NOTICE OF MEETING

Meeting:	**Overview and Scrutiny Committee**
Date and Time:	**Tuesday 19 January 2021 7.00 pm**
Place:	**Council Chamber**
Telephone Enquiries to:	**Helen Vincent** **Committeeservices@hart.gov.uk**
Members:	**Worlock (Chairman), Axam, Davies, Dorn, Drage, Farmer, Lamb, Makepeace-Browne, Smith, Wildsmith and Wright**

Joint Chief Executive

CIVIC OFFICES, HARLINGTON WAY
FLEET, HAMPSHIRE GU51 4AE

AGENDA

This meeting is being administered under the provisioning of the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meeting) (England and Wales) Regulations 2020. The Provision made in this regulation applies notwithstanding any prohibition or other restriction contained in the standing orders or any other rules of the Council governing the meeting and such prohibition or restriction had no effect.

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

1 MINUTES OF PREVIOUS MEETING (Pages 4 - 9)

The minutes of the meeting of 15 December 2020 are attached to be confirmed and signed as a correct record.

2 APOLOGIES FOR ABSENCE

To receive any apologies for absence from Members*.

***Note:** Members are asked to email Committee Services in advance of the meeting as soon as they become aware they will be absent.

3 DECLARATIONS OF INTEREST

To declare disclosable, pecuniary and any other interests*.

***Note:** Members are asked to email Committee Services in advance of the meeting as soon as they become aware they may have an interest to declare.

4 PUBLIC PARTICIPATION (ITEMS PERTAINING TO THE AGENDA)

Anyone wishing to make a statement to the Committee should contact Committee Services at least two clear working days prior to the meeting. Further information can be found at https://www.hart.gov.uk/sites/default/files/4_The_Council/Council_meetings/Public%20Participation%20leaflet%202020%20A4.pdf

5 CHAIRMAN'S ANNOUNCEMENTS

6 SERVICE PERFORMANCE – HEADS OF SERVICE ATTENDANCE

Head of Corporate to attend to discuss service performance.

7 CLIMATE CHANGE WORKING GROUP

The Portfolio Holder for the Environment to update the Committee on any possible interface between the Climate Change Working Group and the work of Overview & Scrutiny Committee.

8 CAR PARKING CHARGES

The Portfolio Holder for the Environment to update the Committee on progress to agree with Parish and Town councils, any localisation of car park charges.

9 CIVIC REGENERATION WORKING GROUP (Pages 10 - 20)

The Portfolio Holder for Commercialisation and Commercialisation Manager to updat on the Civic Regeneration Working Group.

10 **DRAFT BUDGET 2021/2022** (Pages 21 - 28)

This report provides a summary of the revenue and capital budget proposals for 2021/2022 to enable Committee to forward its comments on the proposed draft budget and Council Tax levels to Cabinet. This draft budget references numbers included in the provisional finance settlement for 2021/2022 which was published on 17th December 2020. The final settlement is expected in late January or early February 2021.

11 **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY** (Pages 29 - 66)

To present the draft Treasury Management Strategy Statement for 2021/22 which incorporates the Annual Investment Strategy and Prudential and Treasury Indicators.

12 **CABINET WORK PROGRAMME** (Pages 67 - 71)

The Cabinet Work Programme is attached for consideration.

13 **OVERVIEW AND SCRUTINY WORK PROGRAMME** (Pages 72 - 75)

The Overview and Scrutiny Work Programme is attached for consideration and amendment.

Date of Despatch: Monday, 11 January 2021

OVERVIEW AND SCRUTINY MEETING

Date and Time: Tuesday, 15 December 2020 at 7pm

Place: Council Chamber, Civic Offices, Fleet

Present:

COUNCILLORS

Axam, Davies, Dorn, Drage, Farmer, Lamb (7.05pm), Makepeace-Browne, Smith, Worlock (Chairman), Wright

In attendance: Councillors Cockarill, Forster, Radley

Officers:

Daryl Phillips	Joint Chief Executive
Patricia Hughes	Joint Chief Executive
Emma Foy	Head of Corporate Services and S151 Officer
Mark Jaggard	Head of Place
Kirsty Jenkins	Head of Community Services
Peter Summersell	Sustainability Officer
John Elson	Head of Environment & Technical
Helen Vincent	Committee Services Officer

70 MINUTES OF PREVIOUS MEETING

The minutes of the meeting of 17 November 2020 were confirmed and signed as a correct record.

