



Fair Oak & Horton Heath Parish Council

2 Knowle Park Lane, Fair Oak, Eastleigh, SO50 7GL

Telephone: (023) 8069 2403 email: enquiries@fairoak-pc.gov.uk

SUMMONS

Dear Member

5 July 2019

You are hereby summoned to attend a meeting of FINANCE & STAFFING COMMITTEE at the Parish Offices, 2 Knowle Park Lane, Fair Oak on **Thursday, 11 July 2019 at 7.00 p.m.** *or at the conclusion of the public participation period.

Melanie Stephens

Melanie Stephens
Clerk

PUBLIC PARTICIPATION:

*If required, the meeting will be preceded by a public participation period of up to 15 minutes, where members of the public are entitled to address the Committee on issues relevant to the business of the Parish Council.

AGENDA

APOLOGIES

1 ELECTION OF CHAIRMAN

To elect a Chairman of the Committee for the forthcoming municipal year.

2 APPOINTMENT OF VICE-CHAIRMAN

To appoint a Vice-Chairman of the Committee for the forthcoming municipal year.

3 DECLARATIONS OF INTEREST

To note any declarations of interest made by members in connection with an agenda item. The nature of the interest must also be specified.

4 FINANCE COMMITTEE MINUTES (PAPER A, PAGES 3-7)

To note the minutes of the meeting held on 4 March 2019.

5 QUARTERLY FINANCIAL MONITORING REPORT (REPORT B, PAGES 8-18)

To note the finance position of the Parish Council and to agree the recommendations as set out in the report.

6 INTERNAL AUDIT (REPORT C, PAGES 19-21)

To consider the report of the Internal Auditor and to approve the appointment of the Internal Auditor for the financial year 2018/19.

7 FINANCIAL RISK ASSESSMENT (REPORT D, PAGES 22-28)

To approve the review of the Council's Financial Risk Assessment.

8 INVESTMENT STRATEGY 2019-2020 (REPORT E, PAGES 29-47)

To recommend to the Council that the Investment Strategy 2019-2020 be approved.

9 WORK PROGRAMME (REPORT F, PAGES 48-49)

To consider the Committee' work programme and make changes as necessary.

To: Committee Members

Cllr P Barrett
Cllr N Couldrey
Cllr H Douglas
Cllr T Higby
Cllr M Jermy
Cllr H McGuinness
Cllr P Spearey
Cllr B Tennent

Officers

Mrs J Cahill (RFO)
Ms M Stephens (Clerk)

**Minutes of the Finance & Staffing Committee Meeting
held on Monday 4 March 2019 at 7.00 pm
at 2 Knowle Park Lane, Fair Oak**

Present: Douglas (Chairman), Goss, McGuinness, Noel & Spearey

Also in attendance: Cllr Bird

Officers in Attendance: Ms M Stephens, Clerk & Mrs J Cahill, Responsible Finance Officer (RFO)

Apologies: Cllr Barrett

There were no members of public present.

26 DECLARATIONS OF INTEREST

Cllr Douglas in Minute No. 30.

27 MINUTES

RESOLVED:

That the minutes of the Finance & Staffing Committee meeting held on 3 December 2018 (approved by the Full Council on 18 February 2019) be noted.

28 REPORT OF THE RESPONSIBLE FINANCE OFFICER (REPORT B)

The Committee considered the report of the Responsible Finance Officer (RFO) which showed the Council's budget position as at 4 March 2019.

The RFO highlighted key variances in the budget, including: -

- There had been a significant overspend in the legal and professional fees budget, this was largely due to transfer of open space, Horton Heath Community Centre and the scout lease. The budget for next year had been increased to safeguard against this.
- The business rates budget lines for Horton Heath Community Centre, Woodland Community Centre and the Parish Office were also overspent as the cost of this had been grossly under-estimated. The correct sum for business rates owed on these properties for next year had been reflected in the forthcoming budget.
- The utility fees (gas & electric) for the Woodland Community Centre had also been under-estimated resulting in a significant overspend. The Council would be unable to give an accurate estimate of the cost of this until after a full year of occupation. However, the budget for this had been increased and based on quarterly estimates so far. Members were informed that Eastleigh Borough Council's Energy Officer had undertaken a site visit at the Centre and would advise on how energy costs could be reduced.

The RFO pointed out that whilst some budget codes had been overspent, with underspends in other budget lines, and with only one month before the year end, the Council would be in a healthy budget position.

RESOLVED:

That the report be noted and that the RFO be thanked for her due diligence and hard work.

29 ALLOCATION OF CAPITAL RESERVES 2019/20 (REPORT C)

The Committee considered the current capital reserve budget and discussed amendments for the 2019/20 financial year.

Members requested that the RFO action the following amendments to the reserve funds: -

- Code 330 - That the resurfacing and re-netting works to the tennis court be given a project start date of 2022.
- Code 350 – the £34,000 ear marked for Horton Heath Community Centre be allocated to the kitchen refurbishment, toilet and general area refurbishment, equipment for possible new centre at the new Horton Heath development and possible extension.
- Code 365 – that £6,000 be rolled into the general reserves to pay for the May 2019 elections. That £4,000 be rolled into a new maintenance budget for the Community Centres. That the Clerk confirm the cost of a by-election before further decision is made on the remaining £6,000 in this budget code.
- Code 370 – that the full £4,913 ear marked for the footpath leaflet be rolled into general reserves to assist with the cost of the marketing and promotions project and possible HR policy review.

RESOLVED:

That the RFO action the above amendments to the Council's capital reserves for the 2019/20 financial year.

30 GRANT AID PROCESS & APPLICATIONS (REPORT D)

Cllr Mrs Douglas disclosed a disclosable pecuniary interest as her husband was the treasurer of the squash club who had made a grant application. She concluded that there were no grounds under common law to prevent her from remaining in the meeting to speak. She did not vote.

The Committee considered proposed changes to the Council's allocation of section 137 grants.

Members supported the changes to the process and eligibility criteria subject to the following minor amendments: -

- That the "what do we fund" bullet points be removed and replaced with "the Parish Council will grant up to a maximum of £1,000 per application".
- That the bullet point stating each organisation can only apply for one grant each year be removed.

Historical applicants would be written to and advised of the changes to the grant process. The dates for the submission of applications would be advertised on the Council's website, newsletter and facebook page.

Members considered the following requests for grant aid: -

- 1) EBS Counselling, request of £100 for supplies
- 2) Fair Oak Bowling Club, request of £350 for new equipment
- 3) Fair Oak Squash Club, request of £2,000 towards a replacement boiler

Members examined the above requests against the current criteria and set against the remaining budget for section 137 grants. Members expressed the view that the remaining grant funds be allocated, and as such it was: -

RESOLVED:

- (a) That the proposed changes to the grant aid process, as set out in Appendix 1 to Report D be approved;
- (b) That EBS Counselling be awarded a grant of £100;
- (c) That Fair Oak Bowling Club be awarded a grant of £350; and
- (d) That Fair Oak Squash Club be awarded a grant of £1,700.

31 PARISH NEWSLETTER

The Clerk pointed out that the budget for the newsletter had been reduced in last budget planning and options for review of the current format needed to be undertaken.

The format of the newsletter had not been reviewed for some time. Given budgetary constraints and the fact that the Council would not be able to sustain the current format due to the increase in the number of residents, particularly following completion of the Horton Heath development, it was now time to consider alternative, more modernised formats such as a monthly e-newsletter. This would ensure that the information communicated to residents was timely and up-to-date.

Members noted that as the newsletter was sent out four times per year, the information contained in each newsletter went out of date very quickly. Members also conceded that production costs of the newsletter (printing and distribution) would likely escalate, following the completion of the large developments taking place across the parish, should the Parish wish to continue the current format and circulate the newsletter to all parish households.

The Clerk understood that West End Parish Council, in responding to budgetary cuts, had reduced their newsletter to 3 per year and had also further reduced its costs by asking Parish Cllrs and Ground staff to distribute the newsletter.

The Clerk advised that sending newsletters by email would be an ideal cost-effective solution for the Council. Mailchimp, a popular and easy to use format could be used and would be free up to 2,000 subscribers. Smart Marketing had indicated that they would set up an account and template for the Council free of charge.

Some members expressed the view that a change in format was needed given the continued increase in the number of residents. Other members expressed the view that residents be adequately informed of the proposed change in format, with a phasing out of the current hard copy newsletter over three editions in the forthcoming financial year.

Members requested that editions would ask residents to sign up to the e-newsletter. Members requested that these editions coincide with key parish events. It was also suggested that the new e-newsletter be printed in-house and distributed to key locations across the parish such as the surgery, halls, parish office, so that residents not on email were still able to have access to this information. Members supported this approach.

As such it was: -

RESOLVED

- a) That a hard copy newsletter be produced three times for the year 1 April 2019-31 March 2020;
- b) That the remaining hard-copy newsletters be published to coincide with Parish Events, i.e. delivery in May for Carnival, October for Remembrance and February for Annual Parish;
- c) That the May and October editions inform residents that the Parish Council would cease hard copies from April 2020;

- d) That the February 2020 edition inform residents that it would be the last hard copy newsletter produced and ask residents to sign up to the new e-newsletter;
- e) That from April 2020 a monthly e-newsletter be produced using mailchimp; and
- f) That approximately 100 hard copies of the new e-newsletter be distributed at key locations around the village, i.e. Village Hall, Woodlands Centre, Horton Heath, Library & Parish Office.

32 HORTON HEATH COMMUNITY CENTRE KITCHEN

The Clerk advised that the kitchen at the Horton Heath Community Centre was tired and outdated and did not currently comply with various health and safety and food hygiene regulations. As such the Clerk had sought quotes from three separate contractors for a complete re-fit of the kitchen. These quotes varied considerably. This was largely due to the different specification. One quote was for a replacement basic domestic kitchen, the other for a half-way approach between domestic and commercial and the final quote, being the most expensive, was for a commercial kitchen which would comply with environmental health hygiene safety standards.

