)	(2,610,155)	(1,117,435)
New Homes Bonus Reserve	(3)	(4,592,778)	(939,748)	(847,088)	(909,928)
<b>Total Funding Brought Forward</b>	<b>(9,101,733)</b>	<b>(10,416,447)</b>	<b>(6,609,510)</b>	<b>(5,075,480)</b>	<b>(3,586,970)</b>
<b>Generated in the Year</b>					
Govt Grants: Disabled Facility Grants	(250,000)	(722,160)	(500,000)	(500,000)	(500,000)
Other Contributions: Other external Sources	0	0	0	0	0
Section 106 Contributions	0	(52,787)	0	0	0
Capital Receipts Reserve	(1,100,000)	(1,100,000)	(2,500,000)	(1,000,000)	(1,000,000)
Future Capital Expenditure Reserve		0	0	0	0
New Homes Bonus Reserve	(317,680)	(317,680)	(110,840)	(110,840)	(110,840)
<b>Total Generated</b>	<b>(1,667,680)</b>	<b>(2,192,627)</b>	<b>(3,110,840)</b>	<b>(1,610,840)</b>	<b>(1,610,840)</b>
<b>Use of Funding</b>					
Govt Grants: Disabled Facility Grants	250,000	539,340	500,000	500,000	500,000
Other Contributions: Other external Sources	0	0	0	0	0
Section 106 Contributions	0	389,514	1,500,000	0	0
Capital Receipts Reserve	3,255,168	1,100,000	2,441,370	1,058,630	1,000,000
Future Capital Expenditure Reserve	1,677,352	0	0	1,492,720	1,117,435
New Homes Bonus Reserve	317,660	3,970,710	203,500	48,000	264,415
<b>Total Use of Funding</b>	<b>5,500,180</b>	<b>5,999,564</b>	<b>4,644,870</b>	<b>3,099,350</b>	<b>2,881,850</b>
<b>Balance Carried Forward</b>					
Govt Grants: Disabled Facility Grants	(192,138)	(421,908)	(421,908)	(421,908)	(421,908)
Other Contributions: Other external Sources	0	0	0	0	0
Section 106 Contributions	(2,866,184)	(2,637,699)	(1,137,699)	(1,137,699)	(1,137,699)
Capital Receipts Reserve	(1,278,075)	0	(58,630)	0	0
Future Capital Expenditure Reserve	(932,813)	(2,610,155)	(2,610,155)	(1,117,435)	0
New Homes Bonus Reserve	(23)	(939,748)	(847,088)	(909,928)	(756,353)
<b>Total Funding Carried Forward</b>	<b>(5,269,233)</b>	<b>(6,609,510)</b>	<b>(5,075,480)</b>	<b>(3,586,970)</b>	<b>(2,315,960)</b>
<b>South Oxhey Initiative</b>					
Balance Brought Forward	0	0	0	0	0
Generated in the Year (Land Receipts)	(3,332,575)	(3,332,575)	(6,502,792)	(6,502,792)	0
Generated in the Year (LEP Funding)	0	0	0	0	0
Use of Funding (Spend)	0	1,986,876	0	0	0
Borrowing	3,332,575	1,345,699	6,502,792	6,502,792	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>South Oxhey Leisure Facility</b>					
Balance Brought Forward	0	0	0	0	0
Use of Funding (Spend)	7,719,420	6,029,328	1,527,943	226,823	0
Contractor Funded Borrowing	(7,719,420)	(6,029,328)	(1,527,943)	(226,823)	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Property Investment</b>					
Balance Brought Forward	0	0	0	0	0
Generated in the Year	0	0	0	0	0
Use of Funding (Spend)	0	769,333	2,295,000	0	0
Capital Receipt	0	0	0	0	0
Borrowing	0	(769,333)	(2,295,000)	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Temporary Accommodation</b>					
Balance Brought Forward	0	0	0	0	0
Generated in the Year	0	0	0	0	0
Use of Funding (Spend)	1,404,140	1,093,887	1,156,000	0	0
Borrowing	(1,404,140)	(1,093,887)	(1,156,000)	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Expenditure Capital Investment Programme</b>	<b>14,623,740</b>	<b>15,878,988</b>	<b>9,623,813</b>	<b>3,326,173</b>	<b>2,881,850</b>

# Treasury Management Policy

## 2020/21

### 1. Summary

- 1.1. This report sets out the Council's Treasury Management Policy
- 1.2. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: "the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
- 1.3. This report supports the Council's Capital Strategy and provides additional detail on how the Council manages its Treasury Management Activity
- 1.4. The Treasury Management Policy details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitored by the Audit Committee. The Council's investment policy's primary objectives are safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The policy allows the Portfolio Holder, in consultation with the Director of Finance, the delegated authority to approve any variation to the Treasury Management Policy during the year with the objective of maximising the Council's returns without significantly increasing risk.

