



NOTICE OF MEETING

Meeting:	Cabinet
Date and Time:	Thursday 2 February 2023 7.00 pm
Place:	Council Chamber
Enquiries to:	Committee Services Committeeservices@hart.gov.uk
Members:	Neighbour (Leader), Radley (Deputy Leader), Bailey, Clarke, Cockarill, Collins, Oliver and Quarterman

Chief Executive

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AGENDA

This Agenda and associated appendices are provided in electronic form only and are published on the Hart District Council website.

Please download all papers through the Modern.Gov app before the meeting.

- **At the start of the meeting, the Lead Officer will confirm the Fire Evacuation Procedure.**

- **The Chairman will announce that this meeting will be recorded and that anyone remaining at the meeting had provided their consent to any such recording.**

Date of Publication: Wednesday, 25 January 2023

1. Hart District Council - Draft Capital Strategy

1. Purpose and Aims

- 1.1. The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy in December 2021. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.
- 1.2. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.
- 1.3. The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority.
- 1.4. The Prudential Code sets out that to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The strategy is designed to fully comply with the Prudential Code of Practice for local authority capital investment by the Chartered Institute of Public Finance and Accountancy (CIPFA) in parallel with guidance to local authorities from the Government.

2. Strategic Context for Capital Strategy

- 2.1. The Council approved its “Vision 2040” in September 2019, which sets out a clear direction for the district.
- 2.2. “Vision 2040” is structured around three vision statements:

Become THE place to live – creating a connected space that:

- Gives local people a real sense of community, providing a strong narrative on the strengths of the district including our heritage, environment and culture
- Improves affordability of homes, so families can stay close together and so key workers can afford to live in Hart and help our communities flourish
- Ensures work, education, health and other facilities are easily reachable through effective road and rail transport links

Become THE place to work – helping our local economy to thrive through:

- Developing the skills we need for the future by delivering a higher/further education campus within the district, working with local educational providers, with a technological focus
- Helping our micro/small businesses grow and our residents to work flexibly, with

- casual office space providing high speed internet
- Reducing the impact of climate change by building in sustainability and using new technologies to mitigate the impact of climate change

Become THE place to enjoy – enhancing our environment and health through:

- Creation of green corridors between all settlements to encourage sustainable healthy transport and provide cycles for hire to enable movement
- Enhancing our leisure provision e.g. new country parks delivering improved facilities, and through promotion of culture and heritage in the district e.g. through events
- Working with existing public sector sports facilities providers in the district to create an improved/co-ordinated health offer for our residents

2.3 The vision will be delivered by changing the way the Council is run. A new operating model will include:

- Developing a new business model for the Council
- Creating welcoming services that are inclusive and engaging
- Developing our staff, training and empowering them to innovate
- Creating efficient services available 24/7
- Building in financial resilience from commercialization
- Developing partnerships to enable delivery

Corporate Plan 2017-22

2.4 The adopted Corporate Plan 2017 – 2022 is the medium-term strategic policy document which sets out the general direction, key priorities and activities for the Council and informs the use of its resources.

2.5 The four priorities set out in the Corporate Plan are:

A Thriving Local Economy

- Support our town and village centres
- Support the local economy
- Support residents in becoming economically active
- Ensuring an appropriate supply of employment land and premises

Clean, Green and Safe Environment

- Enhance access to open space and recreation facilities
- Protect and enhance biodiversity
- Improve energy efficiency
- Reduce the likelihood of crime and the perception of crime
- Promote a clean environment
- Promoting high quality design and a good standard of amenity

Healthy Communities and People

- Support residents in shaping their local communities
- Work with partners to keep Hart healthy and active
- Ensure access to housing
- Ensure access to education

An Efficient and Effective Council

- Explore options to increase financial self-sustainability

The revised Corporate Plan has recently been subject to public consultation, and this will be considered by Council in February 2023. The main themes and priorities set out are:

- Planet
- People
- Place
- Delivered by a resilient and financially sound Council

- 2.6 To help the Council deliver “Vision 2040” and the Corporate Plan it is essential that necessary long term fixed assets continue to be made available. The provision of long-term assets is further defined as being capital expenditure.

3 What is Capital Expenditure

- 3.1 An understanding of what constitutes capital expenditure is fundamental to realising the benefits that an authority can obtain under the Prudential framework. Unless expenditure qualifies as capital it will normally fall outside the scope of the framework and be charged to revenue in the period that the expenditure is incurred. If expenditure meets the definition of capital, there may be opportunities to finance the outlay from capital receipts or by spreading the cost over future years’ revenues.