Members were informed that the Parish Council had received approximately £11,000 from the Community Association which had been ear marked specifically for the kitchen. The Council also had funds in reserves for Horton Heath Community Centre which could be used to top-up this budget if necessary.

All hirers had been given advance warning of the Council's plans to refurbish the kitchen.

Members considered the future use of the building in the context of the new development which would likely have a new community centre. Members expressed the view that despite this, the Parish Council should retain the current building as a small community hub. In valuing the building and seeking to improve the offer available at the Centre for local residents, Members requested the Clerk seek a further two quotes for a commercial kitchen.

RESOLVED

That the Clerk seek a further two quotes for a full commercial kitchen refurbishment at the Centre for final approval at the next Full Council meeting.

33 PLAY AREA CONSULTANCY

The Committee considered three quotes received for project management of the installation of new play areas at New Century Park and Crowdhill Green.

Given the extensive local knowledge and detailed services received, Members agreed that the contract be offered to Mr Bowen at 8% of the total project(s) costs.

As the Council had completed its first stage consultancy with residents via online surveys, that Mr Bowen could oversee both play area projects simultaneously with the aim of completing on these by the summer holidays.

RECOMMENDED

- a) That Mr Bowen be awarded to project management contract at a cost of 8% of the total project costs for each play area; and
- b) That both play area projects be conducted at the same time with the aspiration of completing by the summer holidays.

34 WORK PROGRAMME

The Committee considered the work programme and made minor amendments.

RESOLVED

That the work programme be approved.

35 EXCLUSION OF THE PUBLIC AND THE PRESS

RESOLVED

“That, under Section 1(2) of the Public Bodies Admissions to Meetings Act 1960, the public and the Press be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information which would be prejudicial to the public interest by reason of its confidential nature (staffing matter)”

36 PERFORMANCE APPRAISALS

There is a confidential minute for this item.

37 WORKFORCE BUDGET

There is a confidential minute for this item.

This was all the business and the meeting finished at 9.10 pm.

Signed..... Chairman

FINANCE COMMITTEE – 11 JULY 2019

QUARTERLY FINANCIAL MONITORING REPORT

1. INTRODUCTION

- 1.1 This is a monitoring report on the current position relating to the 2019/20 budget approved by the Council in February 2019.

2. BACKGROUND

- 2.1 It is important that the Council manages its finances prudently. The Council undertakes a continuous review of its finances with monthly reports from the Responsible Finance Officer on highlighting the current bank balances and BAC transfers. In addition, quarterly budget monitoring reports form an important part of the review process and supports the ongoing development of the budget planning for the forthcoming financial year.

3. BUDGET 2019/20

- 3.1 A budget of **£420,258** for 2019/20 was agreed by Council in February 2019. The full budget is attached at Appendix 1.
- 3.2 This report identifies that despite some minor budget variations, it is anticipated that at the end of the financial year, the Council will have a balanced budget. Table 1 provides an overview of the variations and details of the material variations are provided in paragraphs 3.3 to 3.9:

Table 1	Para.	Budget	Year to Date	Variance
		£'000	£'000	£'000
Original Budget April 2019/20				
Salaries Admin (Inc pension & PAYE)	3.3	120,600	11,717	
Salaries Grounds (Inc pension & PAYE)	3.3	172,500	21,669	
Legal & Professional Fees	3.4	3,500	3,202	
Software & Support	3.5	3,000	1,973	
Website	3.5	800	25	
Members/Council ICT	3.6	7,050	2,985	3,755
Software and Support	3.6	3,000	1,973	
Parish Office & Pavilion Business Rates	3.7	13,500	14,975	-1,475
Woodland CC Gas	3.8	4,000	254	
Woodland CC external equipment	3.8	1,000	2,100	-1,100
Knowle Park General Maintenance	3.9	6,200	5,650	

- 3.3 In March 2019 the Council approved a new staffing structure, largely in the Operations side of the Council. Since that time, various adjustments have been made (approved at 15 April & 14 May Council meetings respectively) to account for staff resignations.
- 3.4 The Council has £298 remaining in the Legal & Professional fees budget code. The Council has had to spend on additional fees for a professional Valuer in order to undertake formal negotiations with the 2nd Fair Oak Scout Group seeking the

surrender of their lease on the Scout Hut at Shorts Road. This was an unexpected budget requirement.

- 3.5 In December 2018 the Council agreed to appoint Smart Marketing for a 6-month project to revamp the Council’s website. The new website is hosted via a cheaper provider.
- 3.6 The Council has now successfully implemented Office 365 at a cost of £2,985. The benefits of Office 365 mean that Councillors and Staff are able, through a web portal, access emails and documents on any device. This means that the Council no longer needs to purchase devices for Councillors. The Council no longer has to pay for domain names for individual email address which will also create a saving.
- 3.7 The Council is currently £1,475 overspent on the Parish Office business rates. However, to date only £11 of the £2,500 electricity budget has been spent. The Pavilion has been charged £677 business rates from Eastleigh Borough Council. Another unexpected budget cost.
- 3.8 After discussion with Southern Gas and regular metre readings the cost of gas at the Centre looks to be significantly less that provisionally budgeted for. This budget code was largely based on best estimates when setting the budget, as the Council had only been running the building for a 5-6-month period previous to this. Operational staff will continue to monitor the energy consumption at the Centre. The Council is £1,100 overspent on its external equipment budget. However, £1,500 will be refunded from Eastleigh Borough Council for the cost of the Lychgate.
- 3.9 The Council is near to reaching its budget of £6,200 on general maintenance for Knowle Park. Unexpected costs include essential maintenance required to the zip wire as pick up on via the annual inspection. Works undertaken so far under this code include £1,800 on ditch extension, £2,000 on footpath improvements and £1,980 on gravel all essential works to improve drainage at the site during winter months.

4. BUDGET TOTALS

- 4.1 Budget totals as at 30 June 2019 (period 3) are: -

Total Income: - £222,579
 Total Expenditure: - £124,209

5. EAR MARKET RESERVES

- 5.1 The below table shows the current position with regard to the Council’s Ear Marked Reserves.

Account	Balance
Knowle Park	3,212.22
Tennis Project	4,035.00
Parish Office & Compound	63,843.53
Lapstone Farm	88,264.58
Horton Heath	34,000.00
Community Orchard	500.00
Election Expenses	6,000.00
New Century Park	40,000.00

Knowle Park Allotments	4,500.00
Village Name Plates	8,000.00
Community Hall Maint	4,000.00
HHCC Flooring	40,250.00
Onsite Main KP	6,750.00
Total	303,355.33

5.2 The Council's Internal Auditor has advised the Council that it should consider reducing the funds held in Ear Marked Reserves.

6. ACCOUNT BALANCES

6.1 The current balances for all 3 of the Council's accounts as at 30 June 2019 are as follows: -

Current Account - £33,968

Premier Account - £416,370

Public Sector Account - £306,373

7. RECOMMENDATION

7.1 It is recommended that Committee notes the latest budget position as at 30 June 2019, set out in Appendix 1 to this report.

For further information:

Melanie Stephens, Parish Clerk
clerk@fairoak-pc.gov.uk

Joanne Cahill, Responsible Finance Officer
finance@fairoak-pc.gov.uk

Background papers:

None.

Cost Centre Report

	Actual Last Year	Actual Year To Date	Current Annual Bud	Variance Annual Total	Committed Expenditure	Funds Available	% Spent	Transfer to/from EMR
<u>100 Income</u>								
1076 Precept	404,036	205,285	420,258	214,973			48.8%	
1090 Interest Received	3,005	731	2,000	1,269			36.5%	
1100 Grants	0	9,669	9,292	(377)			104.1%	
1120 Community Events Income	1,498	0	3,000	3,000			0.0%	
1200 Hiring Fees	0	0	500	500			0.0%	
1300 Football Income	7,064	(265)	4,300	4,565			(6.2%)	
1310 Cricket Income	2,497	1,484	3,000	1,516			49.5%	
1900 Other Income	92,717	(3,213)	500	3,713			(642.6%)	
Income :- Income	510,817	213,691	442,850	229,159			48.3%	0
Movement to/(from) Gen Reserve	<u>510,817</u>	<u>213,691</u>						
<u>110 Administration</u>								
1900 Other Income	3,613	0	0	0			0.0%	
Administration :- Income	3,613	0	0	0				0
4000 Salaries	61,686	16,263	95,600	79,337	79,337		17.0%	
4010 Employer's Pension	12,907	3,310	25,000	21,690	21,690		13.2%	
4030 Sickness/Holiday Cover	0	0	3,000	3,000	3,000		0.0%	
4055 Insurance	10,442	0	11,500	11,500	11,500		0.0%	
4060 Audit	2,450	(1,800)	2,500	4,300	4,300		(72.0%)	
4070 Legal & Professional Fees	5,072	3,202	3,500	299	299		91.5%	
4075 Postage	125	0	450	450	450		0.0%	
4080 Stationery	312	419	600	181	181		69.9%	
4085 Printer Consumables	675	102	750	648	648		13.6%	
4090 Admin Maintenance	2,632	214	2,000	1,786	1,786		10.7%	
4095 Bank Charges	208	0	30	30	30		0.0%	
4100 Chairman's Allowance	233	85	300	215	215		28.4%	
4105 Conference/Training/Staffing	2,579	635	3,500	2,865	2,865		18.1%	
4110 Clothing	483	0	500	500	500		0.0%	
4115 Newsletter	3,476	525	1,500	975	975		35.0%	
4120 Telephone & Broadband	2,791	858	1,000	142	142		85.8%	
4125 Mobile Phone	227	461	650	189	189		71.0%	
4132 Subscriptions	1,668	1,843	1,900	57	57		97.0%	
4133 Software and support	2,042	1,973	3,000	1,027	1,027		65.8%	
4134 Members IT	0	2,985	7,050	4,065	4,065		42.3%	
4140 Card Payments	266	180	350	170	170		51.5%	
4150 Website	447	25	800	775	775		3.1%	
4160 Noticeboards	0	0	1,500	1,500	1,500		0.0%	
4400 Gas	0	543	0	(543)	(543)		0.0%	