### 2. Risks

- 2.1. The strategy details the approach taken to management of Treasury Risk. This is principally through ensuring that the main Treasury risks are managed. These risks are:

liquidity risk – that the Council may not have the cash it needs on a day to day basis to pay its bills. This risk is managed through forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board and other organisations, the Council is able to access short term borrowing, usually within 24 hours.

interest rate risk – that the costs and benefits expected do not materialise due to changes in interest rates. This risk is managed through the placing of different types and maturities of investments, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).

exchange rate risk – that losses or gains are made due to fluctuations in the prices of currency. The Council does not engage in any significant non-sterling transactions.

credit and counterparty risk – that the entity holding Council funds is unable to repay them when due. This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited

refinancing risk – that the loans taken by the Council will become due for repayment and need replacing at a time when there is limited finance available or interest rates are significantly higher. The timing of loan maturities is monitored along with interest rate forecasts. Officers ensure that due dates are monitored and seek advice from the Council's advisors about when to raise any finance needed.

legal and regulatory risk – that the Council operates outside its legal powers. This risk is managed through the Council's training and development of Officers involved in Treasury Management, the

independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors.

fraud, error and corruption – that risk that losses will be caused by impropriety or incompetence is managed through the controls in the Council's financial procedures. For example, the segregation of duties between those making investment decisions and those transferring funds

market risk – that the price of investments held fluctuates, principally in secondary markets. The majority of the Council's investments are not traded, but where they are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure.

### **3. Treasury Indicators: Limits to Borrowing Activity**

- 3.1. There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.
- 3.2. The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. The Operational Boundary is a more realistic indicator of the likely position. The difference between the authorised limit and operational boundary for borrowing is that the authorised limit includes a head room for borrowing for future known capital needs now. The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be revised if necessary by members.
- 3.3. These indicators are set out in the Capital Strategy.

### **4. Borrowing Strategy**

- 4.1. The Council's treasury team maintains a cashflow forecast and works its liquidity requirements within this forecast; it may, on rare occasions, be necessary to borrow short-term for cashflow purposes. This will be in the form of short term debt or overdraft facilities and is normally for small amounts for minimum durations. As this is based on need and has a defined repayment period it is not normally included within the limits set above.
- 4.2. 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 (ie: the cost of holding does not outweigh the benefits of early borrowing) and that the Council can ensure the security of such funds. Any associated risks will be approved and reported through the standard reporting method.

### **5. Investment Policy**

- 5.1. The Council's investment policy has regard to the DCLG's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are security first, liquidity second, then yield.
- 5.2. Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules and are detailed at Annex A.
- 5.3. As part of its diversification of investments, the Council has invested some of its core funds (ie: funds not immediately required for cashflow reasons) in longer-term investment property instruments. These are in the form of individual assets directly owned by the council. Although the Council has no current investments or plans to invest in pooled property funds, these are an option that could be considered in the future. All property investments are controlled through the

Property Investment Board (PIB) and each investment is subject to its own business case and appraisal before a decision to invest is taken and before any Council funds are committed.

## **6. Creditworthiness policy**

6.1. The Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in and the 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.
- 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.

6.2. The Director of Finance 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 and will provide an overall pool of counterparties considered high quality.

6.3. Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely

change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

## **7. Counterparty Categories**

7.1. The Council uses the following criteria in choosing the categories of institutions in which to invest:

- **Banks 1 - Good Credit Quality**  
The Council will only use UK banks or foreign banks trading in the UK in sterling denomination and which meet the Rating criteria.
- **Banks 2 – The Council's Own Banker**  
For transactional purposes, if the bank falls below the above criteria, it will be included, although in this case balances will be minimised as far as possible in both monetary size and time within operational constraints.
- **Bank Subsidiary and Treasury Operations**  
The Council will use these where the parent bank has the necessary ratings outlined above and the parent has provided an indemnity guarantee.
- **Building Societies**  
The Council will use all Societies which meet the ratings for banks outlined above.
- **Specific Public Bodies**  
The Council may lend to Public Bodies other than Local Authorities. The criterion for lending to these bodies is that the loan has been approved by Council.
- **Money Market Funds AAA Rated**  
The Council may lend to Money Market Funds in order to spread its investment risk.
- **Local Authorities**  
A limit of £5m per authority will be applied.
- **Debt Management Deposit Account Facility**  
A Government body which accepts local authority deposits.
- **Council Subsidiaries (non-specified)**  
The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.

