Phil Norrey
Chief Executive

To: The Chair and Members of the Corporate Infrastructure and Regulatory Services Scrutiny Committee

(See below)

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Your ref :
Our ref :

Date : 23 January 2018
Please ask for : Wendy Simpson 01392 384383

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CORPORATE INFRASTRUCTURE AND REGULATORY SERVICES SCRUTINY COMMITTEE

Wednesday, 31st January, 2018

A meeting of the Corporate Infrastructure and Regulatory Services Scrutiny Committee is to be held on the above date at 2.15 pm at Committee Suite - County Hall to consider the following matters.

P NORREY
Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies

2 Items Requiring Urgent Attention

Items which in the opinion of the Chairman should be considered at the meeting as matters of urgency.

3 Public Participation

Members of the public may make representations/presentations on any substantive matter listed in the published agenda for this meeting, as set out hereunder, relating to a specific matter or an examination of services or facilities provided or to be provided.

MATTERS FOR CONSIDERATION OR REVIEW

4 Broadband and Mobile Phone Connectivity Task Group Update (Pages 1 - 4)

Report of the Task Group (CSO/18/06), attached.

5 Impact of Brexit on Devon Economy (Pages 5 - 14)

Report of the Head of Economy, Enterprise and Skills (EES/18/1), attached.

6 Income Generation: Task Group Update (Pages 15 - 18)

Report of the Head of Economy, Enterprise and Skills (EES/18/2), attached.

7 Co-ordination of Highway Activity (Pages 19 - 28)

Report of the Chief Officer for Highways, Infrastructure Development and Waste (HCW/18/2), attached.

8 Treasury Management and Investment Strategy 2018/19 (Pages 29 - 60)

Report of the County Treasurer (CT/18/08), attached.

9 Community Strategy Action Plan (Pages 61 - 62)

Report of the Chief Officer for Communities, Public Health, Environment and Prosperity (SC/18/1), attached.

10 Clear Channel Contract Update

Verbal report of the Member Investigation.

MATTERS FOR INFORMATION

11 Scrutiny Work Programme

(a) Reference to Committee: South Hams Highways and Traffic Orders Committee – Safer and More Attractive Roundabouts - Cyclists and Pedestrians

The South Hams Highways and Traffic Orders Committee at its meeting on 24 November 2017 (Minute *20(a)) resolved, *'that in view of potential county wide implications of roundabout design with improved cyclist and pedestrian facilities, this matter be referred to the Corporate Infrastructure and Regulatory Services Scrutiny Committee, with a request that a task and finish group look into this matter'.*

Whilst Officers considered that in many instances roundabouts would be the preferred option over traffic light controlled junctions, sufficient land was not always available for a roundabout particularly one with enhanced pedestrian/cyclist facilities. However, all suitable options/new design models would continue to be considered for future schemes.

(b) In accordance with previous practice, Scrutiny Committees are requested to review the list of forthcoming business and determine which items are to be included in the Work Programme. The Scrutiny Work Programme can be found at: https://new.devon.gov.uk/democracy/committee-meetings/scrutiny-committees/scrutiny-work-programme/

The Committee may also wish to review the content of the Cabinet Forward Plan to see if there are any specific items therein it might wish to explore further. The Cabinet Forward Plan can be found at: http://democracy.devon.gov.uk/mgPlansHome.aspx?bcr=1

PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF PRESS AND PUBLIC ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED

Nil

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Membership

Councillors A Dewhirst (Chair), P Colthorpe (Vice-Chair), M Asvachin, Y Atkinson, K Ball, R Bloxham, J Hook, J Brook, C Chugg, P Crabb, A Eastman, R Edgell, I Hall, A Saywell, M Shaw and C Slade

Declaration of Interests

Members are reminded that they must declare any interest they may have in any item to be considered at this meeting, prior to any discussion taking place on that item.

Access to Information

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Public Participation

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Scrutiny Committees set aside 15 minutes at the beginning of each meeting to allow anyone who has registered to speak on any such item. Speakers are normally allowed 3 minutes each.

Anyone wishing to speak is requested to register in writing to the Clerk of the Committee (details above) by the deadline, outlined in the Council's Public Participation Scheme https://new.devon.gov.uk/democracy/committee-meetings/scrutiny-committees/, indicating which item they wish to speak on and giving a brief outline of the issues/ points they wish to make.

Alternatively, any Member of the public may at any time submit their views on any matter to be considered by a Scrutiny Committee at a meeting or included in its work Programme direct to the Chair or Members of that Committee or via the Democratic Services & Scrutiny Secretariat (committee@devon.gov.uk). Members of the public may also suggest topics (see: https://new.devon.gov.uk/democracy/committee-meetings/scrutiny-committees/scrutiny-work-programme/

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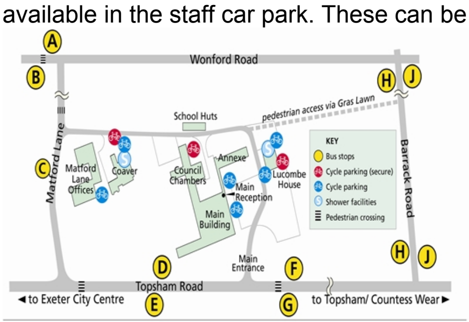

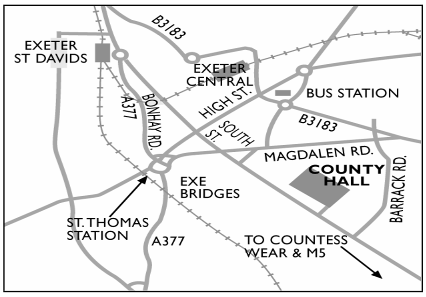

NB A J **Denotes bus stops**

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Contact Main Reception (extension 2504) for a trained first aider.

CSO/18/06
Corporate Infrastructure & Regulatory Services Scrutiny Committee
31 January 2018

Broadband & Mobile Phone Connectivity Task Group
Update Report

1. Background and Scope of Task Group Review

The background and scope for this review are detailed in the September update report which can be viewed at the link below:

http://democracy.devon.gov.uk/documents/s10467/Task%20Group%20report.pdf

2. Scope of update report

This content of this report is based on the evidence gathered through the methods outlined in paragraph 3 below and is intended to update the Committee and the public as such. The report does not draw any conclusions, but simply presents a summary of this evidence.

3. Work undertaken to date

Since the publication of the last update report, the Task Group has held two further meetings with witnesses. On 22nd November 2017 Members met with the Chairs of the CDS Board and a representative from the Greater Exeter Strategic Plan team. On 18th December the Task Group met with the Council's Head of Economy, Enterprise & Skills and the Cabinet Member for Economy & Skills.

The Task Group, with support of the Scrutiny Officer, continue to undertake desk research and wider reading around the digital connectivity agenda. A full bibliography will be included in the Task Group's final report.

4. Findings to date

4.1 Communication and Transparency

Many complaints and concerns from the public around transparency and communication originate from a lack of information around the delivery of Phase 1. The contract with BT, held by Somerset County Council, includes several parts which are held as commercially sensitive information (CSI). This prevented deployment plans and levels of detail being shared with the public.

The BT contract was procured as a call off contract from a National Broadband Framework negotiated by Government with two suppliers – BT and Fujitsu. The terms and conditions of the framework flow down into the call off contract, and the degree and level of CSI information was agreed and accepted by Government and by both suppliers.

In addition, the BT deployment was agreed at a postcode level and not a premise level and therefore CDS were unable to provide a home or business owner with certainty that their property would be included in the deployment; the contract only stipulated a number of properties per postcode would have access to improved broadband services.

CDS are confident that more timely and accurate information will be available through the Phase 2 delivery, which is not subject to the same contractual restraints.

4.2 CDS Board meetings

CDS Board meetings are primarily contract management meetings with providers and therefore it seems reasonable that the majority of discussion at these meetings is genuinely commercially sensitive, and justified in being closed to the public. However, there is still a need to provide accurate and up to date information about delivery to the public, and mechanisms need to be put in place to do this.

4.3 Phase 1 delivery

The BT contract included a requirement to provide connections to business parks. Examples of some to benefit include Marsh Barton and Dunkeswell.

There also remain issues around the government's measure of 'number of homes passed' which includes all premises connected to green cabinets, not recognising the impact that premise distance from the cabinet has on actual speeds received. Phase 2 contracts are measured on superfast connections only, and are at a premises level which removes some of this issue in terms of reporting.

4.4 Phase 2 delivery

The initial submission from BT under Phase 2 (for the area outside of the National Parks) was poor; proposing to use all public funding available, delivering below the target levels of connections in terms of homes reached and not completing until 2021/22. This submission was turned down by CDS as it did not represent value for the level of public investment and the procurement process started again, resulting in the CDS area being split into six lots. Despite this delay, CDS are confident that new fibre and wireless services will be delivered through Airband and Gigaclear in a shorter time frame (by March 2020), than if BT had been awarded the contract.

Gigaclear have now begun trenching work in the first announced communities. CDS and Gigaclear completed agreement on extending their contracts before Christmas and roll out schedules and a postcode checker are published on the Gigaclear website. Any new extension and use of public money need to be state aid compliant and this has taken a short while to conclude.

4.5 Future housing developments and the **Greater Exeter Strategic Plan (GESP)**

Housing developers have been criticised for not ensuring that new builds have broadband infrastructure. Government advice is that local authorities should be considering superfast broadband provision in their decision making but there is currently no statutory requirement. CDS and County Councils have very limited power in influencing this but pressure is being put on through the GESP Board and is within the scope of District Authorities.

However, demand for superfast broadband is growing from people purchasing new homes and this is driving developers to provide this. In addition BT now offer to fit fibre to the premise in any development of twenty or more houses, but this does tie residents in with BT as the retail provider. There are also issues over the timescales for delivering on this commitment.

More long term, the GESP (looking forward to 2040) recognises the significance of digital infrastructure (broadband and mobile) to support housing growth and the economy. A digital connectivity study has recently been commissioned to look at the economic impact of improved digital technology and the infrastructure needed. This is expected to include recommendations for future planning policy, ensuring that investments are future proof.

To ensure a joined-up approach to digital infrastructure planning, housing and the economy, the GESP team and Council's will need to work closely with the other planning authorities across Devon, as well as the **Local Enterprise Partnership (LEP).**

4.6 Take Up Clawback and Gainshare

Now that Phase 1 deployment is complete, CDS are working to verify 'homes passed' figures with BT to confirm the level of clawback monies owed. Take up clawback monies are what BT owe to CDS where take up exceeds the BT base used in their financial model of 20%. This is set out in the contract. The National Broadband Framework was based on a gap funded model, and therefore the Call off Contract held with BT works on the same basis. Under this model, CDS gap fund the difference between the level of commercial investment offered by the supplier and the total cost to deliver the proposed solution. The commercial case for BT's level of investment would have been based on a number of factors, including the amount of revenue generated through take up of the wholesale services delivered. These were set at 20%. Where take up is higher than the 20%, the model would have required less public investment, as it would have triggered more commercial investment from BT and less public subsidy from CDS. Under the terms of the contract and required under state aid, this 'over payment' needs to be clawed back by the public sector from BT – this is known as Take Up Clawback.

Clawback is calculated at the end of the deployment phase in the contract, then again after two years, again two years later, and finally after the final year – the BT contract is for 10 years in total. The same model had been adopted by BT across other Local Body contracts. When Take Up levels were projected to be higher than the 20% baseline used by BT they offered to release some of this money early to local bodies including CDS – this is what is referred to as 'gainshare'. Government were required to re-negotiate the national State Aid Approval Scheme, and as part of agreeing a new National Broadband Scheme, reached an agreement that across the UK local bodies could reinvest up to £129m of Take Up Clawback sums (including early Gainshare) with BT and without running a new open procurement. The early Gainshare offer from BT was calculated by BT and the sum offered to CDS was £4.8m.

It is expected that Take Up Clawback will exceed this sum over the next seven years.

4.7 Beyond Phase 2 and reaching the very rural

The biggest challenge beyond Phase 2 continues to be reaching the deep rural areas, which are difficult to reach with cable. Airband and CDS are working on new equipment which can bounce signal off publicly owned structures as a way of overcoming line of site obstructions as well as looking at whitespace and other technologies.

In terms of the potential spend of gainshare monies, CDS is taking this forward and are checking the state aid requirements to re-test commercial plans and running a public consultation.

The broadband voucher scheme has offered a real benefit for communities which are unlikely to be included in future commercial or publicly funded programmes, and a reintroduction of the scheme would be helpful.

CDS are in the final stages of negotiation on an EU funding proposal to support digital utilisation and for the continuation of the digital education 'Get Up to Speed' scheme. The funding will be aimed at businesses and is hoped to include addressing digital innovation in business as well as digital skills and capability.

4.8 Mobile phone coverage

There are very few areas across Devon and Somerset which are not commercially viable for providers. LEP funding has been secured, subject to a business case for 'not spot' areas and the market is being tested for appetite and piloting alternative solutions.

Opportunities to utilise the infrastructure being established for the emergency service network are being explored, although the location of these masts (mainly along roadsides) and the deployment timetable (finishing in 2021) will need to be considered.

5. Next Steps

The Task Group plans to continue to meet further as necessary, and at this stage plans to publish its final report in March 2018.

6. Membership

Councillors Alistair Dewhirst (Chairman), Kevin Ball, Ray Bloxham, Paul Crabb, Ian Hall and Andrew Saywell.

Councillor Alistair Dewhirst
Chair

EES/18/1

Corporate, Infrastructure and Regulatory Services Scrutiny Committee
31 January 2018

BREXIT: potential impacts on the Devon economy

Report from the Head of Economy, Enterprise and Skills

1. Summary/Background

This report summarises some of the key themes that will potentially be impacted by Brexit. However, key aspects of the UK's exit from, and future relationship with, the European Union (EU) remain subject to considerable uncertainty at this point in time. This makes it difficult to assess the potential impact of Brexit, positive and negative, on the Devon economy.

Given the degree of uncertainty and no agreed position on trading agreements or alternative models to the single market / customs union which may be agreed upon, it is not possible to assess the implications on the economic and social well-being for Devon residents. The government is currently seeking to achieve an outcome that delivers many of the benefits of the single market without some of the costs and restrictions involved. This position may be successfully negotiated or an alternative agreed over the coming months and is the subject of intense debate both within the UK and within the EU. It is likely to be one of the key themes that dominates the negotiations between the UK and the EU over the coming months.

On 29 March 2017, the government triggered Article 50, which began the formal process for the UK to leave the EU on 29 March 2019. On 15 December 2017, the European Council agreed that sufficient progress had been made in Phase 1 of the negotiations, which concerned the terms of the UK's withdrawal from the EU, to begin Phase 2 which would focus more on the terms of the UK' and the EU's future relationship.

Under Phase 1 of the negotiations, both Parties have reached agreement in principle across the following three areas: protecting the rights of Union citizens in the UK and UK citizens in the Union; the framework for addressing the unique circumstances in Northern Ireland; and the financial settlement. The detail of what was agreed has been published by the government.[1]

The EU has published its guidelines for phase two of the negotiations, with discussions on future economic co-operation not likely to begin until March, though the UK government is arguing for those discussions to begin as soon as possible.