Detailed Income & Expenditure by Budget Heading 30/06/2019

Month No: 3

Cost Centre Report

	Actual Last Year	Actual Year To Date	Current Annual Bud	Variance Annual Total	Committed Expenditure	Funds Available	% Spent	Transfer to/from EMR
4990 Sundry Expenses	1,517	439	800	361		361	54.9%	
Administration :- Indirect Expenditure	112,236	32,262	167,780	135,518	0	135,518	19.2%	0
Movement to/(from) Gen Reserve	(108,623)	(32,262)						
150 Parish Office								
1200 Hiring Fees	861	1,240	0	(1,240)			0.0%	
Parish Office :- Income	861	1,240	0	(1,240)				0
4120 Telephone & Broadband	0	3	800	797		797	0.4%	
4395 Business Rates	14,619	14,975	13,500	(1,475)		(1,475)	110.9%	
4400 Gas	592	302	800	498		498	37.7%	
4405 Electricity	782	11	2,500	2,489		2,489	0.4%	
4410 Water	0	148	500	352		352	29.6%	
4415 Repairs	155	0	100	100		100	0.0%	
4420 CCTV Maintenance	381	200	500	300		300	40.0%	
4425 Health & Safety	587	364	500	136		136	72.9%	
4435 Cleaning	363	0	300	300		300	0.0%	
4440 Contract cleaning	3,068	240	5,000	4,760		4,760	4.8%	
4450 Equipment - Internal	0	128	0	(128)		(128)	0.0%	
4455 Equipment - External	1,595	0	0	0		0	0.0%	
Parish Office :- Indirect Expenditure	22,141	16,372	24,500	8,128	0	8,128	66.8%	0
Net Income over Expenditure	(21,280)	(15,131)	(24,500)	(9,369)				
6000 plus Transfer from EMR	1,595	0						
Movement to/(from) Gen Reserve	(19,685)	(15,131)						
200 Property Maintenance Staff								
4000 Salaries	109,860	28,072	144,500	116,428		116,428	19.4%	
4010 Employer's Pension	22,708	5,603	28,000	22,397		22,397	20.0%	
4030 Sickness/Holiday Cover	0	0	3,000	3,000		3,000	0.0%	
Property Maintenance Staff :- Indirect Expenditure	132,568	33,675	175,500	141,825	0	141,825	19.2%	0
Movement to/(from) Gen Reserve	(132,568)	(33,675)						
210 Machinery and Van								
4300 Machinery - General Repairs	3,563	118	6,000	5,882		5,882	2.0%	
4305 Fuel	4,634	1,733	7,000	5,267		5,267	24.8%	
4310 Road Tax	500	520	500	(20)		(20)	104.0%	
4315 Maintenance - Vans	622	960	1,250	290		290	76.8%	
4320 Vehicle Insurance	1,246	1,188	3,000	1,812		1,812	39.6%	
Machinery and Van :- Indirect Expenditure	10,565	4,518	17,750	13,232	0	13,232	25.5%	0
Movement to/(from) Gen Reserve	(10,565)	(4,518)						

Detailed Income & Expenditure by Budget Heading 30/06/2019

Month No: 3

Cost Centre Report

	Actual Last Year	Actual Year To Date	Current Annual Bud	Variance Annual Total	Committed Expenditure	Funds Available	% Spent	Transfer to/from EMR
230 Crowdhill Community Building								
1200 Hiring Fees	31,707	5,371	43,500	38,129			12.3%	
Crowdhill Community Building :- Income	31,707	5,371	43,500	38,129			12.3%	0
4120 Telephone & Broadband	1,459	159	1,000	841		841	15.9%	
4395 Business Rates	6,071	6,102	6,200	98		98	98.4%	
4400 Gas	2,230	254	4,000	3,746		3,746	6.4%	
4405 Electricity	10,488	2,180	8,000	5,820		5,820	27.2%	
4410 Water	40	24	500	476		476	4.9%	
4415 Repairs	435	0	1,000	1,000		1,000	0.0%	
4425 Health & Safety	1,287	0	1,500	1,500		1,500	0.0%	
4435 Cleaning	306	0	500	500		500	0.0%	
4440 Contract cleaning	2,700	1,394	8,000	6,606		6,606	17.4%	
4450 Equipment - Internal	15,355	0	2,500	2,500		2,500	0.0%	
4455 Equipment - External	16,765	2,100	1,000	(1,100)		(1,100)	210.0%	
4680 General Bin Emptying	486	211	500	289		289	42.1%	
4990 Sundry Expenses	344	38	50	13		13	75.0%	
Crowdhill Community Building :- Indirect Expenditure	57,966	12,462	34,750	22,288	0	22,288	35.9%	0
Net Income over Expenditure	(26,260)	(7,091)	8,750	15,841				
6000 plus Transfer from EMR	6,373	0						
Movement to/(from) Gen Reserve	(19,887)	(7,091)						
240 Pavilion								
1200 Hiring Fees	163	0	0	0			0.0%	
Pavilion :- Income	163	0	0	0				0
4120 Telephone & Broadband	641	164	1,000	836		836	16.4%	
4395 Business Rates	0	677	0	(677)		(677)	0.0%	
4400 Gas	397	0	500	500		500	0.0%	
4405 Electricity	266	384	500	116		116	76.8%	
4410 Water	0	0	500	500		500	0.0%	
4415 Repairs	7,662	600	3,000	2,400		2,400	20.0%	
4420 CCTV Maintenance	0	200	1,000	800		800	20.0%	
4425 Health & Safety	3,031	541	3,000	2,459		2,459	18.0%	
4430 Kitchen	0	0	500	500		500	0.0%	
4435 Cleaning	365	51	300	249		249	16.9%	
Pavilion :- Indirect Expenditure	12,361	2,617	10,300	7,683	0	7,683	25.4%	0
Movement to/(from) Gen Reserve	(12,198)	(2,617)						

Detailed Income & Expenditure by Budget Heading 30/06/2019

Month No: 3

Cost Centre Report

	Actual Last Year	Actual Year To Date	Current Annual Bud	Variance Annual Total	Committed Expenditure	Funds Available	% Spent	Transfer to/from EMR
<u>250 HHCC</u>								
1200 Hiring Fees	5,571	(2,301)	35,000	37,301			(6.6%)	
HHCC :- Income	<u>5,571</u>	<u>(2,301)</u>	<u>35,000</u>	<u>37,301</u>			<u>(6.6%)</u>	<u>0</u>
4055 Insurance	846	0	0	0		0	0.0%	
4120 Telephone & Broadband	567	164	400	236		236	40.9%	
4395 Business Rates	955	2,602	6,000	3,398		3,398	43.4%	
4400 Gas	958	629	2,000	1,371		1,371	31.4%	
4405 Electricity	3,801	0	3,000	3,000		3,000	0.0%	
4410 Water	0	32	700	668		668	4.6%	
4415 Repairs	1,553	0	500	500		500	0.0%	
4420 CCTV Maintenance	200	200	1,000	800		800	20.0%	
4425 Health & Safety	850	75	400	325		325	18.8%	
4435 Cleaning	0	260	300	40		40	86.7%	
4595 General Maintenance	0	211	200	(11)		(11)	105.3%	
HHCC :- Indirect Expenditure	<u>9,731</u>	<u>4,172</u>	<u>14,500</u>	<u>10,328</u>	<u>0</u>	<u>10,328</u>	<u>28.8%</u>	<u>0</u>
Movement to/(from) Gen Reserve	<u>(4,160)</u>	<u>(6,473)</u>						
<u>280 Other Properties</u>								
4480 Bus Shelters	0	0	200	200		200	0.0%	
4485 Memorial	0	0	100	100		100	0.0%	
4490 Memorial Clock	200	0	200	200		200	0.0%	
4500 Speedwatch	0	0	200	200		200	0.0%	
4505 Village Flowers	1,923	0	1,950	1,950		1,950	0.0%	
Other Properties :- Indirect Expenditure	<u>2,123</u>	<u>0</u>	<u>2,650</u>	<u>2,650</u>	<u>0</u>	<u>2,650</u>	<u>0.0%</u>	<u>0</u>
Movement to/(from) Gen Reserve	<u>(2,123)</u>	<u>0</u>						
<u>290 General Grounds Maintenance</u>								
4530 Equipment - Purchases	2,648	6,300	9,500	3,200		3,200	66.3%	
4535 Equipment - Maintenance	1,043	151	2,000	1,849		1,849	7.6%	
4540 Materials	1,990	314	2,000	1,686		1,686	15.7%	
General Grounds Maintenance :- Indirect Expenditure	<u>5,681</u>	<u>6,765</u>	<u>13,500</u>	<u>6,735</u>	<u>0</u>	<u>6,735</u>	<u>50.1%</u>	<u>0</u>
Movement to/(from) Gen Reserve	<u>(5,681)</u>	<u>(6,765)</u>						
<u>300 Lapstone Playing Fields</u>								
4570 Equipment - Cricket Maint.	135	0	500	500		500	0.0%	
4575 Cricket (Winter)	450	0	500	500		500	0.0%	
4580 Football	1,851	0	500	500		500	0.0%	
4585 Tennis	0	0	500	500		500	0.0%	