7.2. For details of Specified and Non-Specified Investments see below.

## **8. Use of Additional Information Other Than Credit Ratings**

8.1. Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria rely 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.

## 9. Time and Monetary Limits Applying to Investments

9.1. The time and monetary limits for institutions on the Council’s Counterparty List summarised in the table below, are driven by the above criteria. These limits will cover both Specified and Non-Specified Investments.

## 10. Exceptional Circumstances

10.1. The criteria for choosing counterparties set out above provide a sound approach to investment in “normal” market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions Director of Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to “normal” conditions. Similarly, the time periods for investments will be restricted.

10.2. Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMO) – a Government body which accepts local authority deposits, money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

## 11. Investment Strategy

11.1. In-House Funds - investments will be made with reference to the core balance and cashflow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

11.2. Investment Treasury Indicator and Limit - total principal funds invested for greater than one year. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Treasury Indicator & Limit	2019/20	2020/21	2021/22	2022/23
Maximum Principal Sums invested for greater than one year (excluding property investment and loans to Council subsidiaries).	£10m	£10m	£10m	£10m

## 12. Investment Risk & Security Benchmarking

12.1. These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report. In line with the Treasury Management Strategy, the Council has managed to invest with those institutions who offered the best rate and the investment portfolio is above the overall benchmark during the year to date.

### *Security*

12.2. Security of the investments is measured by credit ratings, which is supplied by the three main credit rating agencies (Fitch, Moodys and Standard & Poors). Where investments are made to

Council subsidiaries (non-listed), the security is measured through a business case with independent viability assessment.

#### *Liquidity*

12.3. The Council set liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft - nil.
- Liquid short term deposits of at least £5m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 10 years for an individual loan with a public body (excluding loans to institutions the Council has an interest in).

12.4. The Council has the benefit of instant access to its funds on the general account with Lloyds.

#### *Yield*

12.5. The measure of yield on Investments is a return above average bank rate. In accordance with the Code of Practice on Treasury Management this used as a performance indicator. The results of this indicator have been reported in the Treasury Annual Report and the mid-year report.

### **13. Reporting Requirements**

13.1. End of Year Investment Report - the Council will report on its investment activity for the financial year completed as part of its Annual Treasury Management Report after the end of the financial year.

13.2. Mid-year Investment Report – the Council will report on its investment activity for that financial year as part of its Mid-Year Treasury Management Report at the end of September of that financial year.

13.3. Capital Strategy – the Council will produce the Strategy for the next three financial years towards the end of the current financial year.

### **14. Policy on the Use of External Service Providers**

14.1. Link Asset Services are the appointed external advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. 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.

14.2. The Council will also, from time to time, procure specialist advice for ad-hoc pieces of work; this will be procured in accordance with the Council's normal procedure rules.

### **15. Member and Officer Training**

15.1. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by:

- Ensuring that officers attend suitable courses and seminars to keep their technical knowledge up to date;
- Keeping up to date with CIPFA publications on Treasury Management. From December 2017 there are new codes for Capital Finance in Local Authorities and also a new Treasury Management Code;
- Regular briefings both by email and face to face with the Council's Treasury advisors;
- Reports and briefing sessions to Members on major changes to Treasury policies and strategies.

## **Annual Investment Strategy**

The investment policy for the Council is:

Strategy Guidelines – the main strategy guidelines are contained in the body of the Capital Strategy and Treasury Management Policy

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 with:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- A local authority, parish council or community council.
- A body that is considered of a high credit quality (such as a bank or building society) with a minimum short term rating of F-1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies or a Building Society with assets over £1,000m. Non rated Building Societies are non-specified investments.
- Money Market Funds (triple AAA rated only).

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 defined in the Treasury Management Strategy.

The ratings criteria and exposure limits are detailed at Schedule 1.