[1] https://www.gov.uk/government/publications/joint-report-on-progress-during-phase-1-of-negotiations-under-article-50-teu-on-the-uks-orderly-withdrawal-from-the-eu

2. Potential opportunities and impacts of Brexit

2.1 Labour market

It is currently unclear what migration arrangements will prevail after the UK leaves the EU, beyond the fact that the government will have more control over migration policy and that EU nationals residing in the UK at the date of exit will have some of their rights protected.

In Devon, 5.4% of the population are non-UK citizens and 2% are EU citizens which is lower than the UK average of 13.3% and 5% respectively. Of EU citizens, 80% are working age. 46% are here to work, 10% are here to study and 35% are accompanying a family member. EU workers are more likely to work in excess of 40 hours per week; on average, 26% of UK workers exceed 40 hours per week, but this figure rises to 49% when examining EU citizens. Within the South West region, Polish citizens are the most populace nationality, followed by Indians; Germans, South Africans and Irish.[2]

Devon has sectors that draw on EU and non-EU migrant workers. 50% of all EU workers in the South West region are employed in the manufacturing and retail / hospitality industries. The social care sector also employs significant numbers of migrant labour. The agricultural sector also relies on casual and seasonal labour and increases in labour costs that may emerge as a result of changes to migration may impact those businesses in particular.[3] At the other end, the high-value manufacturing and construction sectors use EU nationals to fill higher-level skills gaps while our Universities recruit researchers and teaching staff from around the world. A reduction in this labour could result in wage increases for domestic workers, but could also exacerbate recruitment difficulties for some firms and lead to higher prices for consumers.

Until the future arrangements are clear it is difficult to predict what the overall impact might be. But what is clear is that it will be more important than ever to ensure that the UK is training a skilled and flexible workforce.

2.2 Trade

Again, future trading arrangements with the EU and the rest of the world remain very unclear. Companies in Devon are less reliant on exports than other parts of the country, with only approximately 20% of businesses in Devon exporting to markets overseas. However, the majority of those exports are to the EU. In fact, 70% of Exeter's exports are to the EU, which is the highest share of any city in the UK[4].

The possibility of new trading arrangements with the rest of the world may open up new opportunities for firms in Devon. It will be critical that Devon is positioned to

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[2] Report to the HotSW Brexit Resilience and Opportunities Group, October 2017
3 Brexit Scenarios: An impact assessment, Agriculture and Horticulture Development Board, October 2017
4 Cities Outlook 2017: Centre for Cities

capitalise on these while being aware of adjustment risks for any sectors that do face new tariffs or other barriers.

Imports are also an important consideration. Around 44% of imports to the South West of England come from the EU, which allows consumers and businesses to access the widest pool of goods they require at the lowest prices.

It is difficult to assess whether continued membership of the single market and customs union or a future free trade agreement with the EU would be more advantageous, as the terms of such an agreement are very unclear at present. The government is seeking to achieve an outcome that delivers many of the benefits of the single market without some of the costs and restrictions involved. Whether that aspiration is achievable is subject to intense debate.

2.3 EU funding

The UK is expected to lose access to most EU funding streams after it leaves the EU in 2019. Devon has been a major beneficiary of EU funding in recent years, including “structural funds” which are the main source of EU economic development funding estimated to be worth around £10m per annum to Devon. Devon benefits from EU “structural funds” at a beneficial intervention rate because of its designation as a “transition area” in recognition of its low productivity and workplace based earnings in some places. This funding has been important at a time when government funding for regional development has been falling and it has supported numerous high-profile projects. But these funds are often costly to administer and poorly targeted. Brexit represents a significant opportunity for the government to replace them with something better tailored to local priorities.

The government has said that it will introduce a “Shared Prosperity Fund” to replace EU structural funds, and will be consulting on the design of that fund in 2018. It has not said how large that fund will be or how it will be distributed. We understand that the Government is also considering rolling a range of domestic economic development funding (e.g. the Local Growth Fund) into the Shared Prosperity Fund, meaning that it will likely become the government’s key regional development policy. Elements of this fund are likely to be controlled nationally by individual government departments, while others may be devolved to local areas. This is a significant opportunity, but there is also a risk – particularly for predominately rural areas like Devon – that the new fund does not fully replace the current arrangements.

Officers will be lobbying stakeholders, including local MPs, to argue that:

1. Government should not use this as an opportunity to reduce the total amount of funding available for economic development in areas like Devon. There is a risk that funding could be skewed to other parts of the UK (e.g. the government’s Industrial Strategy places a heavy focus on cities)

2. Funding should continue to be allocated on the basis of need rather than competition. The current distribution of EU funding leads to local discrepancies (e.g. more generous for Cornwall than for Torridge, despite the economic similarities) but it is at least based on a broad assessment of need and deprivation. Competitive pots would likely favour urban areas who could demonstrate the highest economic returns.
3. Local areas should be empowered to decide how that funding is spent in line with local priorities, through the control of a "single pot". In the Heart of the South West the Joint Committee or a future Combined Authority would be a credible alternative to the LEP in performing that function;
4. As proposed by the LGA, the government should take the opportunity to devolve further powers over economic development to local area e.g. skills;
5. The fund should be "rural proofed" and account for any changes in agricultural subsidies; and
6. The new fund should be designed in a way that minimises bureaucracy and waste.

Separately, Universities and businesses draw extensively on EU funding for R&D (Horizon 2020), which is worth over £1bn p.a. to the UK in total. The government has not yet indicated whether the UK will continue to participate in Horizon 2020 or whether the funding would be replaced if it no longer participated.

2.4 Agriculture and fisheries

Agriculture, Forestry and Fishing accounts for around 2% of the Devon economy compared with 0.55% nationally.[5] This sector also accounts for around 5.5% of Devon's employees.[6] While relatively small sectors, they are the cornerstone of the rural economy.

Agriculture and fisheries are likely to be the sectors most affected by Brexit, as for the first time since the 1970s policy on those matters will be set domestically. Currently farmers in Devon receive around £150m p.a. of EU subsidies and much of the regulations they comply with are determined in Brussels. The future subsidy and regulatory regime is of critical importance to farmers and fishermen.

Migration and trade are almost equally important to these sectors. The National Farmers Union, for example, is campaigning for "continued access to the EU single market with minimal tariff and non-tariff barriers" and migration arrangements that "recognise the crucial importance of migration for certain sectors of the UK economy, both low and high skilled, and be based on a realistic expectation of the ability and

[5] ONS, 2015
[6] Defra, 2016

availability of UK workers to fill the jobs currently carried out by EU migrant workers.” [7]

On 4 January 2017 the Secretary of State for Environment, Food and Rural Affairs, Michael Gove, gave a speech which provided an outline of the government’s post-Brexit vision for agriculture[8]. The key points included:

- In future there will be a shift away from the Common Agriculture Policy’s system of Basic Payments, where subsidies relate to the amount of land a farmer owns, to a system of “public money for public goods”.
- Examples of public goods highlighted by the Secretary of State include protecting and enhancing Natural Capital (e.g. rewarding farmers for planting woodland, boosting wildlife, improving water quality and recreating wildflower meadows), investment in training and innovation.
- After the UK leaves the EU in 2019, the government will ensure transitional arrangements for agricultural subsidies of a “number of years” beyond the 2 year implementation period agreed by the Prime Minister for the UK as a whole
- The government will guarantee subsidies at the current EU level until the 2022 election.
- Inspections will be streamlined, reduced and conducted in a risk-based fashion.
- Support for farmers who may choose to leave the industry.
- These plans will be outlined in a Command Paper in the Spring, which will be subject to consultation
- The government aspires to “tariff-free access for agri-food goods” with the EU.
- The Secretary of State would like a “flexible migration policy overall” and to ensure “access to seasonal agricultural labour”
- The government will support the development of the Food and Drinks sector, with a focus on quality. He added that it would be “foolish to lower animal welfare or environmental standards as part of any trade deal”
- Support for rural enterprises.

At this stage no further details have been provided, so it is difficult to say what this might mean for the UK agriculture sector more generally or what it might mean for farming in Devon given its particular characteristics (e.g. fewer, smaller farms; predominance of dairy and beef; uplands farming on the moors; a large proportion of protected landscapes, etc).

[7] National Farmers Union: “Access to a competent and flexible workforce” and “A new outlook on International Trade”
[8] https://www.gov.uk/government/speeches/farming-for-the-next-generation

At this stage, even less detail has been provided on future fisheries policy.

2.5 Confidence and investment

Business confidence affects their willingness to recruit staff, take risks and invest in their business and this is important for long-term economic growth. Uncertainty can be bad for business investment, particularly foreign investment and R&D. Policymakers should seek to reduce uncertainty where possible, and seek to support business investment in other ways (e.g. through additional government investment).

2.6 Intra-UK migration

Changes in the supply and demand for labour may change intra-UK migration flows that local authorities will need to be responsive too. It has been speculated that Brexit might lead to more people choosing to retire in the UK, rather than in EU countries (Spain has been a popular destination up until now). Devon is already one of the most popular destinations in the UK for retirees. Further flows from within the UK could represent a boost to the economy, as those people spend their money in the local economy. It could also create pressures, particularly on housing and the costs of health and social care.

Similarly, there could be an increase in demand for second homes in Devon if British buyers of holiday homes in the EU decide to purchase such properties within the UK instead (e.g. because of uncertainty over freedom of movement, etc). This could exacerbate housing affordability issues in parts of the County.

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Local Government Act 1972: List of Background Papers

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Background Paper	Date	File Ref.
Nil		

t160118cirssc BREXIT potential impacts on the Devon economy
hk 03 190118

Annex A
To EES/18/1

Current government policy on key issues (Source: www.gov.uk)

"Immigration and freedom of movement

DExEU is working closely with the Home Office and other government departments to identify and develop options to shape our future immigration system, including considering the best way to control the number of people coming to the UK following our exit from the EU.

At every step of these negotiations we will work to ensure the best possible outcome for the British people.

Rights and status of EU nationals and UK nationals

The rights and status of EU nationals in the UK and UK nationals in the EU is unchanged as we approach our exit.

We want to seek the earliest agreement to protect the status of EU nationals who are already living in the UK, and the status of UK nationals already living in other Member States, following our exit. The Prime Minister has made clear that we stand ready to reach a deal on this right now. It remains an important priority for the UK and many other Member States to provide certainty to these groups as soon as possible.

Our future immigration system for EU nationals

We will remain an open and tolerant country, and one that recognises the valuable contribution migrants make to our society. However, the message from the public before and during the referendum campaign has been clear: leaving the EU must mean control of the number of people who come to the UK from Europe. We want to see net migration to the UK fall to sustainable levels.

DExEU is working closely with the Home Office and other Government departments to identify and develop options to shape our future immigration system.

Intolerance in the UK

We will not tolerate hate crime or any kind of attacks against people in our country because of their ethnic origin. We are a proud multi-faith, multi-ethnic society and we will stay that way.

The Government is committed to tackling hate crime, which is why we have published a Hate Crime Action Plan which focuses on reducing hate crime, *increasing reporting and improving support for victims. We have also launched a new funding scheme to help protect places of worship.*

Exiting the EU and trade

Leaving the EU offers us an opportunity to forge a new role for ourselves in the world: to negotiate our own trade agreements and to be a positive and powerful force for free trade. The UK has always been a leading voice for free trade in the EU and globally. Outside the EU, we will have the complete freedom to pursue this approach and to push for more open, global trade, supported by strong global institutions like the WTO.

The single market

The single market works by treating EU member states as a single economic area. It means businesses can trade goods across the EU without paying tariffs. The single market for services seeks to remove barriers to businesses wanting to trade across borders, or to establish a company in another country.

We have ruled out being a member of the single market, as the PM said in the Lancaster House speech. EU leaders have made clear their view that members of the single market must sign up to the 'four freedoms' that underpin it - including the free movement of people - and be subject to the jurisdiction of the European Court of Justice. We respect that position.

Instead, we want a bold and ambitious Free Trade Agreement with the EU. This will enable free-flowing trade in both goods and services, and ensure the freedom for UK companies to trade with and operate within European markets.

We also intend to leave the Common Commercial Policy and for the UK not to be bound by the EU's Common External Tariff so that we can pursue our own independent trade policy, securing trade deals with new partners.

The Prime Minister created the Department for International Trade for this purpose. We will agree a new customs arrangement with the EU to ensure that trade with the EU is as seamless and frictionless as possible, including between Northern Ireland and the Republic of Ireland.

The customs union

Negotiating new comprehensive UK trade agreements is a priority for the Government as we leave the EU. We want to have a new, mutually beneficial customs agreement with the EU that supports these objectives, but we have an open mind about the form of that agreement.

EU funding

We will guarantee EU structural and investment projects that are signed before the UK leaves the EU, even if they continue beyond our EU departure. This is provided they represent good value for money and are in line with the UK's strategic objectives.

UK organisations making bids directly to the European Commission (institutions, universities and businesses) should keep applying for funding.

Over the next few months, the Government will engage closely to review EU funding schemes, so any ongoing funding commitments best serve our national interest.

Legislation

Our EU membership means that EU law currently applies in the UK. To ensure a smooth transition and provide certainty, wherever practical and appropriate, we are going to turn existing EU law into UK law. After this, our Parliament can change, repeal, and improve any law it chooses. All Government departments are currently reviewing the EU laws that apply in their areas and how our withdrawal from the EU will affect how these laws work.

What is needed to leave the EU

In March 2017, we introduced the European Union (Notification of Withdrawal) Bill, which was necessary to implement the referendum result and respect the judgment of the Supreme Court. It was passed by Parliament and given Royal Assent in March.

The European Communities Act will be repealed on the day we leave the EU – meaning that the authority of EU law in the UK will end. We will convert the body of existing EU law into domestic law and then Parliament will be free to amend, repeal and improve any law it chooses.

Without the Repeal Bill, there would be large gaps in the UK statute book after we left the EU. This process will give businesses and workers maximum possible certainty as we leave the EU. Existing workers' legal rights will remain guaranteed in law."

EES/18/2

Corporate, Infrastructure & Regulatory Services Scrutiny Committee
31 January 2018

Update on the Joint Scrutiny Committee Income Generation Task Group Report, September 2016

Report of the Head of Economy, Enterprise and Skills

1 Recommendations

The Corporate, Infrastructure & Regulatory Services Scrutiny Committee are requested to note the progress made to date against the recommendations.

It is recommended that a further update be provided to the Committee in six months' time, enabling the Committee to input into the development of practical measures for improving the Council's approach to income generation activities.

2 Introduction

2.1 At the January 2016 meeting of the Corporate Services Scrutiny Committee, Members established a Joint Scrutiny Task Group to investigate how the County Council can generate income, in order to safeguard council services. The Task Group reported in September 2016 with a list of recommendations which were subsequently endorsed by Cabinet.

2.2 This report provides an update on the progress made against each of those individual recommendations and a summary of general developments since September 2016. It also highlights further planned activity in respect of the issues identified.