Detailed Income & Expenditure by Budget Heading 30/06/2019

Month No: 3

Cost Centre Report

	Actual Last Year	Actual Year To Date	Current Annual Bud	Variance Annual Total	Committed Expenditure	Funds Available	% Spent	Transfer to/from EMR
4590 Pitch Maintenance	8,505	157	7,000	6,843		6,843	2.2%	
4595 General Maintenance	800	203	1,000	797		797	20.3%	
4600 Dog Bin Emptying	216	0	0	0		0	0.0%	
4680 General Bin Emptying	980	23	500	477		477	4.7%	
Lapstone Playing Fields :- Indirect Expenditure	12,937	383	10,500	10,117	0	10,117	3.7%	0
Movement to/(from) Gen Reserve	(12,937)	(383)						
310 Knowle Park								
4595 General Maintenance	1,723	5,650	6,200	550		550	91.1%	
4630 Fencing	306	208	500	292		292	41.7%	
4640 Water Supply -White Tree Close	0	0	100	100		100	0.0%	
4645 Seating/Bins	501	0	200	200		200	0.0%	
Knowle Park :- Indirect Expenditure	2,530	5,858	7,000	1,142	0	1,142	83.7%	0
Movement to/(from) Gen Reserve	(2,530)	(5,858)						
320 New Century Park								
4420 CCTV Maintenance	310	0	1,000	1,000		1,000	0.0%	
4595 General Maintenance	1,868	0	1,000	1,000		1,000	0.0%	
4670 Signs & Bins	15	0	200	200		200	0.0%	
4680 General Bin Emptying	64	0	0	0		0	0.0%	
New Century Park :- Indirect Expenditure	2,257	0	2,200	2,200	0	2,200	0.0%	0
Movement to/(from) Gen Reserve	(2,257)	0						
330 Knowle Hill								
4545 Fly tipping	0	0	50	50		50	0.0%	
4595 General Maintenance	805	0	250	250		250	0.0%	
4675 Signs	0	0	50	50		50	0.0%	
Knowle Hill :- Indirect Expenditure	805	0	350	350	0	350	0.0%	0
Movement to/(from) Gen Reserve	(805)	0						
350 Lapstone Farm								
4595 General Maintenance	914	0	250	250		250	0.0%	
4670 Signs & Bins	26	0	50	50		50	0.0%	
Lapstone Farm :- Indirect Expenditure	940	0	300	300	0	300	0.0%	0
Movement to/(from) Gen Reserve	(940)	0						

Detailed Income & Expenditure by Budget Heading 30/06/2019

Month No: 3

Cost Centre Report

	Actual Last Year	Actual Year To Date	Current Annual Bud	Variance Annual Total	Committed Expenditure	Funds Available	% Spent	Transfer to/from EMR
430 Meadowsweet Way Play Area								
4420 CCTV Maintenance	90	0	0	0		0	0.0%	
4595 General Maintenance	932	0	500	500		500	0.0%	
4670 Signs & Bins	84	0	100	100		100	0.0%	
Meadowsweet Way Play Area :- Indirect Expenditure	1,106	0	600	600	0	600	0.0%	0
Movement to/(from) Gen Reserve	(1,106)	0						
440 Knowle Park Play Area								
4595 General Maintenance	17,565	320	500	180		180	64.0%	
4670 Signs & Bins	0	59	100	41		41	58.7%	
4770 Skatepark	984	0	1,000	1,000		1,000	0.0%	
Knowle Park Play Area :- Indirect Expenditure	18,549	379	1,600	1,221	0	1,221	23.7%	0
Movement to/(from) Gen Reserve	(18,549)	(379)						
500 Allotments								
1500 Allotment Income	3,094	55	2,500	2,445			2.2%	
Allotments :- Income	3,094	55	2,500	2,445			2.2%	0
4410 Water	29	0	70	70		70	0.0%	
4800 Allotments - Knowle Park	1,771	89	1,000	911		911	8.9%	
4805 Allotments - Campbell Way	58	0	100	100		100	0.0%	
4810 Allotments - Knowle Lane Ditch	0	0	1,500	1,500		1,500	0.0%	
4815 Allotments - Pest Control	0	0	500	500		500	0.0%	
4820 Allotments - Toilet	0	86	1,000	914		914	8.6%	
Allotments :- Indirect Expenditure	1,858	174	4,170	3,996	0	3,996	4.2%	0
Movement to/(from) Gen Reserve	1,236	(119)						
510 Cemetery								
1520 Burials Income	6,906	1,772	5,000	3,229			35.4%	
1530 Memorials Income	1,613	532	2,000	1,468			26.6%	
1540 Cremation Income	3,074	1,952	4,000	2,048			48.8%	
Cemetery :- Income	11,593	4,256	11,000	6,745			38.7%	0
4410 Water	243	0	200	200		200	0.0%	
4595 General Maintenance	1,615	41	500	460		460	8.1%	
Cemetery :- Indirect Expenditure	1,858	41	700	660	0	660	5.8%	0
Movement to/(from) Gen Reserve	9,735	4,215						

Detailed Income & Expenditure by Budget Heading 30/06/2019

Month No: 3

Cost Centre Report

	Actual Last Year	Actual Year To Date	Current Annual Bud	Variance Annual Total	Committed Expenditure	Funds Available	% Spent	Transfer to/from EMR
360 Oak Walk								
4595 General Maintenance	101	0	250	250		250	0.0%	
4670 Signs & Bins	0	0	50	50		50	0.0%	
Oak Walk :- Indirect Expenditure	101	0	300	300	0	300	0.0%	0
Movement to/(from) Gen Reserve	(101)	0						
370 Daisy Dip								
4595 General Maintenance	0	0	250	250		250	0.0%	
4670 Signs & Bins	0	0	50	50		50	0.0%	
Daisy Dip :- Indirect Expenditure	0	0	300	300	0	300	0.0%	0
Movement to/(from) Gen Reserve	0	0						
380 Wyvern Meadow								
4595 General Maintenance	16	0	250	250		250	0.0%	
4675 Signs	0	0	50	50		50	0.0%	
Wyvern Meadow :- Indirect Expenditure	16	0	300	300	0	300	0.0%	0
Movement to/(from) Gen Reserve	(16)	0						
400 Play Areas General								
4750 ROSPA Fees	344	160	1,000	840		840	16.0%	
Play Areas General :- Indirect Expenditure	344	160	1,000	840	0	840	16.0%	0
Movement to/(from) Gen Reserve	(344)	(160)						
410 New Century Park Play Area								
4595 General Maintenance	466	0	250	250		250	0.0%	
4670 Signs & Bins	0	0	50	50		50	0.0%	
New Century Park Play Area :- Indirect Expenditure	466	0	300	300	0	300	0.0%	0
Movement to/(from) Gen Reserve	(466)	0						
420 Dean Road Play Area								
4595 General Maintenance	0	0	250	250		250	0.0%	
4670 Signs & Bins	0	0	50	50		50	0.0%	
Dean Road Play Area :- Indirect Expenditure	0	0	300	300	0	300	0.0%	0
Movement to/(from) Gen Reserve	0	0						

Detailed Income & Expenditure by Budget Heading 30/06/2019

Month No: 3

Cost Centre Report

	Actual Last Year	Actual Year To Date	Current Annual Bud	Variance Annual Total	Committed Expenditure	Funds Available	% Spent	Transfer to/from EMR
550 Trees								
4825 Tree survey	1,500	350	2,500	2,150		2,150	14.0%	
4830 Trees - Lapstone Playing Field	400	0	500	500		500	0.0%	
4831 Trees - Knowle Park	1,380	0	1,500	1,500		1,500	0.0%	
4832 Trees - New Century Park	400	0	500	500		500	0.0%	
4833 Trees - Knowle Hill	400	0	500	500		500	0.0%	
4834 Trees - Lapstone Farm	400	0	500	500		500	0.0%	
4835 Trees - Oak Walk	400	0	500	500		500	0.0%	
4836 Trees - Daisy Dip	400	0	500	500		500	0.0%	
4837 Trees - Wyvern Meadow	490	0	500	500		500	0.0%	
4838 Trees - Fair Oak Cemetery	500	0	500	500		500	0.0%	
4839 Trees-HHCC open space	500	0	500	500		500	0.0%	
Trees :- Indirect Expenditure	6,770	350	8,500	8,150	0	8,150	4.1%	0
Movement to/(from) Gen Reserve	(6,770)	(350)						
600 Other Expenses								
1600 Community Events Income	437	267	0	(267)			0.0%	
Other Expenses :- Income	437	267	0	(267)				0
4850 Section 137 - Grants	3,900	0	4,000	4,000		4,000	0.0%	
4855 Section 137 - Street Pastors	500	0	500	500		500	0.0%	
4865 Election Expenses	0	0	1,000	1,000		1,000	0.0%	
4870 Youth Project	25,000	0	25,000	25,000		25,000	0.0%	
4875 Community Events Expenditure	4,927	4,021	4,700	679		679	85.5%	
Other Expenses :- Indirect Expenditure	34,327	4,021	35,200	31,179	0	31,179	11.4%	0
Movement to/(from) Gen Reserve	(33,890)	(3,753)						
900 Reserves Spend								
4994 New Office&Compund General	7,442	0	0	0		0	0.0%	
4996 RBS Software from gen reserve	(314)	0	0	0		0	0.0%	
Reserves Spend :- Indirect Expenditure	7,128	0	0	0	0	0		0
6000 plus Transfer from EMR	8,475	0						
Movement to/(from) Gen Reserve	1,347	0						
Grand Totals:- Income	567,855	222,579	534,850	312,271			41.6%	
Expenditure	457,367	124,209	534,850	410,642	0	410,642	23.2%	
Net Income over Expenditure	110,488	98,371	0	(98,371)				
plus Transfer from EMR	16,443	0						
Movement to/(from) Gen Reserve	126,931	98,371						

INTERNAL AUDIT

1. PURPOSE

- 1.1 To review the report of the Internal Auditor dated April 2019.
- 1.2 To consider the appointment of the Internal Auditor for 2019/20 as Eleanor Greene, “Do the Numbers Limited”.

2. INTERNAL AUDIT REPORT

- 2.1 The Internal Auditor’s report for the financial year ending March 2019 is attached at **Appendix 1**.
- 2.2 The report did not highlight any issues of concern. Where there were recommendations, the Parish Clerk has undertaken to address these.

3. RECOMMENDATIONS

- 3.1 That the contents of the internal Auditors report be noted; and
- 3.2 That the Council approves the appointment of Eleanor Greene, “Do the Numbers Limited” as the Internal Auditor for the financial year 2019/20.

For further information:

Melanie Stephens, Parish Clerk
clerk@fairoak-pc.gov.uk

Background papers:

None.