Non-Specified Investments – 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 (£ or %)
Any bank or building society that has a minimum long term credit rating of A (or equivalent), for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£5m
The Council's own banker if it fails to meet the basic credit criteria.	In this instance balances will be minimised as much as possible
<p>Building Societies not meeting the basic security requirements under the specified investments.</p> <p>The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £5,000m, but will restrict these types of investments to £2m for up to six months.</p>	£2m
<p>Specific Public Bodies</p> <p>The Council can seek Member approval to make loans to other public bodies for periods of more than one year.</p>	£10m
<p>Loans to Council Subsidiaries</p> <p>The Council will lend to its subsidiaries subject to approval of a business case by the Portfolio Holder, in consultation with the Director of Finance. Business cases must be accompanied by an independent assessment of viability, and be subjected to regular monitoring by the Director of Finance.</p>	£10m limit for any single loan
<p>Other unspecified investments</p> <p>The strategy allows the Portfolio Holder, in consultation with the Director of Finance, in consultation with the Lead Member, the delegated authority to approve any variation to the Treasury Management Strategy during the year which may be brought about by investigating the opportunity to invest for greater than one year and also to invest in other investment instruments i.e Government bonds, Gilts and investment property with a view of to maximising the Council's returns without significantly increasing risk. This allows the addition of further unspecified investments, subject to conditions which will be generally similar to (e).</p>	£10m

The Council will also consider investment in property in accordance with its Property Investment Strategy. All property investments will be dependent on a standalone business case being proven.

#### The Monitoring of Investment Counterparties

The credit rating of counterparties is monitored regularly. The main rating agencies (Fitch, Moody's and Standard & Poor's) provide credit ratings for financial institutions. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services Treasury Solutions as and when ratings change, and counterparties are checked promptly. The Council considers minimum short term ratings as key criteria in the choice of creditworthy investment counterparties; F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard & Poor's respectively. Minimum Short Term Ratings, where given, must be met for all categories. 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 Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

For non-specified investments (e.g. e-f above) the progress of the entity against the approved, independently verified business case will be monitored by the Director of Finance.

Institution Type	Max Amount:			£10m	£10m	£10m	£10m	£10m
	Max Length:			10 Years	364 Days	6 Months	3 Months	1 Month
	Minimum Short Term Ratings							
	Fitch	Moody's	S&P					
UK Banks								
The Council's own Bankers	F1m	P-1	A-1	If Council's own bankers fall below the minimum long term criteria for UK banks, cash balances will be managed within operational liquidity constraints and balances will be minimised as much as possible.				
Wholly Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Partially Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating

UK Building Societies								
Either	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Or					Assets over £15,000m	Assets over £5,000m	Assets of £2,500m	Assets of £1,000m
Specific Public Bodies				As approved by Members				
Debt Management Deposit Facility (UK Government)						Unlimited		
Money Market Funds (AAA Rated)								£5m per fund
Municipal Bond Agency				As approved by Members				
UK Local Authorities				The Council can invest in all UK Local Authorities whether rated or not				

Notes:-

1. F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard and Poor's respectively.
2. Minimum Short Term Ratings - Where given, these must be met, for all categories (except RBS Group).
3. Building Societies - A Building Society has to meet either the ratings criteria or the assets criterion to be included in the category, not both.
4. Maximum amount is the maximum, in total, over all investments, with any one institution (with the exception of RBS Group).

FINANCIAL & BUDGETARY RISKS

Date risk added to register	Risk ref	Risk owner	Category	Risk description	Comment	Likelihood score (inherent)	Impact score (inherent)	Inherent risk score	Risk controls	Risk control owners	Likelihood score (residual)	Impact score (residual)	Residual risk score	Risk direction	Action plan	Action plan owners	Action plan completion dates
Sep-15	FIN07	Director of Finance	Strategic	The Medium term financial position worsens.	In that the general fund balance falls below the minimum prudent threshold and capital funding is insufficient to meet the capital programme. This appears as item no.8 in the Council's strategic risk register.	2	4	8	Regular budget monitoring reports to committees; Budgetary and Financial Risk Register reviewed and updated as part of the budget monitoring process; Early identification of budgetary pressure when reviewing the medium term financial plan during the budget setting process; Audited Statement of Accounts, including Annual Governance Statement.	Head of Finance	2	3	6	➔	Ongoing Monitoring. Period 8 monitoring shows a projected underspend for the year.	Heads of Service/ Head of Finance	Continuous
Apr-06	FIN08	Director of Finance	Budgetary	Revenue balances insufficient to meet estimate pay award increases	The Council's 3 year Medium term Financial Strategy includes forecast pay awards for the next three years. Unions have submitted a payclaim in excess of this amount.	3	3	9	Pay award includes 3% from 2020/21. Maintain reserves to guard against risk. Early identification of new pressures. Budget Monitoring	Head of Finance	3	2	6	➔	Ongoing Monitoring. Period 8 monitoring shows a projected underspend for the year.	Head of Finance	Dec-19
Apr-06	FIN09	Director of Finance	Budgetary	Revenue balances insufficient to meet other inflationary increases	Other than contractual agreements, budgets have been cash limited where possible.	2	3	6	Inflation projections are included in MTFS. Actively manage budgets to contain inflation. Maintain reserves .	Service Heads/Head of Finance	3	1	3	➔	MTFS to review inflation assumptions in Sept 2020	Head of Finance	Dec-19