71 APOLOGIES FOR ABSENCE

None received.

72 DECLARATIONS OF INTEREST

Cllr Farmer declared an interest to Item 83 as he is the Chairman of the Hart Swimming Club. Cllr Forster declared a non-pecuniary interest in Item 79 regarding his involvement with an EV charging Company.

73 CHAIRMAN'S ANNOUNCEMENTS

The Chairman announced *to Committee Members* that the Overview and Scrutiny mid-year review will be held on Wednesday 6th January 2021 at 5.30pm to 6.15pm with an agenda to follow shortly.

74 PUBLIC PARTICIPATION (ITEMS PERTAINING TO THE AGENDA)

None.

75 SERVICE PERFORMANCE – HEADS OF SERVICE ATTENDANCE

The Head of Place, Mark Jaggard, attended to discuss service performance across Business Support & Facilities Management, Development Management & Building Control, Environmental Health & Licensing and Planning Policy & Economic Development.

Members were informed of the following:

- COVID safe offices.
- Roll out of equipment and furniture for home working.
- Improved system for virtual meetings and Web Casting.
- Service Targets and Planning performances have been reported in time with major sites being approved.
- Improving the pre-application service.
- Environmental Health issues with fly tipping and bonfires.
- First virtual licensing hearing and committee were held in November.
- Planning white paper implications.
- Economic recovery report commissioned and received.

Members discussed:

- The the Local Plan and the Hook Neighbourhood Plan legal challenges.
- The Council's approach to consulations and engagement with communities/stakeholders
- Wider feedback for DM Service and peer review and setting up an Agent's forum.
- Annual survey for feedback from residents for received quality of service.

Members asked for:

- Further work to redefine the measures and performance of activities of the Planning Improvement Plan by March 2021.
- A summary of the work covered by the Place service.
- What the headcount change has been in the last 12 months.
- A list of stakeholders from the Stakeholder Forum for the Garden Village Programme

Members thanked Mr Jaggard for the comprehensive information.

76 COMMUNITY INFRASTRUCTURE LEVY

The Head of Place provided an update on setting a Community Infrastructure Levy (CIL) Charging Schedule in Hart.

Members discussed:

- Cost implications to be funded through CIL receipts.
- CIL can be used for Local Plan requirements.
- Infrastructure funding statement.

DECISION

Overview & Scrutiny Committee will be consulted on draft CIL charging schedule in mid-year 2021

77 COMMUNITY SAFETY TRANSITION

The Head of Community updated Members on the transition of the shared Community Safety Service which came back to Hart in October. The Council recruited two Officers whose priority has been promoting and making visible the new in-house service. The transition has been better than expected and some elements of the joint Community Safety work will remain.

The Community Safety Partnership continues to be shared across the 3 boroughs and will meet quarterly. The local authorities are one of the partners and others include the Police, Fire, Clinical Commissioning Group and the military.

DECISION

Members requested targets and budgets to be brought through Overview & Scrutiny as part of the process of commenting on the Community Services' Service Plan 2021/2022

78 CRIME AND DISORDER COMMITTEE

Cllr Axam updated the Committee on the progression of the scrutiny work of this joint Committee.

He informed Members that whilst the tripartite Council shared service had been dissolved in October 2020, that the Community Safety Partnership (CSP) continued to exist.

The Chairman thanked Councillor Axam for the update and agreed to pass on any suggestions for improvement direct to the Officers.

79 CLIMATE CHANGE WORKING GROUP

The Sustainability Officer gave an update on the interface between the Climate Change Working Group and the Overview & Scrutiny Committee and explained the changed action plan, work programme and delivery times of the working group which had been delayed by 6 months due to COVID restrictions.