Do the Numbers Limited

25th April 2019

Melanie Stephens, Clerk
Fair Oak and Horton Heath Parish Council
2 Knowle Park Lane
Fair Oak
Eastleigh
Hants SO50 7GL

Dear Melanie,

Subject: Review of matters arising from Internal Audit for 31 March 2019

Please find below the list of matters arising following my visits to the office today and earlier in the year. I found the records of the council to be in very good order and felt that the visits went well.

Control area	Issue	Recommended Action
Transparency code	There are still some aspects of the Transparency code requirements which have not been uploaded to the current website.	When the new website is being set up, the checklist on pages 26 to 37 should be used as a template for information to be published.
Purchase and sales ledger ledger accounts system	The Sales ledger was brought into use from 1 st April 2019, the purchase ledger should be used as soon as possible.	Once reporting is ledger based, commitments, outstanding bills and payments to be made will be able to be tracked more efficiently.
Journal entries	The accounting system allows journals to be coded directly to the reserves – this can result in unbalanced accounts.	Any transaction or journal which uses the “300” codes should be carefully resolved to ensure it keeps the accounts in balance.
Internal Audit report	The internal audit reports are noted, but no clear action plans are agreed	The council should agree clear timescales to action each of the matters raised by internal and external auditors
Asset additions	The council took on two new buildings in the year which were included in the asset register at market value.	For accounting purposes, the buildings should be recorded at cost – nil - rather than insurance value.

Online bookings	As the council now has several rooms for which rooms are hired out, an online booking system would improve efficiency and transparency for electors.	If the system linked to the accounts ledger is not available shortly, it may be worth looking at the systems used by other councils to allow efficient online booking and then link software to the ledger system.
Purchase invoice approval	It is not clear from the invoices when they are input to the ledger system and when they are paid.	It may be beneficial to the council to purchase a grid stamp like this to allow clear ledger record keeping.
General reserves	The general reserve of the council is now at the upper end of the guidance level.	Councils do not have the power to hold savings. Precepted funds should be used in a timely manner for the benefit of residents.
Earmarked reserves	Some of the designated reserves of the council do not meet the guidance of a specific location, value and completion date.	Projects should be brought forward to make use of reserves and all amounts quantified in terms of expected final cost and completion date – at which point they drop to zero.
Utility bills	The Energy bills for the new buildings appear to be erratically estimated and very high.	Officers should closely monitor all utility bills for the multiple buildings to ensure that readings are accurate and bills can be explained by usage.

Please find attached my invoice for the balance of the agreed fee. If either you or your councillors have any queries, please do not hesitate to contact me.

Regards

Eleanor S Greene

FINANCE COMMITTEE – 11 JULY 2019**FINANCIAL RISK ASSESSMENT****1. PURPOSE**

1.1 To approve the Council's financial risk assessment.

2. FINANCIAL RISK ASSESSMENT

2.1 The Parish Council has adopted a Financial Risk Assessment to manage any risk associated with its finances and legal obligations. The risk assessment identifies any potential risks and the control measures put in place to mitigate these. The Financial Risk Assessment set out in **Appendix 1** to this report is reviewed annually. Any changes from the previously adopted document are highlighted in red.

3. RECOMMENDATIONS

3.1 That the Financial Risk Assessment, set out in Appendix 1 to this report be approved.

For further information:

Melanie Stephens, Parish Clerk
clerk@fairoak-pc.gov.uk

Joanne Cahill, Responsible Finance Officer
finance@fairoak-pc.gov.uk

Background papers:

None.

**FAIR OAK AND HORTON HEATH PARISH COUNCIL
FINANCIAL MANAGEMENT RISK ASSESSMENT**

Appendix 1

Activity/Procedure to be assessed	Risk identified	Risk level achieved? H – High M - Medium L - Low	Management of Risk	Action required Note: Section must be completed where risk level is HIGH	Date of review/action taken
SECTION ONE (INSURANCE TO HELP MANAGE RISK)					
Property and contents owned by the Council	Loss or damage	H	Up to date register of assets – adequate insurance cover	Annual review of schedule of asset and insurance	
Damage by third party or to individuals	Public liability	H	Regular maintenance of properties and adequate insurance cover	The Council has public liability insurance up to 10 million pounds.	
Consequential loss of income or the need to provide essential services following critical damage, loss or non-performance by a third party	Public liability	H	Annual review of risk and adequacy of cover	The Council has public liability insurance up to 10 million pounds.	
Loss of cash through theft or dishonesty	Fidelity Guarantee	L	The Council is insured for £800,000 Fidelity Cover		
Legal liability as a consequence of asset ownership	Public liability	H	Regular maintenance of properties and adequate insurance cover	The Council has public liability insurance up to 10 million pounds.	
SECTION TWO (WORKING WITH OTHERS TO HELP MANAGE RISK)					
Security for vulnerable buildings, amenities, and equipment		M	Where a high risk occurs, the Council has installed CCTV to protect from vandalism and theft.	Any repairs required are carried out as quickly as possible. Maintenance contracts have been awarded in respect of CCTV.	

Activity/Procedure to be assessed	Risk identified	Risk level achieved? H – High M - Medium L - Low	Management of Risk	Action required Note: Section must be completed where risk level is HIGH	Date of review/action taken
The provision of services being carried out under agency/partnership	Standing Orders and Financial Regulations deal with the award of contracts etc.	L	Standing Orders and Financial Regulations are reviewed every year or as and when required.		
Banking arrangements	Detect and deter fraud or corruption	L	Monthly bank reconciliations are completed. The RFO presents a Financial Statement monthly.		
Ad hoc provision of amenities/facilities for events to local community groups	Public liability	L	A copy of the groups public liability insurance is obtained and prior permission is sought from the Council		
Vehicle or equipment lease or hire		L	The Council has an account with a reputable hire company		
Trading units: – Playing fields Pavilion Cemetery Woodland Community Centre Horton Heath Community Centre	Works are completed in house – external contractors are rarely used	L	The RFO reviews the existing contracts annually.		
Professional Services (solicitors, planning etc)	Standing Orders and Financial Regulations deal with the award of contracts etc.	L	Standing Orders and Financial Regulations are reviewed every year or as and when required.		
SECTION THREE (SELF MANAGED RISK)					
Non-availability of RFO/Clerk	Ineffective administration of Council	L	Temporary cover possible via use of locum Clerk/RFO	Consider adequacy of reserve to cover locum cost for 6	

Activity/Procedure to be assessed	Risk identified	Risk level achieved? H – High M - Medium L - Low	Management of Risk	Action required Note: Section must be completed where risk level is HIGH	Date of review/action taken
				months.	
Proper financial records	In accordance with statutory requirements	L	Regular scrutiny of financial records and proper arrangements for the approval of expenditure.	Quarterly accounts submitted to Committee and Council. End of year budgets are scrutinised by the Council's internal and external auditors. Accounts easily accessible to the public for viewing.	
Annual Returns	Return submitted late	L	Annual returns completed by the RFO every April. Annual return approved by full Council before submission.	Reviewed annually.	
Business activities	Ensuring they are within the legal powers applicable to Local Councils	L	Recording in the minutes of the precise powers under which expenditure is being approved. Checks made by the Internal Auditor.		
Borrowing	Complying with restrictions	L	The Council has no borrowings or loans		
Employment Law and Inland Revenue regulations	Ensuring all requirements are met	L	The Council is a member of the South East Employers and has adopted the green book policy. The Council administers its own		

Activity/Procedure to be assessed	Risk identified	Risk level achieved? H – High M - Medium L - Low	Management of Risk	Action required Note: Section must be completed where risk level is HIGH	Date of review/action taken
			payroll internally managed by the RFO.		
VAT	Ensuring all requirements are met under Custom and Excise regulations and that VAT is recovered.	L	Regular returns of VAT are made quarterly. The Council is now VAT registered. VAT claims submitted quarterly as part of budget monitoring.		
Reserves & Precept	Inadequacy of existing funds and precept levy, preventing the Council from carrying out its statutory duties and services	L	<p>Council expenditure is monitored by senior officers reporting to the Finance Committee and Full Council.</p> <p>The Council has a policy to maintain reserves, in its public sector fund account not less than £x</p> <p>The Council determines its precept amount required for the next year by examining previous year receipts and payments data, a forecast for the year and a draft budget for the forthcoming year reflecting ongoing costs, financial commitments, proposed changes to expenditure and</p>	Monitoring of the budget and review of forthcoming budget requirements is undertaken regularly by officers and the members.	

Activity/Procedure to be assessed	Risk identified	Risk level achieved? H – High M - Medium L - Low	Management of Risk	Action required Note: Section must be completed where risk level is HIGH	Date of review/action taken
			corporate projects. Money is then allocated to certain cost centres (headings) by the RFO. Consideration is also given to any income sources. The level of precept amount is then agreed with Eastleigh Borough Council.		
Grants to local community bodies	Ensuring the proper use of funds granted under specific powers or under section 137 and that the allocation of funds is transparent	L	All requests and monitoring of grants are made to the Finance Committee quarterly.		
Council Minutes	Proper, timely and accurate reporting of council business in the minutes	L	Minutes properly numbered with a master copy kept in safekeeping – minutes are periodically sent to the Archive Office in Winchester.		
Rights of inspection	Responding to electors wishing to exercise their rights of inspection	L	Adoption of the revised Freedom of Information Act Dec 2008		
Consultation invitations	Meeting the laid down timetables when responding to consultation	L	Procedures in place to deal with responses to consultation requests via relevant committee.		
Document control/electronic	Proper systems in place safeguarding	L	Documented procedures for		

Activity/Procedure to be assessed	Risk identified	Risk level achieved? H – High M - Medium L - Low	Management of Risk	Action required Note: Section must be completed where risk level is HIGH	Date of review/action taken
records	potential loss of vital documents		document receipt, circulation, response, handling and filing. Computer records are stored in icloud. Accounts system held in icloud and back up every night.		
Website/social media	Inadequate or outdated information and lack of public engagement with use of website, email and facebook.	L	New website platform used and recently launched (July 19). Facebook & website regularly updated by the Clerk. Virus checks and website security updates are in place.	Virus software purchased on an annual basis.	
GDPR	Ensure that the Council meets its statutory obligations	M	Necessary corporate documents relating to Data Protect and privacy are adopted and reviewed annually. Council undertakes data audits annually and seeks consent from individuals where data is retained.	GDPR compliance reviewed on an ongoing basis by senior officers.	
Register of Members' Interests and Gifts and Hospitality	In place, complete and up to date	L	Adoption of new code of conduct approved in September 2012. Procedures in place for recording and monitoring Members' interests etc.		