2.3 The responsibility for considering and progressing the recommendations made by the Corporate Services Scrutiny Committee in its report of September 2016 was delegated to the Head of Economy, Enterprise & Skills as part of the new Council Leadership structure agreed and implemented in 2017. A new team structure for the Economy, Enterprise and Skills Service was put into place in August 2017 and as part of this the lead role for raising commercial awareness across the Council has been allocated to two of the senior managers in the service. Work has started on a benchmarking and research exercise both within Devon County Council (DCC) and across other councils and relevant organisations. These changes have meant there has been a delay on taking forward all the recommendations.

2.4 In the meantime, some practical progress has been made against a number of the individual recommendations made by the Joint Scrutiny Task Group, as outlined below.

3 Joint Scrutiny Income Generation Task Group Recommendations

3.1 ***The Council should investigate, identify and take forward new and innovative opportunities for income generation***

3.1.1 Most of the recommendations under this section are currently being researched and benchmarked within DCC and across other councils and relevant organisations and a full report with recommendations for action will be made available to DCC's Leadership Team for consideration.

3.1.2 Research to date has identified that to be successful in developing a "commercial council" approach there are a number of issues that need to be considered. A number of examples are given below but are illustrative only whilst a full report is developed.

3.1.3 <u>Balance between providing a public service and a charged for service</u>
What is the appropriate balance between core public sector activity and income generation? For example, stimulating local economic growth by providing a free of charge service to businesses to access business support or charging for this as an "additional" services.

3.1.4 <u>Create a dedicated team within the Council or embed across all teams</u>
The Council needs to consider whether commercial activity can be satisfactorily developed by officers working across services on top of their substantive role, or whether it should be supported by a dedicated team? A dedicated team could be funded corporately, adopting a standard approach and using professional business development and marketing analytical tools to aid decision making and agreeing appropriate levels of return on investment for a programme of commercial activity.

3.1.5 <u>Capacity within Support Services</u>
A decision needs to be taken as to what on-going support is needed and how this will be provided. Are current corporate structures and processes sufficiently flexible to facilitate commercial transactions and where not can these be adapted.

3.1.6 <u>Scope for all services, or prioritise those with greatest potential</u>
How widely should the drive for a more commercial approach be applied across DCC? Would it be better to identify at an early stage those service areas where there is the greater potential for income generation and focus on these only, or consider how all service areas could contribute to raising income.

3.1.7 <u>Resources and Funding</u>
How should the Council consider funding a commercial awareness approach, and how best to distribute these costs and income across the Council. Should there be some agreed formula for planned retention of some income by "commercial" business areas to allow for investment and depreciation of capital and for redistribution of any excess income back to corporate funds?

3.1.8 <u>Appetite for risk and appropriate role for a local authority</u>
The Council needs to decide on its appetite for risk. There must be an agreed acceptance that some business plans may fail otherwise there will be no risks taken. The Council has statutory duties and certain powers. A more commercial approach will need to be considered alongside these accountabilities and ensure the council works within all legal frameworks and requirements. Understanding the degrees of latitude within these frameworks and alternative models will be a key consideration.

3.1.9 <u>Skills and Expertise</u>
Consideration needs to be given to identifying, recruiting and retaining the right staff for commercial activities. It might be that commercial activities are focussed on a small core of officers within a larger service area.

3.1.10 Asset management and maximising returns
Finally, and pertinent to the manner in which the recommendations in the September 2016 Report are progressed further, should the One Public Estate and related property initiatives be dealt separately from other efforts to identify services which might be suitable for development commercially? Do they require different officer skill-sets and governance procedures?

3.1.11 This set of recommendations in particular has been most affected by the delays in organisational restructure and remain work in progress. However, significant inroads have been made into researching the challenges involved and the different approaches taken in addressing them. As indicated above, a full report should be available over the next few months.

3.2 The Council should maximise the potential for capital receipts or income generation from assets identified for disposal or development, as soon as possible

3.2.1 **By progressing the nine farm buildings already identified as being viable for permitted development to a point of planning and then to sale, as quickly as possible:** The subsequent detailed feasibility work at these sites associated with the potential to develop former agricultural buildings through 'General Permitted Development' concluded that the majority of sites were either not viable for development (and would not be granted planning permission) or that the level of investment required to obtain planning was disproportionate to the anticipated capital receipt. One site is suitable for progression. On this basis a greater focus has been given to the development potential of our strategic land holdings for residential development. DCC is looking at the opportunities to bid for the government's Land Release Fund to facilitate housing development under the One Public Estates programme.

3.2.2 **By progressing the Council's current asset review to identify those assets which can be disposed of, and once identified, for assets to be disposed of as quickly as possible, taking into account market conditions to achieve best value:** From September 2016 (the date of the task group report) to January 2018 £16.5 million of capital receipts have been generated through the sale of identified surplus property as DCC continues to review and rationalise DCC's property portfolio under the current Estates Strategy.

3.2.3 **By ensuring a commercial approach is taken towards preparing assets for sale, to ensure that the maximum value for each asset is realised, and to consider, where applicable, a business case to fund this through borrowing:** NPS SW Ltd provide advice to DCC officers on the most appropriate method of sale (including whether, for example, planning permission should be obtained for a particular site to maximise its value).

3.3 The Council should maximise the potential of the council's corporate assets into the medium and long-term future

3.3.1 **Through developing a future Estates Strategy which focuses on optimising the income potential of the Council's remaining assets, reviewing the use of all Council buildings to realise this.** The current Estates Strategy 2012 -2017 has focused on property rationalisation. The new strategy is being developed and will include consideration of both any income opportunities and reducing costs of the estate.

3.3.2 **By actively seeking grant funding opportunities which will enable the Council's strategic centres to be retrofitted to improve energy efficiency, and to produce its own energy through solar PV.** DCC's dedicated Corporate Energy Manager actively pursues potential funding opportunities, most recently DCC have been successful in obtaining funding through the ZebCat (Zero Carbon) initiative which seeks to reduce consumption by circa 60% in an office building. The detailed planning for this project is now progressing.

3.3.3 **By ensuring that an up to date asset list by division is publicly available for County Councillors and community use, enabling Members to influence the future use of their local buildings:** This information is updated on a regular basis for elected members.

4 Conclusion

4.1 Progress in acting on certain of the recommendations contained in the September 2016 report of the Joint Scrutiny Task Group has been delayed by the organisational restructure of 2016/17. However, the first steps to developing a considered and more cohesive approach to income generation activity have now begun in earnest.

4.2 The initial view of the lead officers tasked with developing this initiative is that to be successful there needs to be some structure and coordination around attempts to commercialise services. This approach requires some strategic decisions to be made by the Council's Leadership Group and Cabinet and may entail subsequent allocation of resource.

4.3 In contrast, DCCs Estates Strategy has continued to deliver significant capital receipts and revenue budget reductions

4.4 It is proposed that the current Lead officers continue their research into the issues involved and produce a paper for consideration by Leadership Group and Cabinet.

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Electoral Divisions: All

Cabinet Member for Economy and Skills: Councillor Stuart Barker

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Local Government Act 1972: List of Background Papers

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Background Paper	Date	File Ref.
Nil		

pt180118cirssc Income Generation
hk 05 220118

HCW/18/2

Corporate, Infrastructure & Regulatory Services Scrutiny Committee
31 January 2018

Coordinating Highway Activity: The Council's role in coordinating works carried out on the highway by utilities/developers and their performance in noticing and reinstatements

Report of the Chief Officer for Highways, Infrastructure Development and Waste

1. Introduction

This report intends to show:

(a) The Council's responsibilities in managing and co-ordinating works activity on the highway
(b) How the Council monitors these works and the current challenges being faced
(c) Performance information for the four main utilities on noticing and reinstatement activity.

2. Background

Utility companies are, by statute, 'Statutory Undertakers' (SU) and have a duty to maintain their apparatus which is often placed in the highway. Their regulators require quality and improvement targets to be met regarding new connections and/or restoration of a service to their customers.

Currently, utilities must 'notice' the Council ahead of working in the highway. Major planned works with road closures requires three months' notice and for minor works, it is three days. Immediate works are either 'emergency' (if a danger exists) or 'urgent' (if a loss of service) and the Council must be notified within two hours of these works starting.

The authority legally must coordinate highway works and the utilities are required to cooperate in that endeavour. Coordination includes avoiding clashes and identifying opportunities for mutual activity. Utilities must undertake their work safely and without creating public risk. Reinstatements must be to a standard commensurate with the existing construction and category of highway.

Coordination activity helps the Council meet a legal duty to manage its road network to secure, as far as reasonably practicable, the expeditious movement of traffic. The Network Management Duty (NMD) details those activities which contribute to achieving this objective.

The Council has a schedule of 'traffic sensitive' streets which are determined from various criteria. This will alert those wishing to occupy the highway that restrictions can be applied on works promoters. This may be to avoid specified hours or weekdays or to work only within a set period. Immediate works requiring urgent action such as collapsed sewers, gas and water leaks or electricity outages are a priority but present challenges as they often cause network disruption.

The Highways Coordination Team (HCT) monitors the register and Highway Enforcement Officers (HEO) monitor compliance at sites. This includes safety of the signing, lighting and guarding, noticing, occupation periods and the reinstatement quality.

Together with random sample inspections, HEO's will attend sites to manage unexpected issues often reported by the public through the Highways Operations Control Centre. HEO's can stop works if considered unsafe, or provide directions if conditions or procedures are not being followed.

The Development Management Team and Highway Agreement Officers manage developers. They ensure activities affecting the existing highway consequential to the development are noticed and coordinated intending to minimise the impact of utilities in providing supplies to the development.

3. Highlighted Coordination & Enforcement Activity

On average, the Council manages over 35,000 notices annually for works on its highway asset. This is a significant volume and needs to be seen in the context of Devon's road network being the longest of any authority in England at very nearly 13,000km.

Clearly, this presents its own challenges for the Council's monitoring and coordination activities. At times, it is necessary to focus resources on those works occurring on the primary network where activities can create greater disruption to increased numbers of highway users.

In February 2017, one-to-one meetings with each main utility company were initiated for DCC to more strategically review coordination activity and examine both performance and invoicing issues. These meetings take place three times a year and are proving useful in addressing certain matters.

The Bridge Road project has presented some coordination challenges with regular night closures and a long diversion route which occasionally clashed with other works. This was effectively managed with contractors' cooperation, including those for the Exeter Flood Defence Scheme.

Planned works by Highways England has meant close cooperation with the Council in use of County roads for diversion routes. High levels of congestion have occurred in and around Exeter with spontaneous M5 closures and discussions have taken place with stakeholders on the impacts. Cullompton experiences similar problems with unplanned M5 closures which raises questions over appropriate local measures to mitigate the consequences in the town.

Occasionally, complex and extensive works in an area result in public representations due to delays, duration and diversion routes. New developments will often mean high profile works to establish all the principle utility connections, the coordination of which can be rather challenging.

The France-Alderney-Britain (FAB) project is the building of an electrical interconnector underwater and underground between the two countries via Alderney to market energy. The potential effects on Devon's network are currently being assessed to effectively coordinate the highway impacts.

The next phase of the Connecting Devon & Somerset Programme (superfast broadband) is progressing with Gigaclear as the new promoter. DCC is working closely with the company and its works contractor to coordinate the extensive planned works activity in some of Devon's rural areas.

An investigation was commenced in December 2016 when a chamber cover was found missing after works on the B3217, leaving an unprotected void in the road. A prosecution followed and in July 2017 BT pleaded guilty at Exeter Magistrates Court to two offences under the New Roads & Street Works Act 1991. Fines and costs totalled almost £10,000.

The other principal utility companies were all made aware of the investigation and outcome which sent a suitable message that the Council will move to prosecute in appropriate circumstances.

4. Utility Company Performance

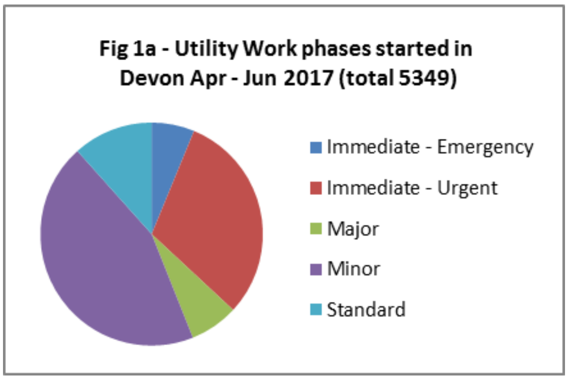
4.1 Noticing and works duration

Notified highway activity is reviewed, analysed and coordinated in delivering the NMD. Activities include routine maintenance, utility or developer works and events affecting the highway. Coordination is improved when works promoters submit non-statutory forward planning notices to the Street Works Register showing their activity which may significantly impact on road users.

Reports generated from this information identify clashes, collaborative opportunities or potential adjustments to works timing to limit impacts. Other considerations will be the work duration, the operational techniques used and the arrangements for traffic management. Works information is published on public websites including www.roadworks.org

The main utilities promoting works in Devon are; South West Water (SWW), Openreach (British Telecommunications – BT), Wales & West Utilities (WWU) and Western Power Distribution (WPD).

The below sample data represents Apr to Jun 2017 when 5,349 utility works were noticed (Fig 1a). Immediate unplanned works (emergency or urgent) accounted for 30% and 45% were minor. Six fixed penalties were issued and there were 31 days of unauthorised overruns.



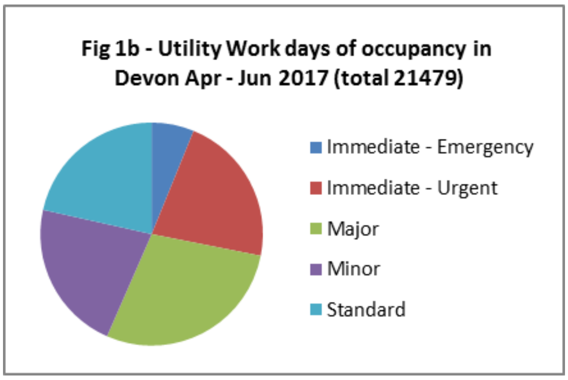
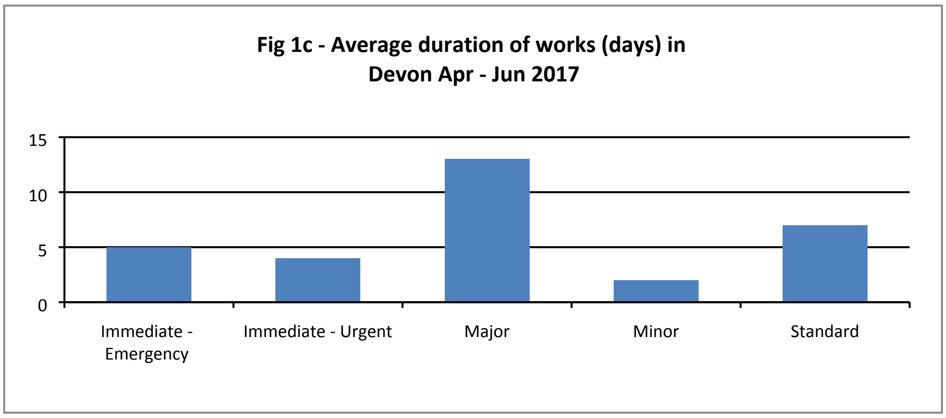


Fig 1b illustrates highway occupancy and shows a total of 21,479 days which are quite evenly split between each work type. Fig 1c shows the average duration of works ranging from 13 days for major works to 2 days for minor. Immediate works typically took 4 days for emergency and urgent.