Jan-15	FIN10	Director of Finance	Budgetary	Interest rates resulting in significant variations in estimated interest income	The interest rate has a significant impact on the proceeds from capital receipts that are invested in the money market. The volatility of the global economy continues to place uncertainty on the investment strategy. The PIB strategy has diversified investment income to provide a more certain rate of return.	2	3	6	PIB strategy has diversified interest rate risk to provide income security.	PIB/Head of Finance	2	1	2	➔	Monitoring ongoing income levels	PIB	ongoing
Apr-06	FIN11	Director of Finance	Budgetary	Inaccurate estimates of fees and charges income	Key Income Indicators are shown in the Budget Monitoring report. Green Waste and Parking charges regularly monitored by Senior Management Team	3	2	6	Budget levels realistically set and closely scrutinised	Service Heads/Head of Finance	2	2	4	➔	Fees and Charges are monitored as part of budget monitoring. Reviews are ongoing to establish full cost recovery.	Service Heads	ongoing
Apr-06	FIN12	Director of Finance	Budgetary	Revenue balances insufficient to meet loss of partial exemption for VAT	If the council's expenditure on functions for which it receives income that is exempt for VAT purposes exceeds 5% of its total vatable expenditure, then the Council may lose its ability to recover VAT on all of its exempt inputs. This is mitigated by close monitoring of exempt supplies and prudent VAT planning. The Council elects to tax on development schemes.	2	4	8	VAT Planning and opt to tax on schemes. VAT advisers employed.	Head of Finance	1	4	4	➔	Partial Exemption Review commissioned. Continue to opt to tax.	Head of Finance	ongoing

Dec-13	FIN13	Director of Finance	Budgetary	The estimated cost reductions and additional income gains are not achieved	Savings identified and included in the budget will be monitored as part of the budget monitoring process.	2	3	6	Service Heads to take responsibility for achieving savings. Budget monitoring to highlight any issues to allow corrective action to be taken.	Service Heads/Head of Finance	2	2	4	➔	Budget process identifies savings to be achieved and ensure clarity over responsibility over delivery. Savings to be challenged.	Head of Finance	ongoing
Apr-06	FIN14	Director of Finance	Budgetary	The Council is faced with potential litigation and other employment related risks	The Council has no outstanding litigation cases.	2	3	6	Council procedures are adhered to	Solicitor to the Council	1	3	3	➔	Adherence to council procedures to be monitored and proceedings maintained.	Solicitor to the Council	ongoing
Dec-13	FIN18	Director of Finance	Budgetary	Fluctuations in Business Rates Retention	From April 2020 the system was due to be subject to reset and increase to 75% retention. This has been postponed to 2021/22 at the earliest.	2	4	8	Membership of the Hertfordshire Pilot for 75% retention for 2019/20. Maintain reserves against risk.	Head of Finance	2	3	6	➔	Monitor activity on the project and central government announcements.	Head of Finance	Mar-21
Mar-16	FIN19	Head of Property Services	Budgetary	Failure to deliver the South Oxhey Initiative to desired outcomes and objectives	This is a key project. This appears as item no.7 in the Council's strategic risk register. Phase 1 delivered. Enhanced next phase agreed.	2	3	6	Project management team appointed to advise Council; Project management processes in place and reviewed regularly; Policy and Resources Committee receive regular reports on progress of project	Head of Property Services	2	2	4	➔	Continue to manage project	Head of Property	ongoing