80 COVID-19 PANDEMIC UPDATE

The Joint Chief Executive updated the Committee on the implications for the delivery of Council services arising from the new national COVID-19 Lockdown 2.0.

The Committee were updated on:

- The Council's work with Leisure Centre funding and the short timescale financial settlements available.
- Vaccination commencement at sites in our district for the most vulnerable.
- Wet Pub funding and Tier 2 funding.
- Meetings with voluntary groups and Christmas Plans taking place this week.
- Emergency contacts and guidance has been published on our website of services available over Christmas.

Members thanked the Joint Chief Executive for the regular updates with the fast-paced changes.

81 CONFIDENTIALITY OF INTERNAL COUNCIL COMMUNICATIONS

The Joint Chief Executive provided Members and Officers with an update on the approach to confidentiality with respect to internal communications within the Council.

Members were advised of:

- The new traffic light system being the most effective and simplest approach for levels of confidentiality.
- The default is green/white for all information which can be shared.
- Amber is for information within the council only and not to be shared outside of the Council.
- Red which will be clearly marked as Confidentiality to specific members only.
- Member briefings will be open unless otherwise stated.

Members discussed:

- Updated confidential information should be relevant to live issues.
- Scale of confidentiality.
- Colour coding for clear visibility.
- A Policy Statement will be circulated to all Councillors and Officers to set out guidelines

Cllrs Dorn and Forster were thanked for their assistance with this report.

DECISION

A Policy Statement will be circulated to all Councillors and Officers to set out the guidelines

82 2020-21 BUDGET MONITORING – POSITION STATEMENT AT 31 OCTOBER 2020 FOLLOWING LOCKDOWN 2.0

Members were advised of the position on revenue expenditure following Lockdown 2.0. Members were informed of significant changes to expenditure on a timely basis and which may be outside the standard quarterly budget reporting cycle. This was previously discussed at Overview & Scrutiny on 17 November and at Cabinet on 3 December.

Members discussed:

- Figures reflect compensation for fees and charges in the first Lockdown which is just under £700,000 already received with further claims in for just over £300,000. This scheme will run until March 2021 so this will reduce the forecast over spend.
- Parishes fees and charges were approved by members in February 2020 and any new charges will be agreed at the next budget.

DECISION

Members noted the revised projections and reasons for the main revenue variations show in this report.

83 UPDATE ON BUSINESS RATES GRANTS SCHEMES LOCKDOWN 2.0

Members were updated on the process and performance regarding the two Lockdown 2.0 Business Rate Grant Schemes that the Government had introduced.

The 'Closed' Scheme for businesses who had to remain closed during the Lockdown period had received 313 applications, 252 have already received payment, 22 in query with 23 duplicates or rejections. Businesses not legible for the 'Closed' schemes would automatically be consider for the Discretionary scheme.

The Discretionary scheme would run until 2022 and would be paid out in three tranches. The numbers of applications received for the first Discretionary Grants tranche was 130, of which 105 have been paid with a further 16 to be paid and 9 still to be checked. This scheme had been extended for a further week to attract more applications.

DECISION

The report was noted.

84 CABINET WORK PROGRAMME

The Cabinet Work Programme was considered and noted.

85 OVERVIEW AND SCRUTINY WORK PROGRAMME

The Overview and Scrutiny Work Programme was considered and amended as follows:

- Community Safety transition update to be pushed back to April 2021.
- The Portfolio Holder for Environment and Technical Services be invited in January to update the Committee on work of the Climate Change Working Group.

The Chairman thanked Members for their contributions over the last 6 months and wished everyone a Happy Christmas.

The meeting closed at 9.28pm

OVERVIEW AND SCRUTINY

DATE OF MEETING: **19 JANUARY 2021**

TITLE OF REPORT: **CIVIC QUARTER REGENERATION - UPDATE**

Report of: **JOINT CHIEF EXECUTIVE**

Cabinet member: **Councillor Quarterman**

1 PURPOSE OF THE REPORT

1.1 Following the Working Group (WG) update report of 20 October 2020 (Paper E), this report provides the Overview & Scrutiny panel with an update regarding progress of the Civic Quarter regeneration project. This report of the WG outlines progress made to date (with reference to previous O&S updates), work undertaken, findings and recommendation for next steps.