Generally, the utility companies perform reasonably well when noticing works. While improvements would benefit, spontaneous issues are managed daily by highway coordination or enforcement officers. When necessary, matters are taken to the tri-annual meeting with the utility concerned.

One area affecting the Council's resources are works agreements which relate to requests for early starts and extensions, together with noticing errors and traffic management changes. A utility may require their works to start on a date before the one originally noticed (early start); similarly, extensions are requested if a utility wishes to move the completion date beyond that originally noticed. Other 'agreements' can include variations connected to traffic management.

Requests to change notices are made for various reasons including contractor re-scheduling, unforeseen site circumstances or arguably poor planning. The Council may accommodate early start requests and endeavours to do so when there is a derived benefit to the travelling public. Corrections often require a rejection notice and information sent on traffic management errors.

The HCT reviews, assesses and coordinates works notices to avoid clashes and identify potential collaborative options, all based on the utility's originally notified dates. Any changes or revisions means the coordination activity must be run again so duplicating activity for the revised dates.

In Q4 of 2017 (Oct – Dec), the total of all noticed highway activity from any source was 7,893. The extent of requests for corrections, early starts and extensions is illustrated in Figs 2a-d.

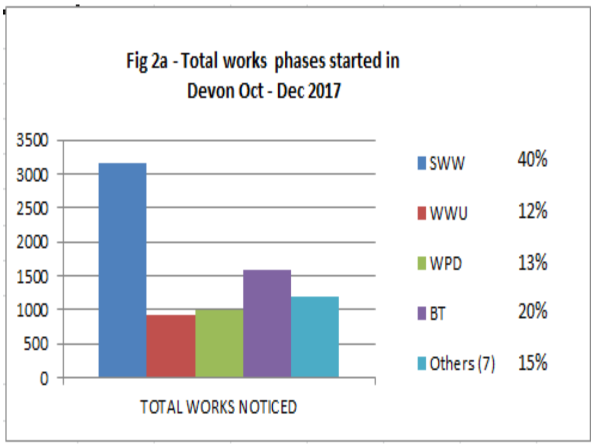


Fig 2a - Total works phases started in Devon Oct - Dec 2017

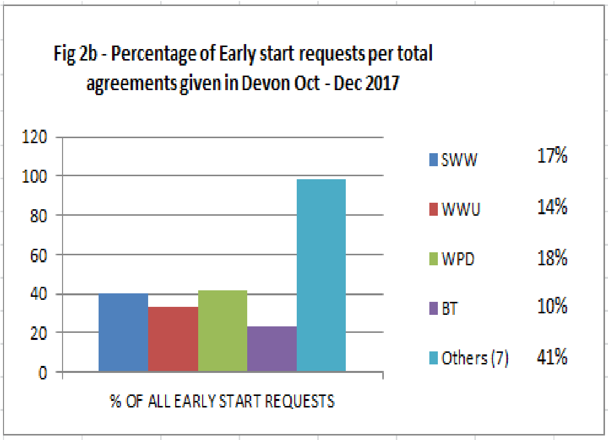


Fig 2b - Percentage of Early start requests per total agreements given in Devon Oct - Dec 2017

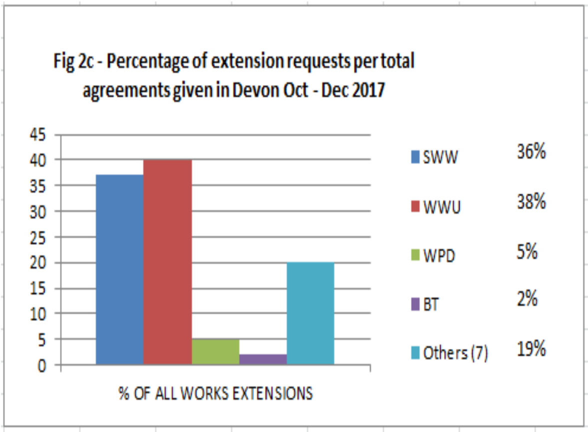


Fig 2c - Percentage of extension requests per total agreements given in Devon Oct - Dec 2017

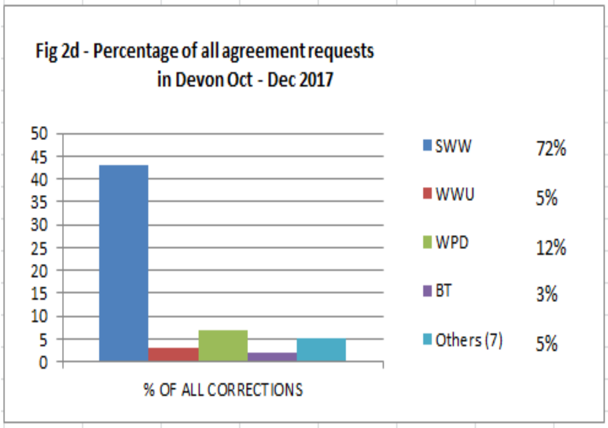


Fig 2d - Percentage of all agreement requests in Devon Oct - Dec 2017

4.2 Reinstatement Performance

HEO's arrange for a sample of the reinstatement carried out by the utility companies to be tested at random during the year. A core pair is drilled as a sample and tested to assess the compaction level and material used. Reinstatements must be completed to the correct specification ensuring the Council's highway asset is protected to avoid unnecessary and premature maintenance work.

Utility companies mostly use contractors to undertake reinstatement works and self-monitor their performance. A common reason for failure is poor compaction with excessive air voids. Other failure reasons include material being out of specification, of inadequate depth or the wrong type.

The data from the current annual coring programme is taken for the period July 2016 to 2017. The data results for the last five years since 2012/13 identify trends and are shown in Fig 3.

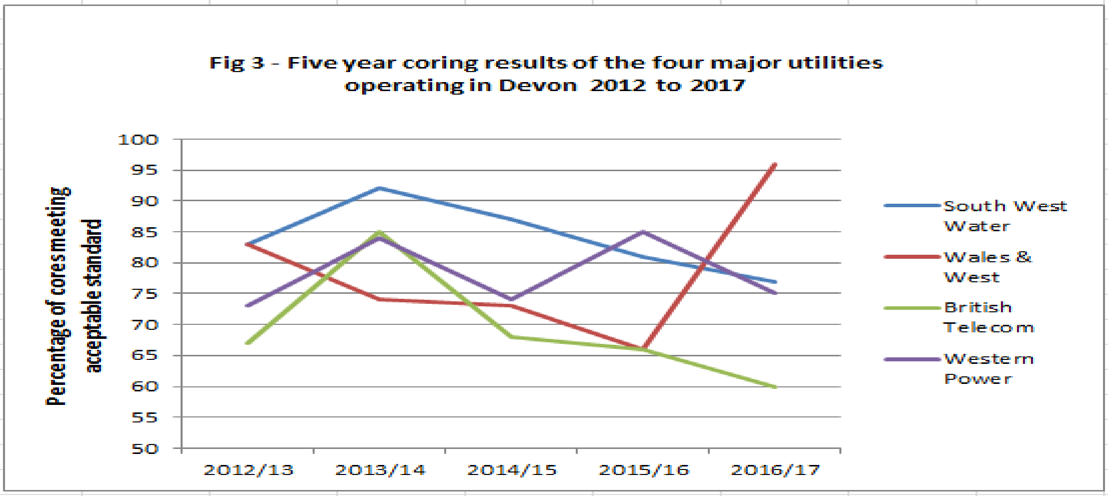


Fig 3 - Five year coring results of the four major utilities operating in Devon 2012 to 2017

Since representatives of the four main utilities attended Scrutiny Committee in November 2016, regular meetings occur with each at which ongoing compliance is reviewed. When cores fail, it is a chargeable defect and a copy of the full defect report is sent to the utility company responsible. All the utilities with their contractors have now visited the DCC Materials Laboratory to examine and discuss with the analysts their core failures along with any specific defect issues.

While performance in 2011/12 was notably poor, a steady rise was seen in 2012/13 and 2013/14 with the standard reached then still leaving room to develop. All the utilities have struggled to maintain a consistent level of performance improvement which the Council desires.

Disappointingly for three utilities, Western Power Distribution (WPD), South West Water (SWW) and British Telecom (BT/Openreach), performance has dropped this year. That said; Wales & West Utilities (WWU) has seen a dramatic improvement in performance with 96% of their cores meeting the required standard compared to 66% last year. This is the best ever recorded coring performance by a utility in Devon and WWU should be commended.

WPD has experienced sporadic performance since 2012/13 with both declines and improvements across the 5 year period. Improvement was seen in 2015/16 moving to 85% from 74% in 2014/15 however, this year the pass rate has fallen back to 75%.

Both SWW and BT's performance is a concern seeing a continuing decline since 2013/14. SWW peaked at 92% that year but dipped to 87% in 2014/15, 81% in 2015/16 to 77% this year. In 2013/14 BT reached 85% which slipped to 68% in 2014/15, 66% in 2015/16 to 60% this year.

The 2016/17 coring report is at Appendix A. Overall, the proportion of satisfactory reinstatements range from a low of 60% to a high of 96%. In analysis, each utility's performance across the County varied with some areas experiencing better results than others. Utilities do monitor their contractors and some use several, linking them to the location of the reinstatements across Devon.

With one notable exception, this year's results are not encouraging which impacts on Devon's highway asset. As mentioned, the Council has a statutory duty to manage its road network and secure the expeditious movement of traffic. Poor highway reinstatements necessitate remedial work and this diminishes the Council's obligations to meet its responsibilities.

5. Consultation

The current annual coring report (Appendix A) is being shared with each utility company. In those cases where reinstatements have not met required standards, defect notices have been issued.

6. Financial and Environmental Considerations

Disruption caused by highway works leads to both environmental and economic impacts through increased journey times, queuing traffic, missed or late deliveries and appointments. This is compounded when promoters must return to the highway to correct previous poor workmanship.

7. Summary

This report provides the Committee with updated information and evidence on utility company performance when working on Devon's highway asset. If desirable, a further request can be made for the Committee to meet utility company strategic representatives and discuss their performance.

Meg Booth
Chief Officer for Highways, Infrastructure Development and Waste

Electoral Divisions: All

Cabinet Member for Highway Management: Councillor Stuart Hughes

<u>Local Government Act 1972: List of Background Papers</u>

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Background Paper	Date	File Ref.
Nil		

rp110118cirssc Coordinating Highway Activity
hk 03 190118

Appendix A
To HCW/18/2

Adequacy of Statutory Undertaker Reinstatements of the Highway

Annual Coring Program Report 2016/17

Introduction

Activities conducted by Statutory Undertakers (SU`s), or 'utilities', impacts on the immediate and longer term accessibility, integrity and performance of the County's highway asset.

The four principle utilities promoting works on Devon's network are; South West Water (SWW), Openreach (British Telecommunications – BT), Wales & West Utilities (WWU) and Western Power Distribution (WPD).

Highway authorities have a statutory duty under the Traffic Management Act 2004 to secure, in so far as may be reasonably practicable, the expeditious movement of traffic on the road network for which they have responsibility. From that legislation, the Network Management Duty highlights how the authorities can effectively manage that obligation.

Highway excavations and reinstatements influence the Council's performance in executing that duty. Access to the highway must be carefully coordinated, managed and monitored, mindful that utilities have a legal right to access their apparatus.

Poor quality reinstatements are likely to have a low durability which can lead to early failure and the need for premature maintenance intervention. Early life reinstatements failures are costly and represent an increased risk to highway users and disruption. Sustainability issues are evident with transportation and importation of additional materials to remedy defects.

Background

Since 2002 the Council has undertaken a coring programme of utility reinstatements. This is intended to monitor and ensure adequate compliance of requirements across the network. It contributes to protecting the asset and is in line with the authority granted in the New Roads & Street Works Act 1991 and its Code of Practice.

The annual coring programme is achieved by randomly selecting completed reinstatements, coring them and analysing the material. The analysis checks specifications are met according to the requirements of the 'Specification for the Reinstatements of Openings of the Highway' (SROH). Reinstatements are initially visually checked for compliance and those registered as permanent are cored from both footway and carriageway.

In July 2015 the programme moved to coring monthly instead of quarterly. This led to some issues with the reporting process and the Council now operates a calendar year programme, coring 3 times through the year which has now slightly increased the activity undertaken.

This report details the analysis of amalgamated random core samples taken from utility reinstatements between July 2016 and July 2017. No coring took place in January 2017, so this equates to twelve months of samples.

Interim results from analysis was shared with the utilities during the year and discussed. A Highway Authority & Utility Company approved "Best Practice" publication incorporating the outcomes of a joint trial between SWW and Devon has been shared previously.

Each utility was offered the opportunity to attend the Council's Materials Laboratory to see the analysis process, view their failed cores and discuss them with the Laboratory Manager. All have visited and the experience has been productive for both the utilities and Council.

Coring of Reinstatements

During the 2016/17 programme across the County, 282 reinstatements were randomly selected for coring comprising 140 carriageway (CW) sites and 142 footway (FW) sites. The below table illustrates the breakdown.

UTILITY	TOTAL SITES	CARRIAGEWAY	FOOTWAY
SWW	77	44	33
WWU	66	35	31
BT	68	28	40
WPD	71	33	38
Total	**282**	**140**	**142**

Sampling and testing was completed in accordance with the HAUC UK recommendations for implementing a structured coring programme. All utilities and their contractors were invited to attend sites for the programme to agree the procedure and conduct of the sampling.

Results

The table below details a breakdown of the 2016/17 coring programme in Devon:

SWW	**WWU**	**BT**	**WPD**	**Defect**	
15	3	22	15	*Air voids*	
1	0	5	3	*Depth*	
0	0	0	0	*Depth & Voids*	
1	0	0	0	*PSV*	
1	0	0	0	*Material Type*	
34	33	20	23	*CW Passes*	
25	30	21	30	*FW Passes*	
10	2	8	10	*CW Fails*	
8	1	19	8	*FW Fails*	
18	**3**	**27**	**18**	*Total No. Failing*	
59	**63**	**41**	**53**	*Total No. Passing*	
44	35	28	33	*CW*	*Total Cores*
33	31	40	38	*FW*	
77.3	94.3	71.4	69.7	*%CW*	*Pass Rates*
75.8	96.8	52.5	78.9	*%FW*	
76.6%	**95.5%**	**60.3%**	**74.6%**	**PASS RATES OVERALL**	

Comparative Overall Compliance

YEAR	SWW	WWU	BT	WPD
2015/2016	*80.9%*	*66.2%*	*65.8%*	*84.5%*
2016/2017	***76.6%***	***95.5%***	***60.3%***	***74.6%***
Change	***- 5.3%***	***+ 30.7%***	***- 8.4%***	***- 11.7%***

These figures are not only disappointing for SWW, BT and WPD but also the Council. The figures for WWU however are in very stark contrast seeing a dramatic improvement.