NB: This document is reviewed annually or when there is a significant change in procedure



Fair Oak & Horton Heath Parish Council

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2 Knowle Park Lane, Fair Oak, Eastleigh, SO50 7GL

Telephone: (023) 8069 2403 email: enquiries@fairoak-pc.gov.uk

FINANCE & INVESTMENT STRATEGY 2019/20

1. INTRODUCTION

- 1.1 The Finance and Investment Strategy is a high-level document, giving an overview of how prudential financing, treasury management and investment is managed by the Council, with an overview of current activities and the implications for future financial sustainability.
- 1.2 The Strategy has been produced by following statutory guidance issued by the Secretary of State on Local Government Investments (3rd edition) under Section 15(1) of the Local Government Act 2003. It sets out the general principles to be adopted in the management of the Council's finances and investments.

2. OBJECTIVES

- 2.1 The overarching policy objective is the cautious and prudent management of Council investments and finances. The Council will achieve this by:
 - (a) Ensure that reserve funds are secure;
 - (b) The liquidity of general investments;
 - (c) Generate a good yield from capital reserve investment;
 - (d) To generate sufficient income to support capital expenditure budget on a year by year basis;
 - (e) Ensure that all investment yields grow in line with inflation as a minimum, in order to maintain the capital value of the original investment amount.
- 2.2 The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.
- 2.3 Adequate liquidity is required to ensure that day-to-day activities can be funded and at the same time, to ensure that an appropriate return on cash deposits is achieved.

3. TREASURY MANAGEMENT

- 3.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met through the Council's Capital Reserves to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent; but will become cash poor in the long-term as capital expenditure is incurred before being financed.
- 3.2 When developing financial plans/the annual precept and budget the Council will:
 - Maintain a working bank account balance of approximately 3 months net anticipated expenditure.
 - Place any surplus monies within UK bank & building society accounts that are accessible immediately or within a specified period of notice in order to generate a suitable level of interest return.

- Maintain a general fund reserve not earmarked for specific purposes, to cushion the impact of unexpected emergencies or events of 3-6 months gross revenue expenditure.
- Maintain Earmarked Reserves, for both capital and revenue expenditure, to meet known or predicted future liabilities, identified in the Council's budget planning.
- Only invest in institutions of high credit quality, based on information from credit rating agencies.

3.3 The Council will not borrow money. Any borrowing required to meet the Council's capital expenditure is to be met by using cash held in reserves rather than raising loans.

4. ASSET MANAGEMENT & ASSET DISPOSALS

Asset Management - The Council's Operations Manager, in consultation with the Clerk, has overall responsibility for the management of the council's property and regularly liaises with the Responsible Finance Officer (RFO) regarding budgeted spends and annually for capital bids.

Asset Disposals – when a capital asset is no longer needed, it may be sold so that the proceeds (capital receipts), can be spent on new assets.

5. INVESTMENT STRATEGY

5.1 Treasury investments arise from receiving cash before it is paid out again. Investments made for operations reasons or for pure financial gain are not generally considered to be part of treasury management.

5.2 The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Money that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality UK banks, to minimise the risk of loss.

The table below shows the Council's current investments as at 4 July 2019

Current Account	£32,447
Premier Account	£416,370
Public Sector Account	£306,325

5.3 The Council will ensure that all investments are 'Specified Investments' meaning that:

- (a) All investments will be made in sterling and any payments or repayments will also be made in sterling, with UK registered institutions;
- (b) Investments will be short term, not exceeding 12 months;
- (c) All investments will be made with 'A' 'High Credit Quality' institution, as given by a Credit Rating Agency;
- (d) All investments will be made in UK banks and building societies or other UK regulated institutions or funds;
- (e) A Credit Rating Agency will be taken as meaning one of the following: -
 - Standard and Poor's
 - Moody's Investors Services Limited
 - Fitch Rating Limited

- 5.4 Credit Ratings will be monitored and reported to the Finance Committee at yearly intervals, if the rating falls during this period, the Responsible Finance Officer, in consultation with the Chairman and Clerk of the Council, will decide on any appropriate action.
- 5.5 Investments will not be made with bodies, institutions or funds that support or exploit, either directly or indirectly the inappropriate welfare and treatment of people of animal/wildlife. The Council may from time to time produce a list of specific investments or investment sectors that it wishes to avoid. The Council will satisfy itself that funds are only invested in an ethical manner commensurate with the use of public monies.
- 5.6 The Council's approach to investment risk can be defined as 'lower-medium' risk. Advice will be sought from a suitably qualified and experienced persons or bodies with a proven track record prior to investment decision being made who must be regulated by the Finance Conduct Authority.
- 5.7 Decisions regarding the investment of Capital Reserves is to be made with a medium-term view of the market in mind of at least 5 years whilst complying with the statutory guidance issued regarding the length of any individual investment.
- 5.8 The Department of Communities and Local Government maintain that borrowing monies purely to invest or to lend in order to make a return is inappropriate for Town/Parish Council's, and the Parish Council will therefore not engage in such activity.

6. FINANCIAL GOVERNANCE

- 6.1 The RFO will review this strategy, in consultation with the Clerk, annually, for approval by the Council prior to the beginning of any new financial year. Should the RFO see necessary, any variations before that time will be referred to the Full Council for approval.
- 6.2 The Council currently employs a professionally qualified and experienced RFO responsible for making capital expenditure, borrowing and investment decisions. Where Council staff do not have the knowledge and skills required, use will be made of external advisers and consultants that are specialists in their field.

Date Adopted: 15 July 2019
Review Date: 9 March 2020

STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

(3rd Edition)

Issued under section 15(1)(a) of the *Local Government Act 2003* and effective for financial years commencing on or after 1 April 2018

POWER UNDER WHICH THE GUIDANCE IS ISSUED

1. The following Guidance is issued by the Secretary of State under section 15(1)(a) of the *Local Government Act 2003*. Under that section local authorities are required to “have regard” to “such guidance as the Secretary of State may issue”.

DEFINITION OF TERMS

2. In this guidance the **2003 Act** means the *Local Government Act 2003*.
3. **Local authority** has the meaning given in section 23 of the *2003 Act*. To the extent that this guidance applies to parish councils and charter trustees (see paragraph 11) a reference to a local authority includes those councils and trustees.
4. 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.
5. For the avoidance of doubt, the definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party. The term does not include *pension funds* or *trust fund investments*, which are subject to separate regulatory regimes and therefore are not covered by this guidance.
6. A **credit rating agency** is one of the following three companies:
 - Standard and Poor’s;
 - Moody’s Investors Service Ltd; and
 - Fitch Ratings Ltd.
7. For the purposes of this guidance a **loan** is a written or oral agreement where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment.

8. The **Treasury Management Code** means the statutory code of practice issued by CIPFA: *“Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition”*.
9. The **Prudential Code** means the statutory code of practice, issued by CIPFA: *“The Prudential Code for Capital Finance in Local Authorities, 2017 Edition”*.
10. The **Capital Strategy** is the strategy required by the updates to the Prudential Code and Treasury Management Code.

APPLICATION

Effective date

11. This guidance applies for financial years commencing on or after 1 April 2018. It supersedes all previous editions of the Statutory Guidance on Local Authority Investments.
12. Strategies presented to Council or equivalent before 1 April 2018 but relating to 2018-19 and future financial years do not need to include all of the additional disclosures required by this edition of the guidance should it not prove practical or cost effective to do so. If a local authority chooses not to include the new disclosures in its 2018-19 Strategy, it must include the disclosures in full in the first Strategy presented to full Council or equivalent after 1 April 2018.

Local authorities

13. This guidance applies to all local authorities in England.
14. This guidance applies to parish councils and charter trustees, providing their total investments exceed or are expected to exceed £100,000 at any time during the financial year. Where a parish council or charter trustee expects its total investments to be between £10,000 and £100,000, it is encouraged to adopt the principles in this guidance.

KEY PRINCIPLES

Transparency and democratic accountability

15. For each financial year, a local authority should prepare at least one Investment Strategy (“the Strategy”). The Strategy should contain the disclosures and reporting requirements specified in this guidance.
16. The Strategy should be approved by the full council. For authorities without a full Council, the Strategy should be approved at the closest equivalent level. The

Secretary of State recommends that the Strategy should be presented for approval prior to the start of the financial year.

17. Where a local authority proposes to make a material change to its Strategy during the year a revised Strategy should be presented to full council or equivalent for approval before the change is implemented.
18. The Strategy should be publicly available on a local authority's website. Where a parish council or charter trustee does not maintain its own website, they should post a public notice detailing how local residents can obtain a copy of the Strategy, free of charge.
19. Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, a Treasury Management Strategy in line with the requirements of the Treasury Management Code, or any other publicly available document, the disclosures required to be included in the Strategy can be published in those documents instead of in the Strategy.

Contribution

20. Investments made by local authorities can be classified into one of two main categories:
 - Investments held for treasury management purposes; and
 - Other investments.
21. Where local authorities hold treasury management investments, they should apply the principles set out in the Treasury Management Code. They should disclose that the contribution that these investments make to the objectives of the local authority is to support effective treasury management activities. The only other element of this Guidance that applies to treasury management investments is the requirement to prioritise Security, Liquidity and Yield in that order of importance.
22. Local authorities should disclose the contribution that all other investments make towards the service delivery objectives and/or place making role of that local authority. It is for each local authority to define the types of contribution that investments can make and a single investment can make more than one type of contribution.