2 RECOMMENDATIONS

2.1 Overview and Scrutiny Committee is asked to note the advice provided by Create Streets, attached at Appendix 1, regarding the proposed public engagement strategy. Officers are working to refine the potential questions and to provide context for the public as to the reasons why the WG wish to engage.

2.2 The WG have discussed the public engagement stage at the recent meeting on 5 January 2021, and members approved the continuation of the public engagement work as soon as possible. This is subject to agreement of questions by the WG members. As set out in the Civic Campus Regeneration Terms of Reference, the site is defined as the land currently owned by the Council, ownership map attached at Appendix 2. However, the WG note any potential redevelopment will be considered alongside its position with the town and any potential impact on Fleet town as a whole.

3 BACKGROUND

3.1 The Hart District Corporate Plan 2017-2022, which was subject to public consultation ahead of adoption in January 2018 includes a requirement for the Council to become a more efficient and effective Council. Within this it specifically identifies

- Maximising income opportunities, and identifying new opportunities for income generation
- Maximising Council income through effective asset management and collection services

3.2 Specifically in relation to the Civic campus, it also includes a priority to

- Work with Fleet Town Council to deliver a new or refurbished Harlington

3.3 The Civic campus represents the largest opportunity to the Council to maximise income through effective asset management.

3.4 In August 2019, Cabinet approved the setting up of a cross party Cabinet WG to investigate potential redevelopment options of the Civic Campus site. The Fleet Neighbourhood Plan (adopted Nov 2019) was stated as a key reference document and a draft list of stakeholders was approved also.

4 PROGRESS TO DATE

4.1 As a Cabinet Working Group, all Agendas and Minutes are reported to Cabinet at the meeting following the WG meeting. The Commercialisation manager provided a verbal update at the 20 October 2020 O&S meeting (Paper E). Following that update, the WG have made the following progress post 20 October 2020.

Date	Comment
20 October 2020	• CM provided update to Overview & Scrutiny panel
November 2020	• WG to consider advisory team ideas of opportunities the site may offer • Draft engagement strategy was presented by Create Streets and reviewed by WG
December 2020	• WG discussed updated draft engagement strategy
January 2021	• WG meeting on 5th January 2020 discussed the draft engagement options. The WG members voted in favour of progressing the public engagement as soon as possible. • The real estate advisors have produced draft financial feasibility study (currently being reviewed by WG members). An executive summary will also be produced and circulated to WG members. • The findings conclude there are potential viable options but subject to numerous assumptions. The viability is conditional upon successful negotiation of the HCC library and Harlington elements of the project.

5 COMMUNITY ENGAGEMENT STRATEGY

5.1 Engaging with the Community is a key element to the successful delivery of a regeneration scheme for a core Council owned site in Fleet. Community engagement is a process which will likely incorporate numerous opportunities for residents to engage with surveys, Q&A sessions and feedback on potential designs.

5.2 As part of the tender process carried out from March – July 2020, the WG received proposals on community engagement advice / strategies, which form a key part of the regeneration process. After review of the tender responses, the WG decided to include community engagement advice from the outset and appointed Create Streets Ltd (CS) to join the WG meetings and act as advisor.

5.3 The advice provided by Create Streets dated December 2020 is attached at Appendix 1. The advice is to engage with Hart residents with a two-stage approach as follows:

1) Stage 1 – an early listening exercise to provide context and inform the public on the project
2) Stage 2 – A preference survey to select between a number of design options.

5.4 The WG are not in a position to commence Stage 2 yet. During the WG meeting on 5th Jan 2020, Members and stakeholders discussed the numerous options available regarding public engagement. WG Members agreed that public engagement should commence as soon as possible, employing Option 2 as advised by Create Streets. The WG will finalise the content and the approach of the engagement at the next WG meeting (Tues 2nd Feb 2021).