Jul-16	FIN20	Director of Finance	Budgetary	Failure of ICT systems	The Council's integrated Financial Management System (FMS) is held on an ICT platform. If this were to fail then potentially there will be a loss of functionality occurring during any downtime	3	2	6	System migrated to latest version. Payments system to be updated.	Head of Finance	2	2	4	→	Monitor reliability	Head of Finance	ongoing
Mar-18	FIN21	Director of Finance	Budgetary	Property Investment	The Council set up a Property Investment Board in 2017 to manage its property portfolio in order to secure additional income of £1 million to support its general fund. Risk moving forward relates to ongoing income.	2	3	6	Portfolio to be actively managed to maintain income levels. Income to be reviewed regularly when MTFS is updated.	Head of Property Services	1	3	3	→	PIB to assume responsibility for ongoing oversight.	Head of Property Services	Continuous

## RESERVE BALANCES

Name of Reserve	Purpose of Reserve	Balance at	2019/20	Balance at	2020/21	Balance at	2021/22	Balance at	2022/23	Balance at
		At 1 April	Estimated Movement	At 31 March	Estimated Movement	At 31 March	Estimated Movement	At 31 March	Estimated Movement	At 31 March
<u>Capital</u>		£000	£000	£000	£000	£000	£000	£000	£000	£000
Government Grants and Other Contributions	Disabled Facility Grants and other contributions	(239)	(183)	(422)	(0)	(422)	0	(422)	0	(422)
Section 106 Contributions	Developers contributions towards local facilities	(2,974)	337	(2,638)	1,500	(1,138)	0	(1,138)	0	(1,138)
Capital Receipts Reserve	Generated from sale of Council assets	0	0	0	(59)	(59)	59	0	1,872	0
Future Capital Expenditure Reserve	Reserve set aside for supporting capital expenditure	(2,610)	0	(2,610)	0	(2,610)	1,493	(1,117)	0	0
New Homes Bonus Reserve	Government grant set aside for supporting capital expenditure	(4,593)	3,653	(940)	93	(847)	(63)	(910)	(111)	(756)
	<b>Total</b>	<b>(10,416)</b>	<b>3,807</b>	<b>(6,610)</b>	<b>1,534</b>	<b>(5,076)</b>	<b>1,489</b>	<b>(3,587)</b>	<b>1,761</b>	<b>(2,316)</b>
<u>Revenue</u>										
General Fund Balance	Working balance to support the Council's revenue services. £2M is a suggested prudent minimum	(4,821)	403	(4,419)	438	(3,981)	864	(3,117)	1,049	(2,068)
Economic Impact	To support the funding of unexpected/unplanned Council expenditure as a result of fluctuations in the economy.	(2,100)	0	(2,100)	0	(2,100)	0	(2,100)	0	(2,100)
Building Control	To provide against future losses and/or borrowing against Hertfordshire Building Control Ltd	(150)	0	(150)	0	(150)	0	(150)	0	(150)
Housing Benefit Equalisation	To provide against future deficits on the Housing Benefit account	(234)	0	(234)	0	(234)	0	(234)	0	(234)
	<b>Total</b>	<b>(7,305)</b>	<b>403</b>	<b>(6,903)</b>	<b>438</b>	<b>(6,465)</b>	<b>864</b>	<b>(5,601)</b>	<b>1,049</b>	<b>(4,552)</b>
<u>Other</u>										
Environmental Maintenance Plant	Reserve to fund expenditure on plant & machinery	(123)	0	(123)	0	(123)	0	(123)	0	(123)
Leavesden Hospital Open Space	To maintain open space on the ex hospital site	(769)	0	(769)	0	(769)	0	(769)	0	(769)
Abbots Langley - Horsefield	Developers contributions towards maintenance of site	(1,275)	0	(1,275)	0	(1,275)	0	(1,275)	0	(1,275)
Community Infrastructure Levy (CIL)	Developers contributions towards Infrastructure	(3,324)	(747)	(4,072)	(500)	(4,572)	(500)	(5,072)	(500)	(5,572)
	<b>Total</b>	<b>(5,492)</b>	<b>(747)</b>	<b>(6,240)</b>	<b>(500)</b>	<b>(6,740)</b>	<b>(500)</b>	<b>(7,240)</b>	<b>(500)</b>	<b>(7,740)</b>
	<b>Total</b>	<b>(23,214)</b>	<b>3,462</b>	<b>(19,752)</b>	<b>1,472</b>	<b>(18,280)</b>	<b>1,853</b>	<b>(16,427)</b>	<b>2,310</b>	<b>(14,607)</b>