Use of indicators

23. The Strategy should include quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. This should include how investments are funded and the rate of return

received. Where investment decisions are funded by borrowing the indicators used should reflect the additional debt servicing costs taken on.

24. Local authorities should consider the most appropriate indicators to use, given their risk appetite and capital and investment strategies. Whilst this guidance does not prescribe specific indicators or thresholds, the indicators used should be consistent from year to year and should be presented in a way that allows elected members and the general public to understand a local authorities' total risk exposure from treasury management and other types of investment.

25. Where a local authority has entered into a long term investment or has taken out long term debt to finance an investment the indicators used should allow Councillors and the general public to assess the risks and opportunities of the investment over both its payback period and over the repayment period of any debt taken out.

Security, Liquidity and Yield

26. A prudent investment policy will have two underlying objectives:

- **Security** – protecting the capital sum invested from loss; and
- **Liquidity** – ensuring the funds invested are available for expenditure when needed.

27. The generation of **yield** is distinct from these prudential objectives. However, this does not mean that local authorities are recommended to ignore potential revenues. Once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with these priorities.

28. When entering into treasury management investments, local authorities should consider security, liquidity and yield in that order of importance.

29. When entering into other types of investments local authorities should consider the balance between security, liquidity and yield based on their risk appetite and the contribution(s) of that investment activity.

Security

Financial Investments

30. Financial investments can fall into one of three categories:

- **Specified investments;**
- **Loans;** and
- Other **Non-specified investments.**

Specified Investments

31. An investment is a specified investment if all of the following apply:

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.
- The investment is not a long term investment. This means that the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non-conditional option.
- The making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended]*.
- The investment is made with a body or in an investment scheme described as high quality (see paragraph 33 or with one of the following bodies:
 - i. The United Kingdom Government;
 - ii. A local authority in England or Wales (as defined in section 23 of *the 2003 Act*) or a similar body in Scotland or Northern Ireland; or
 - iii. A parish council or community council.

32. For the purposes of paragraph 32 the Strategy should define high credit quality. Where this definition incorporates ratings provided by credit rating agencies paragraph 42 is relevant.

Loans

33. A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

34. Local authorities can make such loans whilst continuing to have regard to this guidance if they can demonstrate in their Strategy that:

- Total financial exposure to these type of loans is proportionate;
- They have used an allowed “expected credit loss” model for loans and receivables as set out in International Financial Reporting Standard (IFRS) 9 *Financial Instruments* as adopted by proper practices to measure the credit risk of their loan portfolio;
- They have appropriate credit control arrangements to recover overdue repayments in place; and
- The local authority has formally agreed the total level of loans by type that it is willing to make and their total loan book is within their self-assessed limit.

Non-specified investments

35. A non-specified investment is any financial investment that is not a loan and does not meet the criteria to be treated as a specified investment.
36. For non-specified investments (i.e. those not meeting the criteria in paragraph 31), the Strategy should:
- Set out procedures for determining which categories of investments may be prudently used (and where these procedures involve the use of credit ratings, paragraph 32 is relevant).
 - Identify which categories of investments have been defined as suitable for use.
 - State the upper limits for the maximum amounts both individually and cumulatively that may be held in each identified category and for the overall amount held in non-specified investments and confirm that investments made have remained within those limits.

Non-financial investments

37. As defined in paragraph 4 of this guidance non-financial investments are non-financial assets that the organisation holds primarily or partially to generate a profit. Where a local authority holds a non-financial investment, it will normally have a physical asset that can be realised to recoup the capital invested. Local authorities should consider whether the asset retains sufficient value to provide security of investment using the fair value model in *International Accounting Standard 40: Investment Property* as adapted by proper practices.
38. Where the fair value of non-financial investments is sufficient to provide security against loss, the Strategy should include a statement that a fair value assessment has been made within the past twelve months, and that the underlying assets provide security for capital investment.
39. Where the fair value of non-financial investments is no longer sufficient to provide security against loss, the Strategy should provide detail of the mitigating actions that the local authority is taking or proposes to take to protect the capital invested.
40. Where a local authority recognises a loss in the fair value of a non-financial investment as part of the year end accounts preparation and audit process, an updated Strategy should be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk Assessment

41. The Strategy should state the local authority's approach to assessing risk of loss before entering into and whilst holding an investment, making clear in particular:

- How it has assessed the market that it is/will be competing in, the nature and level of competition, how it thinks that the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements.
- Whether and, if so how, a local authority uses external advisors be they treasury management advisors, property investment advisors or any other relevant persons.
- How the local authority monitors and maintains the quality of advice provided by external advisors.
- To what extent, if at all, any risk assessment is based on credit ratings issued by credit ratings agencies.
- Where credit ratings are used, how frequently they are monitored and the procedures for taking action if credit ratings change.
- What other sources of information are used to assess and monitor risk.

Liquidity

42. For financial investments that are not treasury management investments or loans the Strategy should set out the procedures for determining the maximum periods for which funds may prudently be committed and state what those maximum periods are and how the local authority will stay within its stated investment limits.
43. For non-financial investments the Strategy should set out the procedures for ensuring that the funds can be accessed when they are needed, for example to repay capital borrowed. It should also state the local authority's view of the liquidity of the investments that it holds, recognising that assets can take a considerable period to sell in certain market conditions. Where local authorities hold non-financial investment portfolios they can choose to assess liquidity by class of asset or at a portfolio level if appropriate.

Proportionality

44. Where a local authority is or plans to become dependent on profit generating investment activity to achieve a balanced revenue budget, the Strategy should detail the extent to which funding expenditure to meet the service delivery objectives and/or place making role of that local authority is dependent on achieving the expected net profit. In addition, the Strategy should detail the local authority's contingency plans should it fail to achieve the expected net profit.
45. The assessment of dependence on profit generating investments and borrowing capacity allocated to funding these should be disclosed as a minimum over the life-cycle of the Medium Term Financial Plan. However, an assessment of longer term risks and opportunities is recommended.

Borrowing in advance of need

46. Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.
47. Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:
- Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and
 - The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.

Capacity, skills and culture

48. The Strategy should disclose the steps taken to ensure that those elected members and statutory officers involved in the investments decision making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the local authority and to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.
49. The Strategy should disclose the steps taken to ensure that those negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.
50. Where appropriate the Strategy should comment on the corporate governance arrangements that have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.

ANNEX A – INFORMAL COMMENTARY ON THE STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

Power under which this Guidance is issued [paragraph 1]

1. The **Local Government Act 2003**, section 15(1), requires a local authority "...to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify...".
2. The guidance on investments in the main part of this document is issued under section 15(1) of the 2003 Act and authorities are therefore required to have regard to it. This part (**Annex A**) contains an informal commentary ("the commentary") on the Statutory Guidance.
3. Two codes of practice issued by the *Chartered Institute of Public Finance and Accountancy* (CIPFA) contain investment guidance which complements the MHCLG guidance. These publications are:
 - *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*
 - *The Prudential Code for Capital Finance in Local Authorities*
4. Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] as amended*.

Objectives in updating the Guidance

5. The 2nd edition of this Guidance, which was issued in 2010, reflected concerns raised by the CLG and Treasury Select committees as part of their enquiries into the financial crash of 2007-8. The key areas of focus were:
 - The practice of investing for yield, especially in Icelandic Banks;
 - The need for transparent investment strategies; and
 - The use of Treasury Management advisors.
6. The changes made to the 3rd edition of this Guidance reflect changes in patterns of local authority behaviour. Some local authorities are investing in non-financial assets, with the primary aim of generating profit. Others are entering into very long term investments or providing loans to local enterprises or third sector entities as part of regeneration or economic growth projects that are in line with their wider role for regeneration and place making.

7. In addition, the National Audit Office and the Public Accounts Committee have raised a number of concerns about local authority behaviour that this guidance aims to address. These are:

- Local authorities are exposing themselves to too much financial risk through borrowing and investment decisions;
- There is not enough transparency to understand the exposure that local authorities have as a result of borrowing and investment decisions; and
- Members do not always have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving.

Effective Date [paragraphs 11-12]

8. This Guidance applies from 1 April 2018. It supersedes all previous editions of the Guidance.
9. The Guidance requires local authorities to produce a number of additional disclosures. Many local authorities already produce these as part of internal reporting and risk management procedures. However, if these disclosures are not currently produced, then local authorities do not need to prepare them in full for Strategies presented to full Council or equivalent before 1 April 2018. Those local authorities who do not include the required disclosures in their 2018-19 strategies, should present them for approval the first time the relevant Strategy is updated or superseded.

Local Authorities [paragraphs 12-13]

10. This Guidance applies to all local authorities, who hold or during the next financial year intend to hold financial or non-financial investments, solely or in part to generate revenue income.
11. It applies to parish councils whose investments exceed the thresholds set out in paragraph 14. The decision to lower the financial threshold for parish councils has been taken in recognition that some parishes have begun to engage in commercial ventures. As parish councils tend to be fairly small and to obtain a greater percentage of their funding directly from council tax payers than other types of local authority, it is right that they demonstrate that they have carefully considered the expertise that they need to manage the risks arising from their strategy.

Transparency and democratic accountability [paragraphs 15-19]

12. The Government believes that local authorities need to be better at explaining “why” not just “what” they are doing with their investment activity. That means that the sector needs to demonstrate more transparency and openness and to

make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

13. The additional disclosures required by the Guidance should be included in a single document presented to full Council or the equivalent. Although the Guidance refers to an Investment Strategy, providing that all of the disclosures are easy for interested parties to find and are in or linked from a single document, a separate Strategy does not need to be prepared. The Strategy should be updated at least annually.
14. Subject to the provisions in paragraph 35 and 36 of the commentary, local authorities can exclude specific non-financial investments from the required disclosures on grounds of commercial confidentiality. The Government expects that non-disclosure on grounds of commercial confidentiality will be an exceptional circumstance. A local authority should only determine that it would breach commercial confidentiality to include an investment in the disclosures on receipt of appropriate professional advice, using the same criteria as would be used to exclude the public from a Council meeting. Local authorities should reassess whether the commercial confidentiality test is met every time a new Strategy is presented to full Council or the equivalent.
15. Under Regulation 17 of the *The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012* as amended overview and scrutiny committee members have right of access to any confidential information relating to any decision by any committee or any member of the executive of their council. Nothing in this Guidance has the power to override this regulation.
16. Assets that generate revenue income solely through fees and charges for discretionary services levied under Section 93 of the *Local Government Act 2003* should not be classified as non-financial investments for this purpose.
17. If disclosures are already produced in another document that is publicly available then a local authority can provide a link to the disclosures from the Strategy rather than reproducing them. The exception is disclosures contained in the Statutory Accounts, which do not meet the requirements of this Strategy. This is because local authority statutory accounts can be complex and difficult for users who are not familiar with local government accounting to understand and statutory accounts are prepared to a higher level of materiality than local authorities should use for internal risk management.