5.5 The WG also wish to note that Create Streets have advised the best platform to employ the engagement strategies is via digital technology. The chosen survey method will be hosted by Create Streets on their own designed platform. The WG intend to send this link on social media outlets such as: Hart District Council website; social media channels such as Facebook, Twitter and LinkedIn; utilising strong networks from the local Parish Council(s) and the wider business community via the Councils' Communications and Economic Development service lines.

6 FINANCE & RESOURCE IMPLICATIONS

6.1 The WG carried out a tender process for Surveying & Architectural services from March – July 2020 which culminated in virtual interviews of the shortlisted providers.

6.2 The WG appointed Montagu Evans and HLM Architects with detailed specific targets being a feasibility report; outline business cases and site use design options. The WG decided to appoint Create Streets on a monthly consultancy basis with their ongoing remit being a critical friend of any surveying or architectural advice and providing their own independent advice on pathways to community engagement.

6.3 Costs incurred to date up to the end of December 2020:

Service	**Company**	**Amount (£)**
Architecture & Surveying advice	HLM Architects Montagu Evans	£47,000
Community engagement advice	Create Streets	£7,500
Total		**£54,500**

6.4 At this stage, the WG have not taken into account any resource costs for hard copy ‘postal’ engagement of the listening exercise. The WG recognise that some residents’ will not have access to digital services. The WG have agreed that the proposed engagement project will be District wide.

7 TIMING

7.1 The table below details the WG expected next steps. The workstreams below can be run in tandem and the WG anticipate the next phase of work, post public engagement, to last in the region of 4 – 8 months in total.

Item	Proposed Workstream	Resourcing	Timescales
1	Workplace review of HDC offices. Assess Council office requirement	In house Property Consultant Architect QS	2 months
2	Soft market test public / private sector interest Test public partnerships inc Library Soft market test residential option for PD scheme	In house Property Consultant	3 months
3	Cost review of HDC office options and appraisals	Property Consultant QS	3 months
4	Test Harlington business case inc social value and economic impact outputs	Architect Theatre specialist Focus on future proofing & affordability	3 months
5	HDC to engage officially with HCC to establish basis and future of Library	HDC team lead Property Consultant	3 months
6	Hold off developing masterplan designs until items 1-5 completed		
7	Public consultation Stage 2	External consultant	3-6 months
8	Review options – Rescore following public feedback		

7.2 At this stage the WG have not requested fee quotations for the next steps above. The WG note the excellent work to date of the project team.

8 SUMMARY

8.1 This report of the WG concludes the initial stage 1 of this exciting project. The WG have remained focussed on the key themes of creating a vibrant, engaging place for all to use.

Contact Details: Glyn Lloyd: glyn.lloyd@hart.gov.uk

APPENDICES

Appendix 1 – Create Streets - Community engagement options December 2020
Appendix 2 – Civic Quarter Ownership Map

Civic Quarter Regeneration, Fleet, Hampshire

Community engagement options December 2020

This note sets out three community engagement options for the working group to consider. It has also been updated following feedback on 1st Dec 2020. We understand there is support for a two-stage engagement process, i) an early listening exercise to begin to build genuine public support for the scheme and to feed ideas into the design process, and ii) a preference survey to select between a number of design options. This note focusses on that first stage early listening exercise to build awareness of the scheme and genuinely involve the community in the design process. The three options are;

- Option one: Non-visual survey;
- Option two: Listening exercise and visual survey (*our recommended option*); and
- Option three: Detailed visual survey.

Option one: Non-visual survey

The non-visual survey will provide a detailed set of questions tailored towards certain areas within the Civic Quarter.

Platform. A non-visual Google Form could be used for this survey.