WWU visited the Materials Laboratory in January 2017 with their reinstatement contractors to discuss the 2015/16 failures which may have contributed to this year's result. The other utilities attended during 2017, but as yet there is no similar performance improvement.

The Council will continue working with utilities to investigate the reasons for non-compliance and encourage improvements in performance in this area generally.

Depth Compliance

Unfortunately there are still a small number of depth failures which is a concern. While not high in number, the Council has a desire to eliminate all depth failures due to the simplicity of resolution and work will continue with the utilities to try and achieve this objective.

	SWW	WWU	BT	WPD
Depth Failures	*1%*	*0%*	*7%*	*4%*

Skid Resistance (PSV) & Material Selection Compliance

Compliance rates in this category are very high with only two failures, both for SWW. This overall compliance level is encouraging and efforts will be made to maintain this standard.

Air Void Compliance

Results for 2016/17 require a focus. While WWU has seen a significant improvement from 18 failures last year to 3 this year, SWW and BT have remained static. SWW had 15 failures in both years while BT had 23 last year and 22 this year. WPD had 10 last year but 15 this year. A disappointing outcome which will prompt further investigation with and action by the utilities as there is room for improvement.

	SWW	WWU	BT	WPD
Air Void Failures	*19%*	*5%*	*32%*	*21%*

Conclusions

Over a number of years efforts have been made by the utilities to improve reinstatement performance. This incorporates materials transportation, workmanship standards including the handling, placement and compaction of bituminous material.

The 282 core pairs were extracted through the full depth of the bituminous or cement bound layers. Each core was taken for analysis to be carried out within SROH parameters:

a) Total depth (thickness) of bitumen bound layers at each location compared to the specified requirement for the particular road type.

b) The quality of placement and compaction of the bituminous material as indicated by the measured air voids content of the core assessed against the current specification.

c) The correct type of aggregate in terms of its ability to achieve the required degree of skid resistance assessed against the current legislation.

After a poor result in 2015/16, WWU has significantly outperformed the other utilities this year. There is very clearly a requirement for both SWW and BT to act immediately and improve; whether lessons can be learnt from WWU remains to be seen. Their declining performance which has been ongoing now since 2013/14 must be reversed.

While WPD's performance has dropped from last year, there has been inconsistency over the last 5 years. Their results since 2012/13 have every year fluctuated in percentage terms between the mid 70's to mid-80's, rising in one year but dropping the next.

SWW, BT and WPD all need to address the specific failures identified this year with air voids in their reinstatements. Nearly one in three of BT's reinstatements failed for this reason and for WPD and SWW it was one in five.

Footway reinstatements appear a particular problem for BT with almost 50% failing. Cores taken from their carriageway reinstatements saw nearly 30% failing.

The potential will be explored to understand what is behind the improvement in WWU's performance to see what learning can be absorbed and put into practice by the other utilities.

Recommendations

- Circulate this report to each Statutory Undertaker in the coring programme.
- Continue with the phased approach of monitoring the standard of compliance with the SROH through structured monthly coring
- Work with all the utilities and their contractors to improve systems of working which will contribute to improving overall compliance.
- Place added focus on coring performance through regular meetings with utilities and their contractors sharing information on coring analysis of reinstatements.
- Identify those local areas with low reinstatement compliance rates, investigate the reasons, report the outcome and work with utilities to identify resolutions.

Andy Nicks
Senior Highway Enforcement Officer
Devon County Council

CT/18/08
Corporate Infrastructure & Regulatory Services Scrutiny Committee
31 January 2018

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2018-19

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: That the Committee consider whether it wishes to draw to the attention of the Cabinet any observations on the proposals contained within the Treasury Management and Investment Strategy.

1. Introduction

1.1 In February 2016, the Council adopted a revised Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs). In December 2017, the Chartered Institute of Public Finance and Accountancy published a revised Code of Practice for Treasury Management. An amended version of the TMPs is therefore being brought to this committee for consideration before being taken to Cabinet and Council for agreement.

1.2 The policy requires the Council to consider a treasury strategy report, setting out the strategy and plans to be followed in the coming year, as part of the budget process.

2. Treasury Management Practices

2.1 The revised Treasury Management Practices are shown in draft at Appendix 1. They incorporate a number of minor changes to wording set out in the new Code of Practice, which strengthen some of the language in relation to risk management and prioritising the security of investments over liquidity and yield.

2.2 A key focus of the revised code is on the requirement to include in treasury management policies Council investments that are not part of treasury management activity. This requirement has been introduced in response to the significant number of authorities that have begun to invest directly in property for the purposes of making a financial return. The new Code is designed to ensure that there is robust risk management in relation to any investment made for the purposes of making a financial return, whether it be through treasury management, direct investment in property, installation of solar panels, or any other example. It is not intended to cover capital investments made in the direct provision of council services, where financial return on the investment is not the driver.

2.3 To date, the Council has maintained a cautious approach to making such investments, preferring to rely on its traditional treasury management policies. Therefore, a section on Commercial investments has been added to TMP1 which states that:

The Council does not currently have a policy of making commercial investments outside of its treasury management activity for mainly financial reasons. All capital investments outside of treasury management activities are held explicitly for the purposes of operational services, including regeneration, and are monitored through existing control frameworks.

This wording is also included in the annual strategy.

2.4 However, the Council does own shares in a number of companies that have been set up for operational service reasons. These include Exeter Science Park and NPS South West for example. The code suggests that the Council should set out the investment practices that cover such investments in addition to any purely commercial investments it may make. Given the late publication of the revised Treasury Management Code, it is proposed to incorporate this requirement in a revision to be brought to the Council during the course of the 2018/19 financial year.

2.5 A revised Prudential Code, also published in December, introduces a new requirement for the Council to publish a capital strategy, that sets out how capital expenditure, investment and borrowing aligns with service priorities and ensures value for money and effective stewardship of resources. However, CIPFA have acknowledged that the timing of publication of the new Prudential Code means that the production of a capital strategy is likely to require a longer lead in time, and may not be able to be fully implemented at the start of the 2018/19 financial year. It is therefore proposed to bring a capital strategy to the Council during the course of 2018/19.

2.6 Another key change required by the new Treasury Management code is to set out the position in relation to the Markets in Financial Instruments Directive II (MiFID II) that came into effect on 3 January 2018. Under MiFID II all local authorities are automatically classed as retail clients in relation to investments, which may restrict the availability of some types of investments used in treasury management. The Financial Conduct Authority have set rules under which local authorities can “opt up” to elective professional client status, which would then enable them to continue to access investments such as money market funds and property funds.

2.7 TMP4 sets out that the Council will seek elective professional client status where required, and will publish in its annual treasury management strategy those organisations with which it is registered as a professional client.

3. Minimum Revenue Provision

3.1 In late 2017 the Ministry of Housing, Communities and Local Government (MHCLG) published a consultation on proposed changes to the Guidance on Local Authority Investments, which included proposals on the Minimum Revenue Provision (MRP), which if implemented, will have a detrimental financial impact on the Authority. MHCLG have not published the final guidance at this time, however it is expected to be in place for the 2018/19 Financial Year.

3.2 As part of the consultation, MHCLG proposed to set a maximum asset life to which borrowing associated with assets can be spread over. The proposed asset life is less than the asset life currently used by the Authority and will therefore increase the annual MRP cost. The estimated impact of the change would be an annual increase of £2.4 millions to the revenue budget in respect of MRP.

3.3 The Authority has responded to the consultation to say that it does not agree with this proposal, however as the final response has not been forth coming, has identified actions to mitigate against them.

3.4 In October 2015 the Authority reviewed its Policy on calculating the MRP required to be set aside from the revenue budget each year. This review resulted in a switch from a 4% reducing balance, to an asset life methodology approach. In addition to generating a reduction in the annual MRP budget, it also resulted in an accumulated provision held in the Capital Financing Requirement (CFR) on the balance sheet, in excess of that required under the new methodology.

3.5 As part of the 2017/18 MRP statement, we are now looking to release part of this over provision from the CFR and set aside in reserves to contribute towards the potential MRP increases required in future years. It is proposed to release £10.9 millions of the over provision using a MRP abatement in year, and placing the revenue budget saving into reserves to be set aside to meet the expected increases. This action does not impact on the level of borrowing, or the final repayment timeframe, just the phasing of MRP set aside, therefore the MRP Policy remains prudent and this action helps to mitigate the financial impact of the proposed changes.

3.6 The opportunity to make this adjustment will no longer be open to Local Authorities in the near future as it is anticipated that new guidance issued by the MHCLG, commencing in 2018/19, will suggest that any such over provisions remain within the CFR, subject to an exception that does not apply in this instance.

3.7 The MRP policy for 2018/19 will remain the same as that adopted for 2017/18. All borrowing (including Vehicle and Equipment Loans Pool), Capitalisation Direction and charges to other public sector bodies and PFI costs will be charged on the period of benefit of the capital investment (on a straight-line basis).

4. Treasury Management and Investment Strategy

4.1 The Treasury Management and Investment Strategy is shown in draft at Appendix 2. It sets out the MRP policy, capital expenditure funding, prudential indicators, the current treasury position, debt and investments; prospects for interest rates; the borrowing strategy; and the investment strategy.

4.2 Since 2009 the Council has followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. Capital expenditure new starts have been limited to those that were financed from sources other than borrowing. To meet the need for capital expenditure, the highest priority schemes across the Authority are funded from corporate capital receipts over the capital programme timescale.

4.3 The ability of the Council to repay further debt will depend on the cost of repayment and the availability of cash to fund the repayment. Under their current policy the Public Works Loan Board (PWLB) sets premature repayment rates, and where the interest rate payable on a current loan is higher than the repayment rate, the PWLB imposes premium penalties for early repayment. Current interest rate forecasts suggest that it is extremely unlikely that gilt yields will rise sufficiently to cancel out the premiums in the medium term.

4.4 Following the Bank of England's decision to increase the base rate back up to 0.5% in November, having reduced it to 0.25% following the European Union referendum result, the target return for 2018/19 for deposits with banks and building societies has been increased from 0.40% to 0.55% as banks and building societies have started to increase their rates marginally. The target rate for the CCLA Property Fund will remain at 4.50%.

5. Conclusion

5.1 The Treasury Management and Investment Strategy will be considered by Cabinet along with the draft budget for 2018/19 on 9 February, and will become part of the budget book to be approved by Council at its budget meeting on 15 February.

5.2 The Committee is invited to make observations on these proposals prior to their consideration by the Cabinet on 9 February.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers – Nil
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Treasury Management Code of Practice

The County Council will create and maintain, as cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities; and
- suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The County Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in the TMPs.

The County Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the County Treasurer, who will act in accordance with the County Council's policy statement and TMPs and if he/she is a CIPFA member, CIPFA's Standard of professional Practice on Treasury Management.

The County Council nominates the Corporate Services Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Policy

The Council defines its treasury management activities as: The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance within those risks.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

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

The Treasury Management Practices (TMPs) will be applied to ensure that this Policy is delivered. The Council will through the use of these practices ensure that security and liquidity are prioritised ahead of yield within the defined risk framework.

Appendix 1

Treasury Management Practices

Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

TMP1 Treasury Risk Management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The County Treasurer will ensure the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk. She will report at least annually on their adequacy and suitability, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.

In respect of each of the following risks, the arrangements, which seek to ensure compliance with these objectives, are set out.

Liquidity risk management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of its business and service objectives.

The daily cash flow is managed by officers in order to 'smooth' the flow of funds into and out of the Council, ensuring best returns on surplus funds, whilst minimising borrowing costs on days where there is a shortage. Short term borrowing and lending is generally undertaken in periods of under one month to ensure as far as is possible that on no one day should there be a requirement to have to fund shortages in excess of £1 million. Days when it is known that large outflows of money will take place e.g. payroll dates, are obvious dates to ensure there is sufficient liquidity.

Balances that are identified as not being for immediate use, say within the next few months, may be invested for longer periods.

Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or achieving its interest revenues, as set out in the Revenue Budget.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

The level of exposure to Interest Rate Risk depends on the balance of fixed to variable monies. Here the risk is twofold. Being locked in to fixed funding when rates are falling, or failing to take advantage at a time when rates are perceived as low, or are forecast to rise; conversely, being locked into investments when rates are rising, and being unable to take advantage of this situation.

The Council has had, for a number of years, the policy of borrowing the fixed rate long-term element of its loans portfolio with loans from the Public Works Loan Board (PWLB) or the Money Market. This policy is reassessed annually as part of the adoption of the Treasury Policy Statement.

Interest Rate Risk is not increased by this policy as it is still possible to manage by switching existing loans from fixed to variable or vice versa, or re-scheduling existing debt, i.e. repaying existing debt, and re-borrowing over a shorter, or perhaps longer period. However, the existing arrangements operated by the Board of different rates for repaying loans as to those applied to new advances, mean that such changes are often uneconomic. Regard must always be had of the potential costs of any re-scheduling, as often they will attract a premium payable to the lender. This point is also referred to later under 'Re-financing Risk.'

Market Loans, usually in the form of Lender's Option Borrower's Option (LOBOs), offer an alternative to borrowing from the PWLB. Here money is borrowed for an initial period against the issue of a Bond, and gives the Lender the Option of varying the rate at the end of the period. If this Option is taken, the Council as Borrower can in turn agree to the new rate, or repay the loan without penalty. The flexibility offered by such loans can be a great help in managing this type of risk. The lender, who has the choice to (or not to) exercise the first option, has to be seen as having the greater control of the arrangement.

On the investment side, the use of Call Accounts, Notice Money, Money Market Funds, and Callable Deposits all introduce a degree of flexibility not offered by fixed term investments.

The CIPFA Code requires that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs. Derivatives are securities whose price is dependent upon or derived from one or more underlying assets, the most common being stocks, bonds, commodities, currencies, interest rates and market indexes. They can be used to hedge (provide insurance) against risk or for speculative purposes; however it is the Council's policy not to use derivatives in its treasury management activities.

Exchange rate risk management

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

It will achieve this objective by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of exchange rates. The above is subject at all times to the consideration and, if required, Council approval of any policy or budgetary implications.

The risk from fluctuating exchange rates is not material as far as the Council is concerned, as there is currently very little of either income or expenditure transacted in currencies other than Sterling.

Inflation risk management

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures. During the current period of low and stable inflation, there is little requirement for active consideration of its impact. The key objectives are that investments reap the highest real rate of return, with debt costing the lowest real cost. Should this change, projections of inflation will become part of the debt and investment decision-making criteria, both strategic and operational.

Credit and counterparty risk management

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 'Approved Instruments, methods and techniques'. It also recognises the need to have, and maintain, a formal counterparty policy in respect of those organisations with whom it may enter into financing arrangements.

The County Council's arrangements have been formulated to restrict the exposure to risk by taking account of the credit standing of counterparties, and setting limits to different types of borrowers.