Contribution [paragraphs 20-22]

18. Local authorities may have several different objectives, when deciding to acquire an asset. If an asset is not solely held for yield, then a local authority may have a different risk appetite or be willing to accept a lower return than it otherwise would.

19. Each local authority should determine how it categorises different types of contribution, and each investment can have more than one type of contribution.

A non-exhaustive list of types of contribution include:

- Yield/profit
- Regeneration
- Economic benefit/business rates growth
- Responding to local market failure
- Treasury management

20. Where a local authority classifies an investment as contributing to regeneration or local economic benefit, it should be able to demonstrate that the investment forms part of a project in its Local Plan.

Use of indicators [paragraphs 23-25]

21. Local authorities should present a range of indicators to allow members and other interested parties to understand the total exposure from borrowing and investment decisions. The indicators should cover both the local authority's current position and the expected position assuming all planned investments for the following year are completed. The indicators do not need to take account of Treasury Management investments unless these are expected to be held for more than 12 months.

22. The Guidance requires local authorities to develop quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. We recommend that, the indicators in the table below are used. Where local authorities have a different risk appetite or different expectation of returns depending on the contribution(s) each type of investment makes, they should consider presenting the indicators, classified by type of contribution or risk appetite.

Debt to net service expenditure (NSE) ratio	<i>Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.</i>
Commercial income to NSE ratio	<i>Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.</i>
Investment cover ratio	<i>The total net income from property investments, compared to the interest expense.</i>
Loan to value ratio	<i>The amount of debt compared to the total asset value.</i>
Target income returns	<i>Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.</i>
Benchmarking of returns	<i>As a measure against other investments and against other council's property portfolios.</i>
Gross and net income	<i>The income received from the investment portfolio at a gross level and net level (less costs) over time.</i>
Operating costs	<i>The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.</i>
Vacancy levels and Tenant exposures for non-financial investments	<i>Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.</i>

23. Where appropriate, local authorities should consider including targets or limits set by members alongside the outturn. Where there has been a significant change in year on year performance against any of the indicators presented local authorities should include an explanation in the Strategy.

24. Local authorities can choose to present additional indicators in the Strategy should they believe that it would enhance understandability and transparency to do so.

Security, liquidity and yield [paragraphs 26-29]

25. For treasury management and other financial investments local authorities should continue to prioritise **SECURITY, LIQUIDITY** and **YIELD** in that order of importance.

26. Whilst consideration of **security** and **liquidity** is important for loans and non-financial investments, the relative balance between objectives may be different depending on the nature and objectives in making a specific investment.

Security and liquidity

Loans [paragraphs 33 – 34, 40]

27. Loans to joint ventures, local SMEs or third sector bodies, and wholly owned companies fall within the scope of the Guidance. When considering security and liquidity of loans local authorities should set limits for their total exposure and apply the expected loss model in line with the requirements of *IFRS 9 Financial Instruments*.

Non-financial investments [paragraphs 37-40, 43]

28. Where a local authority has a non-financial investment, it will have an asset that can be realised to recoup the sums invested. Therefore, the Guidance requires local authorities to consider security by reference to the value of the asset relative to purchase price and to set out the plans to recoup the investment if realising the asset would not recoup the sums invested. In the period immediately after purchase, it is normal for the directly attributable costs of purchasing a non-financial investment to be greater than the realisable value of the asset. In this scenario, all the Strategy needs to disclose is how long the local authority expects it to take for the increase in asset values to provide security for the sums invested and the assumptions underpinning that expectation.

29. Non-financial investments are by their nature illiquid. However, this does not mean that the local authority does not need to plan for realising a part of its non-financial investment portfolio, for example to repay debt. The liquidity of the non-financial investment portfolio should be considered over the repayment period of any debt taken out to acquire assets, which could be very long term. Given current trends such as the scale and pace of technology driven change, there is no guarantee that non-financial investments will continue to deliver value over their lifetime. To manage this risk, local authorities need to have plans to realise the capital tied up in non-financial investments if required. In addition, the Strategy should consider the trade-offs between accepting capital loss and refinancing debt incurring additional debt servicing costs by doing so, if appropriate.

Proportionality [paragraphs 44-45]

30. Local authorities need to consider the long term sustainability risk implicit in becoming too dependent on commercial income or in taking out too much debt relative to net service expenditure.

31. In addition, whilst under statute, local authority debt is secured on the revenues of that authority, in practice, there is no realistic prospect of the revenues of any local authority being sufficient to pay back debt equating to many multiples of the sum of NNDR and Council Tax Income, without a pervasive and long term impact on service delivery. It is unclear whether local authorities who have adopted a debt financed commercial investment strategy have realistic plans to manage failure. Whilst the Government recognises the importance of local authorities taking on debt to enhance service provision, irrespective of the source of finance, it does not believe that it should do the same for commercial investments.
32. For this reason, the Guidance introduces a new requirement that in every local authority, full council or its nearest equivalent, sets limits that cannot be exceeded for gross debt compared to net service expenditure, and for commercial income as a percentage of net service expenditure.
33. If a local authority has exceeded these limits through investments taken out prior to the introduction of this Guidance, it does not need to dispose of investments currently held. However, authorities who have exceeded their self-assessed limits should not enter into any further investments, irrespective of how these are financed, other than short term investments required for efficient treasury management.

Borrowing in advance of need [paragraphs 46-47]

34. The Prudential Code, issued by CIPFA has always contained a statement that local authorities should not borrow more than, or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The purpose of repeating that statement in this Guidance is to make it clear that it extends to borrowing taken on to finance the acquisition of non-financial as well as financial investments.
35. Local authorities can still finance the acquisition of financial on non financial investments from capital receipts generated from the sale of surplus assets. However, they should not repurpose receipts allocated to the acquisition of assets that contribute to service delivery to fund the purchase of investments, solely to avoid the requirements against borrowing in advance of need.
36. If exceptionally a local authority, chooses not to have regard to the provision on borrowing to fund investment activity the Guidance requires them to explain, in their Strategy, the rationale for this decision.
37. The purpose of this disclosure is to allow external auditors, tax payers and other interested parties to understand why the local authority has chosen to disregard

the Guidance, and to hold the authority to account should they believe there is not sufficient reason for doing so.

Capacity, Skills and Culture [paragraphs 48-50]

38. In the Public Accounts Committee report of 18 November 2016¹, members raised concerns that, locally elected members may not always have the background and expertise to understand the risks associated with the decisions that they are being asked to make. For this reason the Guidance extends the requirements on capacity and skills to members and any statutory officers involved in or responsible for signing off on investment decisions.
39. Members do not necessarily need formal training in understanding investment risks to satisfy the requirements of the Guidance. Depending on their level of expertise a presentation setting out the risks and opportunities of an investment strategy/specific investment in terms a layman would understand, may be sufficient to meet the new requirements.
40. The Government is aware that many local authorities have brought in outside expertise to identify and negotiate investment opportunities. Whilst this can be an effective method of risk management, it is important that those negotiating deals understand that they are not operating in a purely commercial environment and that the prime purpose of a local authority is to deliver statutory services to local residents. Therefore, the Strategy should comment on how they have been made aware of this.

¹ <https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2015/financial-sustainability-local-authorities-16-17/>

FINANCE & RESOURCES COMMITTEE – WORK PROGRAMME (2019/2020)

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ITEM	OBJECTIVE	METHOD	LEAD OFFICER
JULY 2019			
Investment Strategy	To consider the investment strategy.	Report	Mel Stephens
Quarterly Finance Report	To review the quarterly accounts.	Report	Joanne Cahill
Internal Audit	To receive the Internal Auditor’s report	Report	Mel Stephens
Financial Risk Assessment	To review the Financial Risk Assessment	Report	Mel Stephens
OCTOBER 2019			
Asset Management Committee Budget Requests	To consider budget requests from the Committee.	Report	Mel Stephens/Joanne Cahill
RFO Finance Update	To receive an update on Council finances.	Report	Mel Stephens/Joanne Cahill
Community Investment Programme (CIP)	To review the CIP list.	Report	Mel Stephens
External Audit	To receive the report of the External Auditor	Report	Mel Stephens
Workforce budget	To review the current workforce budget	Confidential Report	Mel Stephens/Joanne Cahill
NOVEMBER 2019			
Draft Budget 2020/21	To discuss the draft budget and make recommendations to Full Council.	Report	Mel Stephens/ Joanne Cahill
RFO Report	To consider the report of the RFO	Report	Joanne Cahill

DECEMBER 2019

Budget 2019/20	To review the draft budget prior to being submitted for final approval by Full Council	Report	Mel Stephens/Joanne Cahill
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MARCH 2020

RFO Report	To receive an update from the RFO.	Report	Mel Stephens/Joanne Cahill
Allocation of Capital Reserves	To agree allocation of capital reserves.	Report	Mel Stephens
Grant Applications	To review applications received during the application deadline.	Report	Mel Stephens
Staff Appraisals	To consider any issues arising from the appraisal process	Confidential Report	Mel Stephens
Workforce Budget	To consider the workforce budget.	Confidential Report	Mel Stephens
Review of Investment Strategy	To review the Strategy	Report	Mel Stephens/Joanne Cahill