- 3.2 There are three ways in which expenditure can qualify as capital under the framework:

- The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible). Enhancement is where the capital expenditure substantially lengthens the useful life, increases the value or increases the extent to which the asset can be used to support the functions of the Council.
- The expenditure meets one of the definitions specified in regulations made under the 2003 Local Government Act.
- The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

The Council has a number of projects that fall outside of the ongoing operational services but do not meet all of the capital criteria. These are often included in the Capital Programme and are therefore the principles of this capital strategy apply.

4. Capital Investment Objectives

- 4.1 In November 2020 the Government implemented new restrictions on borrowing to ensure that councils are not buying investment assets (land or buildings) primarily for a yield. The Council should not have any proposals to invest primarily for yield in its Capital Programme over a 3-year period, nor can it finance such investments from other sources as an alternative to PWLB borrowing, otherwise the Council will have to pay back any PWLB borrowing taken out during the year and may be prevented from accessing PWLB in the future.

The key objectives of capital investment are to:

- **Support service delivery** in line with the Council's strategic objectives including enhancing Hart's digital offer to customers.
- **Support regeneration, economic development and affordable housing provision** working in partnership with other organisations where necessary and attracting external funding where possible.
- **Implementation of the Climate Change Strategy.** The Council has a target to achieve its net zero-carbon target. It will achieve this through various measures and an action plan will be developed early in 2023.
- **Supporting local communities.** Working with partners and utilising external funding where possible, including SANG and S106 funding.
- **Supporting healthy and independent lives.** The ongoing use of Disabled Facility Grants as part of the Improved Better Care Fund will be instrumental in this.
- **Facilitate the generation of income.** From existing commercial assets or service-based assets capable of generating income.
- **Enhance value for money** by helping to reduce or avoid costs and future liabilities.

Based on the above objectives it is envisaged that capital investment will fall into four main categories:

- Assets owned by the Council to support the direct delivery of services by the Council itself.
- Assets owned by the Council to support the delivery of services by third parties where there is a strategic need/advantage in continuing to own the assets.
- Assets held for the purposes of regeneration or economic development.
- Assets currently held for a financial return to support the financial resilience of the Council.

In addition, the Council may on occasions make capital investments in assets owned by third parties, where doing so facilitates the delivery of Council objectives, or legislative requirements.

The Council will comply with paragraph 51 of the Prudential Code, in relation to any new investments for commercial purposes, and will not borrow to invest primarily for yield.

5 Approach to Capital Investment

5.1 Hart District Council's approach to capital investment aims to ensure that:

- Capital expenditure contributes to the achievement of the strategic plan.
- An affordable and sustainable capital programme is delivered.
- Value for money is achieved.
- A clear framework for making capital expenditure decisions is provided.
- A corporate approach to generating capital resources is established.
- Sufficient long-term assets to provide services are acquired and retained.
- Invest to save initiatives to make efficiencies within the Council's revenue budget are encouraged.

- An appraisal and prioritisation process for new schemes is robust including appropriate due diligence and external expert advice.
- Effective governance is in place for projects

6 Governance Arrangements

6.1 The Authority's constitution and Financial Regulations govern the capital programme as set out below:

- All schemes are formally approved into the capital programme by following a process as set out in the financial regulations.
- All capital expenditure must be carried out in accordance with the Financial Regulations and the Council's Constitution.
- The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards.
- Capital Programme approved by Full Council as part of the Council's annual budget report sets the capital funding availability for the Council, the prioritisation of funding and the schemes receiving entry into the Capital Programme.
- Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations.
- Each scheme must be under the control of a responsible person/project manager.
- Any agreements (such as section 106) which contractually commit to procure capital schemes will need to follow the same approval process as other capital expenditure before it can be formally incorporated into the capital programme.
- Capital expenditure on Commercial projects may be approved in accordance with the processes laid out in the approved Commercialisation strategy.

7 Capital Funding

7.1 Hart District Council's Capital Programme is funded from a mix of sources including:

Grant Funding - often specifically for capital purposes and also often from central government, but they may come from, or through, other agencies.

Capital Receipts - receipts arising from the disposal of existing assets are constrained to only be useable for the purposes of funding new assets. Such funds when generated are held in a Capital Receipts Reserve until such time as used.

Developer Contributions - S106 agreements including SANG receipts. S106 agreements tend to relate to specific capital investment projects, but where it is more generic, the Council will use this funding to meet its capital investment priorities where these satisfy the conditions of the s106 agreement.

Partner Contributions - some projects may be jointly funded between the Council and other agencies including other councils.

Prudential Borrowing - the Council is able to borrow in order to fund its capital expenditure provided that the revenue financing costs of such borrowing are affordable and sustainable. Prudential borrowing will be considered as a source of capital funding in accordance with the Government's guidelines and with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities.