The credit ratings of all three major rating agencies (Fitch, Moody's and Standard & Poor's) will be used to ensure that commercial institutions satisfy the requirements of the current policy. In essence the County looks for the highest rating from banks and sets lending limits against each one. Banks and UK Building Societies that do not attract these ratings are not considered at all. The actual ratings sought by the Council may be varied as part of the regular review of lending policy and counterparties.

Lending to other Local Authorities, and Public Bodies is allowed, with differing credit limits according to the type of institution.

The List of Approved Counterparties is kept under close review and is subject to amendment in the light of changes to credit ratings, takeovers and mergers, or changes to the type of institution.

Approved institutions are placed on the lending list, deposits may not be made to any institution, which does not conform to the requirements of the Lending List, nor is any transaction allowed to be entered into through any money broker not featuring on the approved list. The financial press and other sources are monitored with a view to discovering cases where an institution on the List is in any difficulty, financial or otherwise. If appropriate, any organisation will be immediately suspended from the list until such time that they demonstrate their creditworthiness. The decision to suspend a counterparty is made by the Assistant County Treasurer (Investments and Treasury Management), and notified to other officers by the issue of a revised Approved List.

Funds available to the County for investment are substantial, and the current lending policies ensure a balance of there being no difficulty placing funds, whilst at the same time the credit risk is minimised.

Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise its achievement.

External long term funding is arranged by the Treasury staff in accordance with the Treasury Strategy, which is adopted by the Council's members before the start of each financial year. All borrowings are with either the Public Works Loan Board or a major bank as lender.

Loans are offered by the Board over periods of one to fifty years and can be either at fixed or variable rates. There are also three methods of repaying loans; Maturity, by Equal Instalments of Principal (EIP), or as Annuity loans. The Council currently uses only the first type, and pays interest half-yearly in September and March.

PWLB loans are fairly flexible; variable loans can be converted to fixed loans and vice versa, debt can be re-scheduled over different periods. Re-scheduling existing fixed rate debt however introduces an element of refinancing risk, which is increased in re-scheduling loans with long maturity profiles. The penalty (or premium) payable is dependent on the relationship between the loan rate and the current repayment rate for loans of a period equal to the unexpired term. As PWLB rates are reviewed daily, the timing of the rescheduling exercise is important if the costs of any penalties are not to cause problems to budgeted expenditure levels.

Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 'credit and counterparty risk management', it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.

Council officers carry out their duties with reference to Local Government Acts and Regulations, and in accordance with the Council's Treasury Management Policy.

In framing the Lending List, reference is made to official circulars from the Bank of England and to Credit Agency reports in order to vet potential counterparties. In return, the Council, if requested, will provide to those institutions, documentation to support the Council's and Council Officer's powers to enter into any transaction. Annual Accounts, Treasury Management Strategy Statements, and Schemes of Delegation are exchanged with counterparties.

Under no circumstances are officers involved in cash management allowed to borrow or lend for the purpose of generating surpluses from speculative money market dealings.

Fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances that may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures to reduce exposure to these risks, in addition to providing effective contingency management arrangements.

Systems and procedures are in place to ensure that all money market deals are documented and authorised.

Proprietary systems are used to record money market transactions (Logotech Treasury Management), and to process transactions (Barclays.net). Both of these systems are operated with a clear division of duties between personnel involved in data entry, checking, and authorisation of transactions. Both systems are accessed only through a system of passwords. Reports and records from the systems also allow independent checks by others, for example Internal Audit, on the accuracy and completeness of all transactions, and to verify that they were made in accordance with agreed policy.

A summary of each day's activity is kept which shows the opening bank balances, and record of individual receipts and payments to be transacted during the day. This allows a forecast to be made of the end of day balance, and from this, the requirement to either borrow or lend funds.

Generally, if the forecast closing balance is less than £100,000 overdrawn, it is not economic to borrow at rates just marginally below the rate payable by having an overdrawn balance. The transaction costs, and the cost of brokerage, will more than outweigh any saving of interest.

A forecast credit balance of anything below £250,000 will not be offered to the 'market', but will be simply kept with Barclays Bank.

All borrowing is conducted via money brokers, and every effort is made to ensure that no one broker is given a disproportionate amount of business.

Lending can be arranged either direct with counterparties, or via a broker (as lending does not attract brokerage). It is clearly important to show that the interest rate for deposits made was competitive, and so a record is kept of rates available from other potential borrowers on the day.

Deals are entered into the Logotech system, and reports produced from it confirming the details entered, and a current list of all outstanding borrowing and lending. The Barclays.net system is used to electronically transfer funds where deposits have been agreed, or where borrowings are to be repaid. Hard copy confirmation reports of data input to Barclays.net are created, and together with the Logotech reports and the Summary Sheet are passed to another section for checking and validation.

Authorisation to release electronic payments is restricted to a small number of senior officers, each of whom has been allocated a unique sign in.

Arrangements are in place to ensure that the roles of creator, validation and authoriser are covered for holidays and other absences.

Officers responsible for cash management follow the recommended procedures set out in the London Code of Conduct. This code requires that:

- Officers should not disclose or discuss, or press others to disclose or discuss, any information relating to specific deals transacted without permission from the relevant counterparty or broker;
- Visits to or from brokers should not be organised without the express permission of a senior officer. Any hospitality received must be declared and recorded;
- All deals must be concluded in the Investment Team Office;
- The dealer must bear in mind that in accepting a firm price, they are committing the Council to dealing at that rate. If a dealer wishes merely an indicative price, this must be made clear; and
- Brokers must be supplied with a copy of the Council's current approved Counterparty Lending List.

Price risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

The majority of lending is in the form of cash deposits. However a proportion of the Council's funds may be invested in alternative forms of investment where the capital value may fluctuate. These will be managed in such a way as to minimise the risk of financial loss.

Commercial investments

The Council does not currently have a policy of making commercial investments outside of its treasury management activity for mainly financial reasons. All capital investments outside of treasury management activities are held explicitly for the purposes of operational services, including regeneration, and are monitored through existing control frameworks.

TMP2 Performance Measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, and of the scope for other potential improvements.

The review of treasury management decisions is carried out at regular officer meetings held to discuss treasury matters. This forum reviews past actions as well as considering the period ahead.

The minutes of these meetings are made available to External Audit as part of their Annual Audit, and to Internal Audit should they be required.

Performance is measured against agreed benchmarks.

Long term debt is judged in terms of average rate of all external debt, and comparisons made with previous years.

Investment earnings are measured against published benchmarks, including Base Rate and the London Interbank Seven Day Rate (Libid).

Data is submitted to CIPFA for inclusion in its annual Treasury Management and Debt Management Statistics, which allow comparison with others. These comparative statistics will be used to monitor performance.

At present the Council has no plans to appoint external cash fund managers. It is not felt that the cost of such an appointment is likely to be covered by any marginal return over what is currently being achieved internally. However, this matter needs to be reviewed from time to time, and records are kept of the performance of a number of fund managers.

TMP3 Decision-Making and Analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

In respect of every decision made, Devon County Council's Treasury staff will have certainty about the legality of the transaction, and be content that the transaction helps deliver the organisation's objectives as set out in the Strategy Statement.

Third parties will have been checked to ensure their credit worthiness and to ensure that limits have not been exceeded. Rates will be fully checked against the market to ensure they are competitive.

With particular regard to borrowing, market and economic factors will influence the timing of any funding, the most appropriate period, and the repayment profile.

Similarly, before investing, account will be taken of the existing cash flow, and market conditions, before fixing the optimum period.

The Council employs Treasury Management Advisors, who are able to ensure that the officers are informed of any potential changes that may affect treasury decisions.

Records are kept not only of all transactions, but also of all documents that were a part of reaching the decision. For example, when investing, bids will be obtained from a number of banks, and a record kept of these to demonstrate that the one taken was competitive.

TMP4 Approved Instruments, Methods and Techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed, and within the limits defined in 'TMP1, Risk Management'.

The following are approved activities performed by Devon County Council:

- Borrowing;
- Lending;
- Debt repayment and rescheduling;
- Consideration, approval and use of new financial instruments and treasury management techniques;
- Managing the underlying risk associated with capital financing and surplus funds; and
- Managing cash flow.

The Council's policy is not to use derivatives in its treasury management.

There are a number of ways of raising external capital finance, which are set out in Local Government Acts, but the Council has only used two of these, borrowing from the Public Works Loan Board, and from banks, in the form of LOBOs (see TMP 1 Treasury Risk Management – Interest Rate Risk for more information).

The County Treasurer considers these the most appropriate form of borrowing, but alternatives to these, which are allowed to Local Authorities, may well be considered in the future.

(Increasingly, there are other potential sources for the funding of capital projects, e.g. Private Finance arrangements, or the use of leasing, but they are not considered here).

The majority of lending is in the form of cash deposits. However a proportion of the Council's funds may be invested in alternative forms of investment where the capital value may fluctuate. These will be managed in such a way as to minimise the risk of financial loss. The potential list of alternative forms of investment includes UK Government Gilts, bond funds and property funds, but only those specified within the annual Treasury Management Strategy shall be permitted.

The Council has reviewed its classification with financial institutions under MIFID II and will seek elective professional client status where required in order to access the investment opportunity sets set out in its treasury management policies and strategy. The Council will set out in its annual treasury management strategy those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends to depart from these principles, the County Treasurer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements, and the implications properly considered and evaluated.

The County Treasurer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, as a CIPFA member, the Standard of Professional Practice on treasury management. She will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

There are a number of bodies and individuals with responsibilities in this area.

Councillors

Members will receive reports on treasury management policies, practices and activities, including audit reports. As a minimum, each year, Council will have to consider:

- The Treasury Strategy Report, setting out the strategy and plans to be followed in the coming year. This report is part of the Budget process;
- A Mid-Year Monitoring Report; and
- An Annual Treasury Management Stewardship Report on the performance of the Treasury Management function, and highlighting any areas of non-compliance with agreed policy.

(The content of these three reports are more fully explained in TMP 6 'Reporting Arrangements'.)

Members are required to approve any amendments to the organisation's adopted Treasury Management Policy Statement, and the selection of external service providers, including agreeing terms of appointment.

The County Treasurer

The County Treasurer is responsible for recommending (changes to) Treasury Management Policies to Members for approval, and for ensuring they receive as a minimum, the three annual reports referred to above. The County Treasurer will ensure that Treasury Policies are adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

The County Treasurer will receive reports from the Treasury Team, both Internal and External Audit, and from other sources regarding performance. It is the responsibility of the County Treasurer to consider such reports, and any recommendations arising from them.

Prior to entering into any long term borrowing, lending or investment transaction, it is the responsibility of the County Treasurer to be satisfied, by reference to the Investment Team that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

The County Treasurer has delegated powers to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments. In practice these powers are in turn delegated to the Investment Team.

The Assistant County Treasurer – Investments and Treasury Management

The Assistant County Treasurer needs to ensure the adequacy of treasury management resources and skills, the effective division of responsibilities within the treasury management function, and that all transactions are authorised in accordance with the financial regulations of the Council.

The Treasury Management Team

The Treasury management Team are responsible for optimising the Council's investment returns commensurate with minimum risk, and in accordance with agreed policy and strategy.

Nominated team members are responsible for the execution of transactions, and for ensuring that they are documented in accordance with agreed practice.

In performing their roles they need to be aware of maintaining relationships with third parties and external service providers, which may well lead to identifying and recommending opportunities for improved practice.

Reports, both verbal and written are required to be made to the County Treasurer and the Assistant County Treasurer.

Internal Audit

The responsibilities of Internal Audit include ensuring compliance with approved policy and procedures, reviewing division of duties and operational practice, assessing value for money from treasury activities, and undertaking probity audit of the treasury function.

TMP6 Reporting Requirements and Management Information Arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

Before the start of each financial year, the Council must adopt the Treasury Management Strategy. The Strategy sets out the expected treasury activities for the forthcoming year, and is concerned with:

- The prospects for future interest rates;
- The expected strategy with regard to borrowing and temporary investments (including the appointment of external managers); and
- Policies regarding debt redemption and rescheduling.

A mid-year monitoring report will bring Members up to date with actions taken. This will draw on the regular meetings which the County Treasurer has with the Assistant County Treasurer (Investments and Treasury Management) and Treasury staff to consider activity to date, and to discuss particular aspects of treasury management activity.

An annual Treasury Management Stewardship Report will be presented to the Corporate Services Scrutiny Committee, and then to the Cabinet at the end of the financial year. The Treasury Management report includes:

- A comprehensive picture for the financial year of all treasury policies, plans, activities and results;
- Details of transactions executed and their revenue (current) effects;
- A report on risk implications of decisions taken;
- Monitoring of compliance with approved policy, practices and statutory/regulatory requirements;
- Monitoring of compliance with powers delegated to officers;
- The degree of compliance with the original strategy and explanation of deviations;

- An explanation of future impact of decisions taken on the organisation;
- Measurements of performance; and
- A report on compliance with CIPFA Code recommendations.

TMP7 Budgeting, Accounting and Audit Arrangements

The County Treasurer will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management. This will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 'Risk Management', TMP2 'Performance Measurement', and TMP4 'Approved Instruments, Methods and Techniques'.

The Treasury Management Budget or supporting papers will identify

- Staffing numbers and related costs, together with on-costs;
- Interest and other investment income;
- Debt and other financing costs;
- Bank and overdraft charges;
- Brokerage, commissions and other transaction-related costs; and
- External advisors' and consultants' charges.

The County Treasurer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 'Reporting Requirements and Management Information Arrangements'.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the County Treasurer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Assistant County Treasurer (Investments and Treasury Management) will ensure that these are adequate for the purposes of monitoring compliance with TMP1 regarding Liquidity Risk Management.

A Cash Flow Report is produced at the start of each financial year, based upon information contained in the published Capital and Revenue Budgets.

Items of income and expenditure are examined and in discussion with finance staff from the different services, a time dimension is attached to the flows of cash.

All of the cash flow data is then entered into the Logotech Treasury Management System, which also contains information relating to all of the Council's treasury transactions, both lending and borrowing.

Actual receipts and payments are monitored against the forecast, and regular discussions are held with services staff who are likely to be able to explain the variations. The forecast is updated in the light of them

Cash flow is discussed at weekly meetings of the Treasury Team, and is used in determining investment strategy.

TMP9 Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures to minimise the risk of any such event occurring, and for verifying and recording the identity of counterparties and reporting suspicions. It will also ensure that staff involved in treasury transactions are properly trained.

The source of all monies received by the Council is required to be identified. Major unbudgeted income or receipts which had not been forecasted are investigated.

The County Council does not accept loans from individuals. All loans are obtained from the Public Works Loan Board or from authorised institutions under the Banking Act 1987. The names of these institutions formerly appeared on the Bank of England's quarterly list of authorised institutions, but in December 2001, the Financial Services Authority (FSA) took over many of the Bank's responsibilities in this area. In April 2013 the FSA was split up and responsibility passed to the Financial Conduct Authority and it is now responsible for maintaining the register.