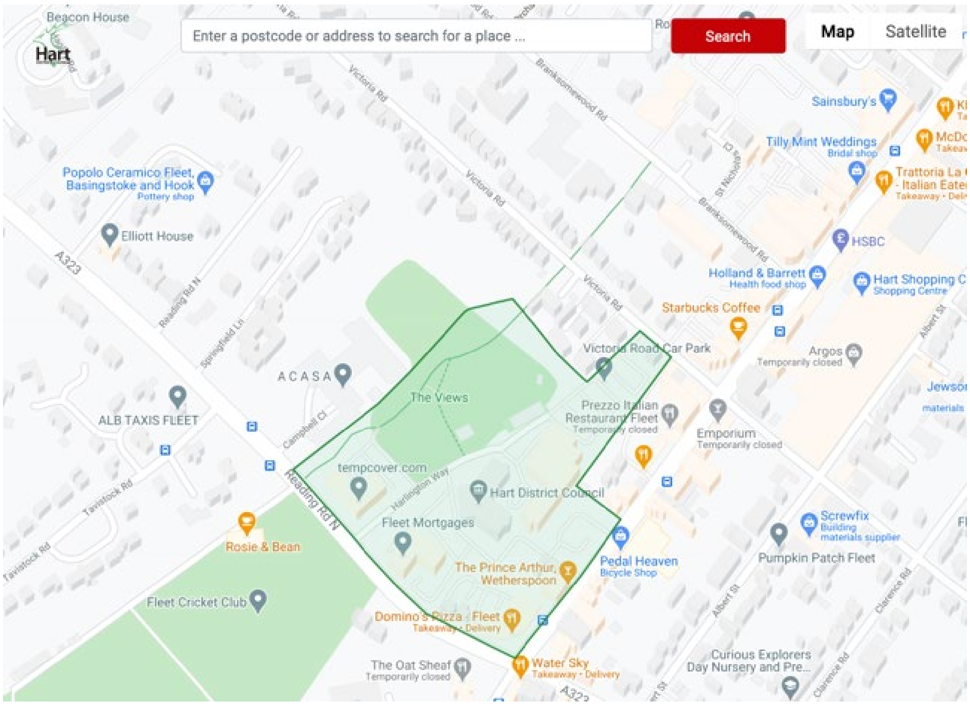
Potential Question	Style of question
Please tell us how you feel about the following areas within the Civic Quarter?	Needs improvement/ Like • Gurkha Square • Gurkha Square Memorial • Fleet Library • HDC Offices • The Harlington • The Views • Victoria Road Car Park • The route through to the views • Other
What specifically do you like or want to see improved here?	Open text box
Please rank in order of importance the following options?	Ranking options • Gurkha Square • Gurkha Square Memorial • Fleet Library • HDC Offices • The Harlington • The Views • Victoria Road Car Park • The route through to the views • Other
Which of these places or buildings would you most like to see improved?	Ranking options • Gurkha Square • Gurkha Square Memorial • Fleet Library

	• HDC Offices • The Harlington • The Views • Victoria Road Car Park • The route through to the views • Other
What specifically would you like to see improved about them?	Open text box
What are your wider dreams for the Civic Quarter?	Open text box

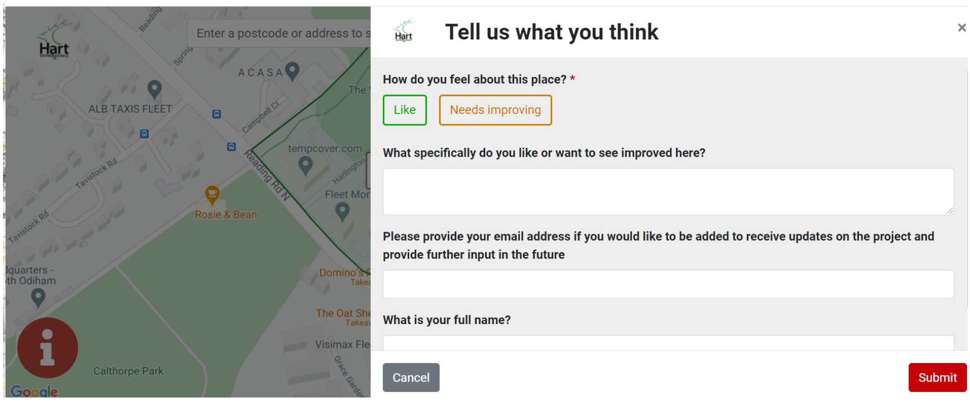
Option two: Listening exercise and visual survey

This is our recommended option. This initial engagement survey would form a first phase of the community engagement.