Revenue Contributions to Capital - the Council is able to use its revenue resources to fund its capital expenditure.

Use of Earmarked Reserves – where resources have been approved by Council for a specific purpose

Leasing - specialised form of borrowing linked directly to the rental of an asset.

- 7.2 The choice of funding for the capital programme and projects within it will depend upon the overall availability of resources and any constraints applicable to particular sources. Wherever possible external resources such as partner contributions, or grants will be the first preference for funding projects. Borrowing, internal or external, will be the second choice of funding but will only be used where there is a business case. Using the Council's own resources (capital receipts and revenue contributions) will be used where available and affordable and where other funding sources are not available.

8 Capital Risks

- 8.1 The Council will have due regard to risk when considering capital investment and will determine its risk appetite on a case-by-case basis according to the specific circumstances of the investment proposal. The following are the key capital risks associated with the Council's capital strategy:

- Cost Inflation – Reducing real terms value of capital budgets
- Availability of materials and labour – affecting delivery times and tender prices

- Capital Maintenance – Deterioration of assets if insufficient maintenance. Condition surveys are important to aid revenue budgeting and capital investment plans

- Availability of external funding – ensuring the Council spots opportunities and responds quickly
- Project management skills and capacity – for the production of bids an ongoing management and delivery
- Capital Slippage – If capital expenditure isn't profiled accurately then there is the risk of significant underspend against the programme which delays benefits and ties up resources
- Interest Rate Increases – Affecting viability of schemes.

INTEREST RATE FORECASTS 2022-2025

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

PWLB forecasts are based on PWLB certainty rates.

ECONOMIC BACKGROUND

The council has appointed Link Group as its treasury advisor and part of their service is to assist the council to formulate a view on economic background. The below narrative has been prepared and written by consultants at Link Group and the narrative provides their summarised view.

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%/y/y)	+0.2%q/q Q3 (2.1%/y/y)	2.6% Q3 Annualised
Inflation	11.1%/y/y (Oct)	10.0%/y/y (Nov)	7.7%/y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force

participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

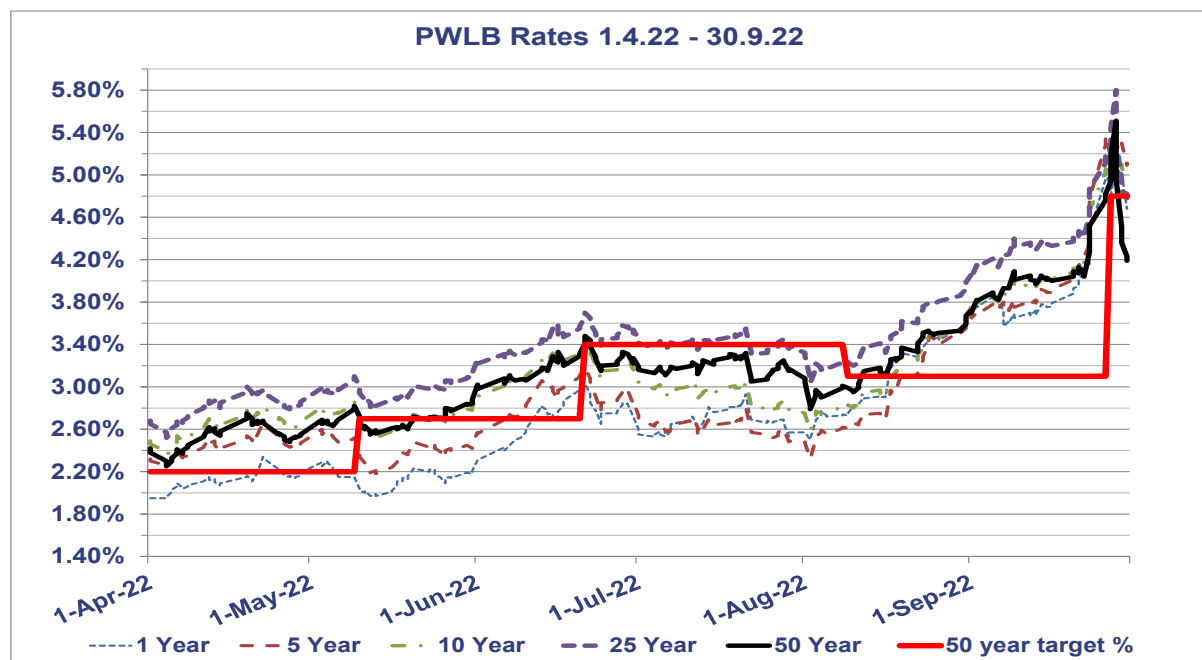
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No 10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of \$1.035, on the Monday following the Truss government's "fiscal event", to \$1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).