TMP10 Staff Training and Qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to ensure that individuals involved, whether in-house or out-sourced, are both capable and experienced and provided with training to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Career development and planning for succession are similarly the responsibility of the Departmental Management. Qualifications that are required for all treasury posts are contained in their job descriptions.

The Council's County Treasurer, as a member of CIPFA is committed to her professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

She personally, and through her management team, accepts that these matters are ones that should be regularly assessed to ensure compliance.

TMP11 Use of External Service Providers

The Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources.

If and when it employs such service providers, it will ensure it does so for reasons, which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Where feasible, a spread of service providers will be used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The Council will be mindful of the requirements of the Bribery Act 2010 in their dealings with external providers. The monitoring of such arrangements rests with the County Treasurer.

TMP12 Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in this document, are considered vital to the achievement of proper corporate governance in treasury management, and the County Treasurer will monitor and, if necessary, report upon the effectiveness of these arrangements.

Appendix 2

Treasury Management Strategy 2018/19 – 2020/21 and Prudential Indicators 2018/19 - 2022/23

Introduction

The Treasury Management Strategy sets out the County Council's policies in relation to: the management of the Council's cashflows, its banking, money market and capital market transactions; borrowing and investment strategies; monitoring of the level of debt and funding of the capital programme.

The County Council has adopted the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Services. A revised Code of Practice was published by CIPFA in December 2017, and requires the Council to approve a Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs). These policies have been reviewed for 2018/19 in the light of the revised code and revised TMPs have been submitted for approval.

The County Council is required to monitor its overall level of debt in line with the national code of practice drawn up by CIPFA. Part of this code requires consideration of a set of "prudential indicators" in order to form a judgement about the affordable, prudent and sustainable level of debt.

The prudential indicators, treasury management strategy and the annual investment strategy have been reviewed in line with the Capital Programme 2018/19 – 2022/23.

This Treasury Management Strategy document sets out:

- Minimum revenue provision;
- Capital expenditure funding;
- Prudential indicators on the impact of capital financing and monitoring of the level and make-up of debt;
- The current treasury position, debt and investments;
- Prospects for interest rates;
- The borrowing strategy; and
- The investment strategy.

Minimum Revenue Provision

Minimum Revenue Provision (MRP) is a charge to the authority's revenue account to make provision for the repayment of the authority's external debt and internal borrowing. The authority has a statutory obligation to charge to the revenue account an annual amount of MRP.

The authority's MRP strategy is to charge all elements based on the period of benefit of the capital investment. All supported capital expenditure and unsupported borrowing up to 1st April 2008 and unsupported borrowing post 1 April 2008 (including Vehicle and Equipment Loans Pool), Capitalisation Direction and charges to other public sector bodies will be charged on the period of benefit of the capital investment (on a straight line basis).

We will not provide for MRP in circumstances where the relevant expenditure is intended to be financed from external contingent income, where it has not yet been received but where we conclude that it is more probable than not that the income will be collected.

Appendix 2

Capital financing costs are also affected by PFI contracts and finance leases coming 'on Balance Sheet'. This will be charged in-line with the authority's main MRP Policy over the period of benefit of the capital investment, being the asset life.

The main Prudential Indicator to measure the acceptable level of borrowing remains the ratio of financing costs to total revenue stream. The figures for MRP shown in table 6 reflect the adoption of this strategy.

Capital Expenditure

Table 1 shown below, summarises the Capital Programme and liabilities from capital projects that will appear on the balance sheet in future years. The Capital Programme has been tested for value for money via option appraisal and for prudence, affordability and sustainability by looking at the impact that the proposed Capital Programme has on the revenue budget and through the Prudential Indicators.

Table 1 – Capital Expenditure

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Total Capital programme	**104,917**	**113,801**	**71,526**	**68,678**	**65,412**
Funded by:					
Gross borrowing	3,780	5,832	4,200	4,218	1,200
Other capital resources	101,137	107,969	67,326	64,460	64,212
Total capital programme funding	**104,917**	**113,801**	**71,526**	**68,678**	**65,412**
Total capital expenditure	**104,917**	**113,801**	**71,526**	**68,678**	**65,412**

Prudential Indicators

Capital Financing Requirement

The Capital Financing Requirement represents the Council's underlying debt position. It shows the previous and future spend for capital purposes that has been or will be financed by borrowing or entering into other long term liabilities. The Capital Financing Requirement and debt limits will be higher than the Council's external debt, as they will be partly met by internal borrowing from the Council's internal cash resources. This reduces the cost of the required borrowing, but the Council also needs to ensure that a prudent level of cash is retained.

The forecast Capital Finance Requirement for 2018/19 and the following four years are shown in table 2 below.

Appendix 2

Table 2 – Capital Financing Requirement

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Underlying borrowing requirement	604,043	609,859	614,043	618,246	619,430
Other long-term liabilities	133,717	128,637	123,888	118,485	112,918
Capital financing requirement	**737,760**	**738,496**	**737,931**	**736,731**	**732,348**

Limits to Debt

The Authorised Limit represents the level at which the Council is able to borrow and enter into other long term liabilities. Additional borrowing beyond this level is prohibited unless the limit is revised by the Council. Table 3 details the recommended Authorised Limits for 2018/19 – 2022/23.

Table 3 – Authorised Limits

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Authorised limits for borrowing	644,043	649,859	654,043	658,246	659,430
Authorised limit for other long-term liabilities	133,717	128,637	123,888	118,485	112,918
Authorised limit for external debt	**777,760**	**778,496**	**777,930**	**776,731**	**772,348**

The Operational Boundary is based on the anticipated level of external debt needed during the year. Variations in cash flow may lead to occasional, short term breaches of the Operational Boundary that are acceptable. Sustained breaches would be an indication that there may be a danger of exceeding the Authorised Limits. Table 4 details the recommended Operational Boundaries for 2018/19 and following years.

Table 4 - Operational Limits

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Operational limits for borrowing	619,043	624,859	629,043	633,246	634,430
Operational limit for other long-term liabilities	133,717	128,637	123,888	118,485	112,918
Operational limit for external debt	**752,760**	**753,496**	**752,931**	**751,731**	**747,348**

The forecast opening balance for External Borrowing at 1 April 2018 is £507.85 million and remains unchanged at 31 March 2019.

The Council also needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement. Table 5 details the Capital Financing Requirement against the total gross debt plus other long term liabilities. The level of under borrowing reflects the use of internal borrowing from the Council's internal cash resources.

Appendix 2

Table 5 – Underlying Borrowing Requirement to Gross Debt

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Capital financing requirement	737,760	738,496	737,931	736,731	732,348
Gross borrowing and other long-term liabilities	646,796	641,567	636,487	631,738	626,335
Under/ (over) borrowing	**90,965**	**96,929**	**101,444**	**104,993**	**106,013**

The debt management strategy and borrowing limits for the period 2018/19 to 2022/23 have been set to ensure that over the medium term net borrowing will only be for capital purposes.

Ratio of Financing Cost to Net Revenue Stream

Table 6 below shows the relationship between Capital Financing Costs and the Net Revenue Stream for 2018/19 and future years. Financing cost is affected by Minimum Revenue Provision (MRP), interest receivable and payable and reductions in other long term liabilities.

Table 6 – Ratio of Financing Costs to Net Revenue Stream

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Minimum revenue provision	16,712	16,298	16,164	15,650	15,653
Interest payable	26,017	26,017	26,017	26,017	26,017
Recharges and other adjustments	(350)	(327)	(480)	(666)	(838)
Interest receivable	(990)	(990)	(990)	(990)	(990)
Capital financing cost (excluding other long-term liabilities)	41,389	40,998	40,711	40,011	39,842
Capital financing costs of other long-term liabilities	15,362	14,625	14,901	14,636	14,689
Capital financing costs including other long-term liabilities	56,751	55,623	55,612	54,647	54,531
Estimated net revenue stream	**513,502**	**519,560**	**535,877**	**544,287**	**544,287**
Ratio of financing costs (excluding other long term liabilities) to net revenue stream	**8.06%**	**7.89%**	**7.60%**	**7.35%**	**7.32%**
Ratio of financing costs (including other long-term liabilities) to net revenue stream	11.05%	10.71%	10.38%	10.04%	10.02%

Incremental Impact on Council Tax

The incremental impact on Council Tax of the investment decisions made in setting the 2018/19 Capital Programme is shown in table 7.

Appendix 2

Table 7 – Impact on Council Tax

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Incremental impact on band D council tax payers of investment decisions funded by borrowing	(0.23)	(1.33)	(2.08)	(1.65)	(1.24)
Incremental impact on band D council tax payers of investment decisions funded by increased other long-term liabilities	0.00	0.00	0.00	0.00	0.00
Incremental impact on band D council tax payers of capital investment decisions made in setting the 2015/16 MTCP	**(0.23)**	**(1.33)**	**(2.08)**	**(1.65)**	**(1.24)**

Treasury Management Prudential Indicators

Where external borrowing is required it can either be at fixed or variable rates of interest, and can be taken out for periods from a year to 50 years. The use of prudential indicators seeks to reduce the risks associated with fixed and variable interest rate loans and with borrowing for different loan periods.

Borrowing at fixed rates of interest for long periods can give the opportunity to lock into low rates and provide stability, but means that there is a risk of missing possible opportunities to borrow at even lower rates in the medium term. Variable rate borrowing can be advantageous when rates are falling, but also means that there is a risk of volatility and a vulnerability to unexpected rate rises.

Borrowing for short periods or having large amounts of debt maturing (and having to be re-borrowed) in one year increases the risk of being forced to borrow when rates are high.

The Council's policy has been to borrow at fixed rates of interest when rates are considered attractive.

The proposed Prudential Indicators for 2018/19 and beyond are set out in Table 8 below:

Table 8 – Treasury Management Prudential Indicators

Prudential Indicators	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100	70
Limits on borrowing at variable interest rates	30	0
Percentage of Fixed Rate Debt maturing in:		
Under 12 months	20	0
12 Months to within 24 months	25	0
24 Months to within 5 Years	30	0
5 years and within 10 Years	35	0
10 years and within 20 years	45	0
20 years and within 35 years	60	0
35 years and within 50 years	75	20

The limits have been set taking into account the CIPFA Code of Practice which requires that the maturity date for LOBO (Lender Option Borrower Option) loans is assumed to be the next call date, rather than the total term of the loan. This will apply to the Council's Money Market loans.

Monitoring the Indicators

It is important to monitor performance against forward looking indicators and the requirement that borrowing should only be for capital purposes. The total level of borrowing will be monitored daily against both the operational boundary and the authorised limit. If monitoring indicates that the authorised limit will be breached, a report will be brought to the Cabinet outlining what action would be necessary to prevent borrowing exceeding the limit and the impact on the revenue budget of breaching the limit. It will be for the Cabinet to make recommendations to the County Council to raise the limit if it is felt appropriate to do so.

The indicators for capital expenditure, capital financing requirement, capital financing costs and the treasury management indicators will be monitored monthly. Any significant variations against these indicators will be reported to the Cabinet.

Analysis of Long Term Debt

The following Table 9 shows the County Council's fixed and variable rate debt as at 31 March 2017 and 31 December 2017 (current).

The interest rates shown do not include debt management costs or premiums/discounts on past debt rescheduling.

There has been no movement in the Council's external debt over the last financial year, as no new borrowing has been required and no further opportunities have arisen to repay debt.

Table 9 – Analysis of Long Term Debt

	Actual 31.03.17 £'m	Interest Rate %	Current 31.12.17 £'m	Interest Rate %
Fixed Rate Debt				
PWLB	436.35	4.99	436.35	4.99
Money Market	71.50	5.83	71.50	5.83
Variable Debt				
PWLB	0.00		0.00	
Money Market	0.00		0.00	
Total External Borrowing	**507.85**	**5.11**	**507.85**	**5.11**

Schedule of Investments

The following schedule shows the County Council's fixed and variable rate investments as at 31 March 2017 and as at 31 December 2017 (current).

Appendix 2

Table 10 – Schedule of Investments

		Actual 31.03.17*	Interest Rate	Current 31.12.17*	Interest Rate
	Maturing in:	£'m	%	£'m	%
Bank, Building Society and MMF Deposits					
Fixed Rates					
Term Deposits	< 365 days	66.50	0.66	110.00	0.62
	365 days & >	0.00		0.00	
Callable Deposits					
Variable Rate					
Call & Notice Accounts		30.00	0.75	17.50	0.75
Money Market Funds (MMFs)		20.74	0.29	28.66	0.34
Property Fund		10.00	4.45	10.00	4.42
All Investments		**127.24**	**0.92**	**166.16**	**0.81**

The Council's cash balance available for investment varies during the year, with the balance building up during the first half of the financial year, and then tapering down towards the end of the financial year. It is now anticipated that the cash balances at 31st March 2018 will be broadly similar to those at the start of the year.

The recent investment performance of the County Council's cash has been affected by the low interest rates introduced as part of the measures used to alleviate the global credit crunch. Interest rates have also been impacted by the introduction of new banking regulations requiring banks to hold higher levels of liquidity to act as a buffer.

The rates on offer continue to be low and the returns on the County Council's cash investments are forecast to remain at low levels for the foreseeable future; however, the Treasury Management Strategy will continue to ensure a prudent and secure approach.

Prospects for Interest Rates

Forecasting future interest rate movements even one year ahead is always difficult. The factors affecting interest rate movements are clearly outside the Council's control. Whilst short term rates are influenced by the Bank of England's Base Rate, long term rates are determined by other factors, e.g. the market in Gilts. Rates from overseas banks will be influenced by their national economic circumstances. The County Council retains an external advisor, Capita, who forecast future rates several years forward. Similar information is received from a number of other sources.

At the beginning of November 2017, the Bank of England Monetary Policy Committee decided to remove the post EU referendum emergency monetary stimulus implemented in August 2016 and restore the Base Rate to 0.5%. At the same time, they also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020.

* The figures as at 31 March 2017 and 31 December 2017 include respectively around £14.6m and £12.8m related to the Growing Places Fund (GPF). Devon County Council has agreed to be the local accountable body for the GPF, which has been established by the Department for Communities and Local Government to enable the development of local funds to address infrastructure constraints, promoting economic growth and the delivery of jobs and houses. The Council is working in partnership with the Local Economic Partnership, and interest achieved on the GPF cash, based on the average rate achieved by the Council's investments, will accrue to the GPF and not to the County Council.

Appendix 2

Economic forecasting remains difficult with so many external influences weighing on the UK. Bank rate forecasts will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e. equities, or the "safe haven" of government bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. A world economic recovery will likely see investors switching from the safe haven of bonds to equities. However, the outlook remains extremely uncertain. Risks to the downside include:

- Continuing uncertainty as a result of Brexit.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Rising protectionism under President Trump.
- A sharp Chinese downturn and its impact on emerging market countries.

The following Table 11 sets out interest rate forecasts over the next year. The forecasts from Capita and Capital Economics reflect the view that the Bank of England will increase the base rate by at least another 0.25% over the next financial year, but significant uncertainty remains. The longer-term rates available from the Public Works Loan Board (PWLB) are forecast to increase marginally over the period.

Table 11 – Base Rate Forecasts and PWLB Rates

Base Rate	Dec (act) 2017	March 2018	June 2018	Sep 2018	Dec 2018	March 2019
Capita	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%

PWLB Rates	Dec (act) 2017	March 2018	June 2018	Sep 2018	Dec 2018	March 2019
Capita forecast						
10 Year	2.31%	2.20%	2.30%	2.40%	2.40%	2.50%
25 Year	2.85%	2.90%	3.00%	3.00%	3.10%	3.10%
50 Year	2.58%	2.60%	2.70%	2.80%	2.90%	2.90%

When budgeting for interest payments and receipts a prudent approach has been adopted to ensure that, as far as is possible, both budgets will be achieved.

Appendix 2

Borrowing Strategy 2018/19 – 2020/21

The overall aims of the Council's borrowing strategy are to achieve:

- Borrowing at the lowest rates possible in the most appropriate periods;
- The minimum borrowing costs and expenses; and
- A reduction in the average interest rate of the debt portfolio.

Since 2009 the Council has followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. This strategy has worked well in a period of austerity. The Council's external borrowing level has reduced by £102m since 2008/09, resulting in reduced Capital Financing Charges.

The capital programme continues to include new starts funded by grants or capital receipts but with no requirement for new external borrowing. There is no expectation that government funding will deviate from its current downward trajectory. The authority faces significant challenges in balancing its revenue budget in the coming years and it is therefore difficult to imagine how significant additional borrowing could be financed. As a result, the Medium Term Financial Strategy (MTFS) continues to assume that, over the three year period, no new long-term borrowing will be required, although this will be kept under review.

The potential to repay further debt, or refinance debt at lower rates, will continue to be closely monitored. The ability of the Council to repay further debt will depend on the cost of repayment and the availability of cash to fund the repayment.

The loans in the Council's current debt portfolio all have maturity dates beyond 2027. Under their current policy the Public Works Loan Board (PWLB) sets premature repayment rates, and where the interest rate payable on a current loan is higher than the repayment rate, the PWLB imposes premium penalties for early repayment. With current low rates of interest this would be a significant cost which would impair the benefit of repayment. Therefore, it will only make financial sense to repay debt early if the PWLB changes its current policy, or if interest rates rise and cancel out the repayment premiums. Current interest rate forecasts suggest that it is extremely unlikely that gilt yields will rise sufficiently to cancel out the premiums in the medium term.

It is forecast that as at 31 March 2018 the Council will have cash balances of around £125m. A prudent level of balances is required to meet cashflow. In addition, the cash balances will in part be made up of earmarked reserves and will therefore be committed to meeting Council expenditure. With austerity set to continue, there may be a future need to use revenue reserves and internal borrowing to fund the capital programme. This may restrict the availability of cash to repay external debt.

If short-term borrowing is required to aid cashflow, this will be targeted at an average rate of **0.4%**.

Investment Strategy 2018/19 – 2020/21

The County Council continues to adopt a very prudent approach to counterparties to whom the County Council is willing to lend. As a result, only a small number of selected UK banks and building societies, money market funds and Non-Eurozone overseas banks in highly rated countries are being used, subject to strict criteria and the prudent management of deposits with them. In addition, the CCLA (Churches, Charities and Local Authorities) Property Fund is being used. The lending policy is kept under constant review with reference to strict criteria for inclusion in the counterparty list.

Appendix 2

The Treasury Management Strategy will continue to be set to ensure a prudent and secure approach.

The full County Council is required under the guidance in the CIPFA Treasury Management Code of Practice to approve an Annual Investment Strategy.

The overall aims of the Council's strategy continue to be to:

- Limit the risk to the loss of capital;
- Ensure that funds are always available to meet cash flow requirements;
- Maximise investment returns, consistent with the first two aims; and
- Review new investment instruments as they come to the Local Authority market, and to assess whether they could be a useful part of our investment process.

The overriding objective will be to invest prudently, with priority being given to security and liquidity before yield.

The outlook for cash investment remains challenging. Whereas in the past there has been a perception that Governments would not allow banks to fail, the current regulatory environment puts more emphasis on the requirement for investors to take a hit by funding a "bail-in". A bail-in is where the bank's creditors, including local authorities depositing money with them, bear some of the burden by having part of the debt they are owed written off. The balance of risk has therefore changed, and as a result the Council has considered alternative forms of investment in order to diversify its risk.

Under the Markets in Financial Instruments (MiFID II) directive, local authorities are now classed as retail clients by the Financial Conduct Authority (FCA). This has implications for the range of investments that are available to local authorities. While bank and building society deposits are unaffected by the new regulations, some banks have determined that they will only take term deposits from professional clients, and a range of alternative forms of investments are only available to professional clients. However, if the local authority meets criteria set by the FCA, then it can apply to the financial institutions with which it wishes to invest to request that the institution concerned "opts up" the local authority to elective professional client status. The Council has made applications and been opted up to elective professional client status where required.

Subject to the MiFID II regulations, a variety of investment instruments are available to the Local Authority market. In addition to the notice accounts and fixed term deposits available from UK and overseas banks, it is also possible for the Council to invest, for example, in UK Government Gilts, bond funds and property funds. These alternative instruments would either require the Council to tie up its cash for significantly longer periods, thus reducing liquidity, or would carry a risk of loss of capital if markets go down.

The Council has considered these alternatives and concluded that investment in a commercial property fund is a prudent way to diversify risk and achieve a higher yield. UK Gilts and corporate bond funds could still face a challenging environment, whereas the commercial property market stands to benefit from forecast growth in GDP. The CCLA Property Fund is therefore included as an approved counterparty.

However, the majority of the Council's investments will still be in bank deposits. Security is achieved by the creation of an 'Approved List of Counterparties'. These are the banks, building societies, money market funds and other public bodies with whom we are prepared to deposit funds. In preparing the list, a number of criteria will be used not only to determine who is on the list, but also to set limits as to how much money can be placed with them, and how long that money can be placed for.

Appendix 2

Banks are expected to have a high credit rating. The Council uses the ratings issued by all three of the major credit rating agencies, Fitch, Moody's and Standard & Poor's, made available to the Council through its external Treasury Advisors. These are monitored daily.

The lowest rating published by any of the agencies is used to decide whether an institution is eligible for inclusion. Where the counterparty is only rated by two of the major ratings agencies the lowest rating published by either of the two is used. This rating also determines the maximum amount which can be loaned to an individual counterparty. Non-Eurozone overseas banks that meet the criteria are included from countries with a high Sovereign rating.

The time length of all deposits with financial institutions will be managed prudently, taking account of the latest advice from the Council's external advisors.

Money Market Funds have a portfolio comprised of short-term (less than one year) securities representing high-quality, liquid debt and monetary instruments. Following the financial crisis these funds were seen as higher risk and were therefore not used by the Council. However, the new regulatory environment around the concept of "bail-in" means that many money market funds are now regarded as a more secure form of investment than bank deposits, as they diversify their investments across a range of financial institutions to spread the risk, and will therefore be used where appropriate. Money market funds must have an 'AAA' rating to be included on the counterparty list.

Other public sector bodies are principally arms of Government, or other local authorities, and although not rated are deemed suitable counterparties because of their inherent low risk.

The 'Approved List of Counterparties' specifies individual institutions, and is formally reviewed at least monthly. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, resulting in any further lending being suspended. Those counterparties who have confirmed that they will treat the Council as a professional client under the MiFID II regulations are set out in Table 12 below.

Table 12 – Counterparties that have "opted up" the Council to elective professional client status

Counterparty	Counterparty Type
Standard Chartered	UK Bank
CCLA	Property Fund
Standard Life	Money Market Fund
Insight	Money Market Fund

In addition, brokers Tradition and Tullett Prebon, and our treasury advisors, Capita, have opted up the Council to professional client status. The majority of bank and building society deposits are unaffected by the MiFID II regulations.

Appendix 2

Table 13 below summarises the current 'Approved List' criteria.

Table 13 – Counterparty Approved List Summary

Counterparty Type		Fitch	Moody's	Standard & Poor's	Credit Limit
UK Banks					
	not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
	not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Building Societies					
	not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
	not below	A- & F1	A3 & P-1	A- & A-1	£30 million
Non-Eurozone Overseas Banks					
	Sovereign Rating of	AAA	Aaa	AAA	
	and not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
	and not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Public Bodies					
Central Government					
	– Debt Management Office				Unlimited
Local Government					
	– County Councils				£10 million
	– Metropolitan Authorities				£10 million
	– London Boroughs				£10 million
	– English Unitaries				£10 million
	– Scottish Authorities				£10 million
	– English Districts				£5 million
	– Welsh Authorities				£5 million
Fire & Police Authorities					£5 million
Money Market Funds		AAA	Aaa	AAA	£30 million
CCLA Property Fund					£30 million

Where the short term rating of a counterparty is one notch below the stated criteria, but the counterparty meets the long term rating criteria, they may still be used subject to the advice of our external advisors (Capita) who will take into account a range of other metrics in arriving at their advice.

The credit ratings shown in the table for banks and building societies allow for greater sensitivity in recognising counterparty risk. Liquidity in investments is the second key factor in determining our strategy. Funds may be earmarked for specific purposes or may be general balances, and this will be a consideration in determining the period over which the investment will be made.

The counterparty limits shown in the table also apply at a banking group level. This ensures that the Council is not exposed to the risk of having maximum sums invested in multiple institutions owned by a group that encounters financial difficulties.

The Council has a self-imposed limit of ensuring that at least 15% of deposits will be realisable within one month.

Appendix 2

The Council has also established an indicator of the total principal sum invested for a period longer than 364 days, and to state the basis used in determining the amount. The purpose of this indicator is to help the Council to contain its exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums invested.

The limit on investments over 364 days will be set at no more than 20% of the total loans outstanding at any time or £30m whichever is the lower.

For the 2018/19 financial year it has been assumed that the average interest rate earned on lending to banks and building societies will be **0.55%** p.a. and the yield from investment in the CCLA Property Fund will be **4.50%**. The target rate takes into account the November 2017 increase in the Bank of England base rate, which has resulted in increased rates being available compared to those available before the increase. The target we have set for 2018/19 is thought to be one that is achievable.

Given the degree of uncertainty about future economic prospects and the future level of interest rates, MTFS forecasts have been based on the average rates for lending to banks and building societies continuing to be 0.55% for 2019/20 and 2020/21. However these will be reviewed in the light of changes to the rates on offer from the Council's counterparties over the MTFS period.

Investments that are not part of treasury management

The revised Treasury Management Code also requires the authority to report on investments in financial assets and property that are not part of treasury management activity, but where those investments are made primarily to achieve a financial return.

The Council does not currently have a policy of making commercial investments outside of its treasury management activity for mainly financial reasons. All capital investments outside of treasury management activities are held explicitly for the purposes of operational services, including regeneration, and are monitored through existing control frameworks.

Performance Targets

The primary targets of the Treasury Management Strategy are to minimise interest payments and maximise interest receipts over the long term whilst achieving annual budgets, without taking undue risk. Where there are comparative statistics available for individual aspects of the Strategy (e.g. the CIPFA Treasury Management Statistics) these will be used to monitor performance.

SC/18/1

Corporate Infrastructure & Regulatory Services Scrutiny Committee
31 January 2018

Implementing a Communities Strategy within Devon

Report of the Chief Officer for Communities, Public Health, Environment & Prosperity

1. Introduction

1.1. On 28 November 2017 the committee considered the Council's new Community Strategy and requested further information regarding its delivery and implementation.

1.2. The committee considered that whilst the Council had co-ordinated and published this work, the strategy reflected a collaboration of input, activity and views from across a wide range of partners and communities. Therefore, the delivery of the strategy, to be truly effective, would be best achieved in partnership and through collaboration.

1.3. The Council's plans for implementation reflect its ambition for collaboration on these themes but also the reality and complexity of working across partnerships to this end. The Council and strategy recognise the respective strengths, expertise and leadership of partners and communities in key areas, therefore any response will need to take account of local people, geography and existing networks.

2. How were the priorities for action identified?

2.1. During late 2016 and early 2017 an extensive Community Needs Assessment was commissioned, conducted and published. This work was based on a wide range of input from the voluntary, community and social enterprise sector (VCSE), wider partners, and took account of community surveys, localised data, the latest national research and evidence. In addition, the Council's own experience and expertise in working with communities was considered. This needs assessment can be found here:- Communities Needs Assessment

2.2. The needs assessment made observations across seven key themes: - Volunteering; communications and engagement; commissioning; community assets and environment; role development; business and the economy and data and intelligence.

2.3. Building on these observations and themes the Council has worked with partners and a range of stakeholders to determine a set of practical actions for the initial year of implementation. We will publish an updated plan in subsequent years. This action plan has been agreed by the Council's Leadership Group.

2.4. Members will recognise that determining the scope and scale of actions is a challenging task, given that for some, the theme of Communities covers almost every aspect of the Council's work and remit. The action plan focusses on opportunities to provide additional capacity, knowledge and information to people and communities, where it is required. We must recognise that many communities and organisations function and thrive without input from bodies such as the County Council.

3. What are our key action areas?

3.4 Commissioning and funding –

- To pilot and procure a locally accessible crowd funding solution to enhance local innovation and bring additional funding to projects in communities

- To review TAP and Locality Funding arrangements and consider alignment to crowd funding opportunities
- Review VCSE Infrastructure arrangements and funding across Devon and align to DCC Action Plan Priorities

3.1. Volunteering –
- To pilot software to help people in communities to connect with local people and to match people with skills/time/assets with those with specific needs.
- To update the Council's relevant policies and communicate DCC workforce opportunities for volunteering
- To develop an 'impact volunteering' prototype project with local VCSE partners (where the benefits to volunteers are understood and measured – alongside the wider outcomes of the project)

3.2. Communications and engagement –
- To develop a new website and utilise to promote opportunities for community capacity building including volunteering and funding
- To communicate advice and support relating to community development, capacity building tools, initiatives and funding opportunities

3.5 Role Development –
- Explore opportunities to refresh DCC (and partnership) locality based arrangements to develop local connections and resources
- To review support Members and other local arrangements; to develop a range of support through community facilitators/community development staff who will be identified and developed

3.6 Evidence and evaluation – Measurement will be developed to monitor the effectiveness of the strategy and analysis into data capturing local and community experience and outcomes.

4. Progress to date and next steps

4.1. Progress on implementation is being regularly monitored and the committee may wish to consider the delivery, through an annual review.

4.2. The development of some actions will be of particular interest to Members and to this committee specifically. Given the nature of the work the specific implementation and the learning would benefit from input and direction from Members – for example developing crowd funding opportunities and how elected Members are supported.

4.3. This Committee may wish to consider undertaking a more in-depth piece of work examining and inputting into the key action areas from the Community Strategy.

Dr Virginia Pearson
Chief Officer for Communities, Public Health, Environment & Prosperity

Electoral Divisions: All

Cabinet Member for Community, Public Health, Transportation and Environmental Services: Councillor Roger Croad

Local Government Act 1972: List of Background Papers

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