Platform. Our Create Communities platform could be used at no extra cost. The visual platform uses an interactive map allowing members of the public to have their say on a specific area, good bad or indifferent and provide specific comments based on this location.



Example of the Create Communities platform. The boundary is indicative at this stage.



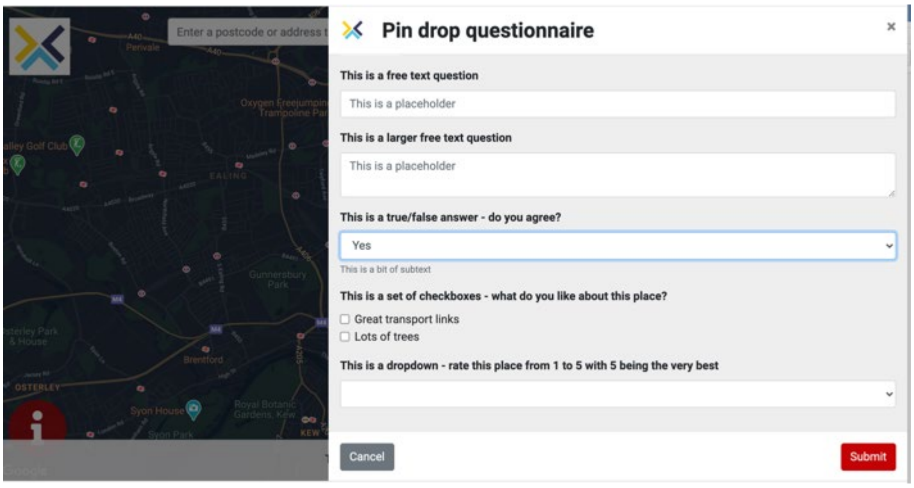
Example of potential questions – we recommend not more than 4 or 5 questions

Potential Question	Style of question
How do you feel about this place?	Like / Needs improvement
What specifically do you like or want to see improved here?	Open text box
In Fleet Civic Quarter which of these buildings or places are important to you?	Tick box options • Gurkha Square • Gurkha Square Memorial • Fleet Library • HDC Offices • The Harlington • Victoria Road Car Park • The Views Park • The route through to The Views Park • Other
What are your wider dreams for the Civic Quarter?	Open text box
What are your wider dreams for regeneration in Fleet Town Centre?	Open text box

Option three: Detailed visual survey

Similar to the second option although this option would involve more detailed questions.

Platform. Our Create Communities platform could be used with no extra cost, allowing members of the public to have their say on a specific area, good bad or indifferent.



An example of a more detailed approach to questions

Potential Question	Style of question
How do you feel about this place?	Colour code preference
What specifically do you like or dislike about this location?	Open text box
In Fleet Civic Quarter which of these buildings or places are important to you?	Tick box options • Gurkha Square • Gurkha Square Memorial • Fleet Library • HDC Offices • The Harlington • Victoria Road Car Park • The Views Park • The route through to The Views Park • Other
Which of the options would you most like to see improved?	Tick box options • Gurkha Square • Gurkha Square Memorial • Fleet Library • HDC Offices • The Harlington • The Views Park • Victoria Road Car Park • Other
What specifically would you like to see improved about them?	Open text box
What are your wider dreams for the Civic Quarter?	Open text box

Our recommendation

We would recommend that *option two* is the better route at this stage for 3 key reasons

- The use of the Create Communities platform will assist in reaching a wider and varied demographic.
- The neutral set of questions will allow members of the public to freely and openly contribute to the future of the Civic Quarter.
- The shorter list of questions will help maximise the number of responses.

Potential next steps

Once agreed on the approach, a Civic Quarter Create Communities map will be created and run over a period of one - two months. All data will be tracked and collated by Create Streets. Once the exercise is complete, we can then analyse the results and produce a short note on;

1. The current perception of places people like or dislike on the Civic Quarter site;
2. The most important buildings or places within the Civic Quarter site;
3. Specific ideas for improvements on the site;
4. Specific reasons why buildings or places are valued; and
5. Wider ambitions for the Civic Quarter site.

* * *

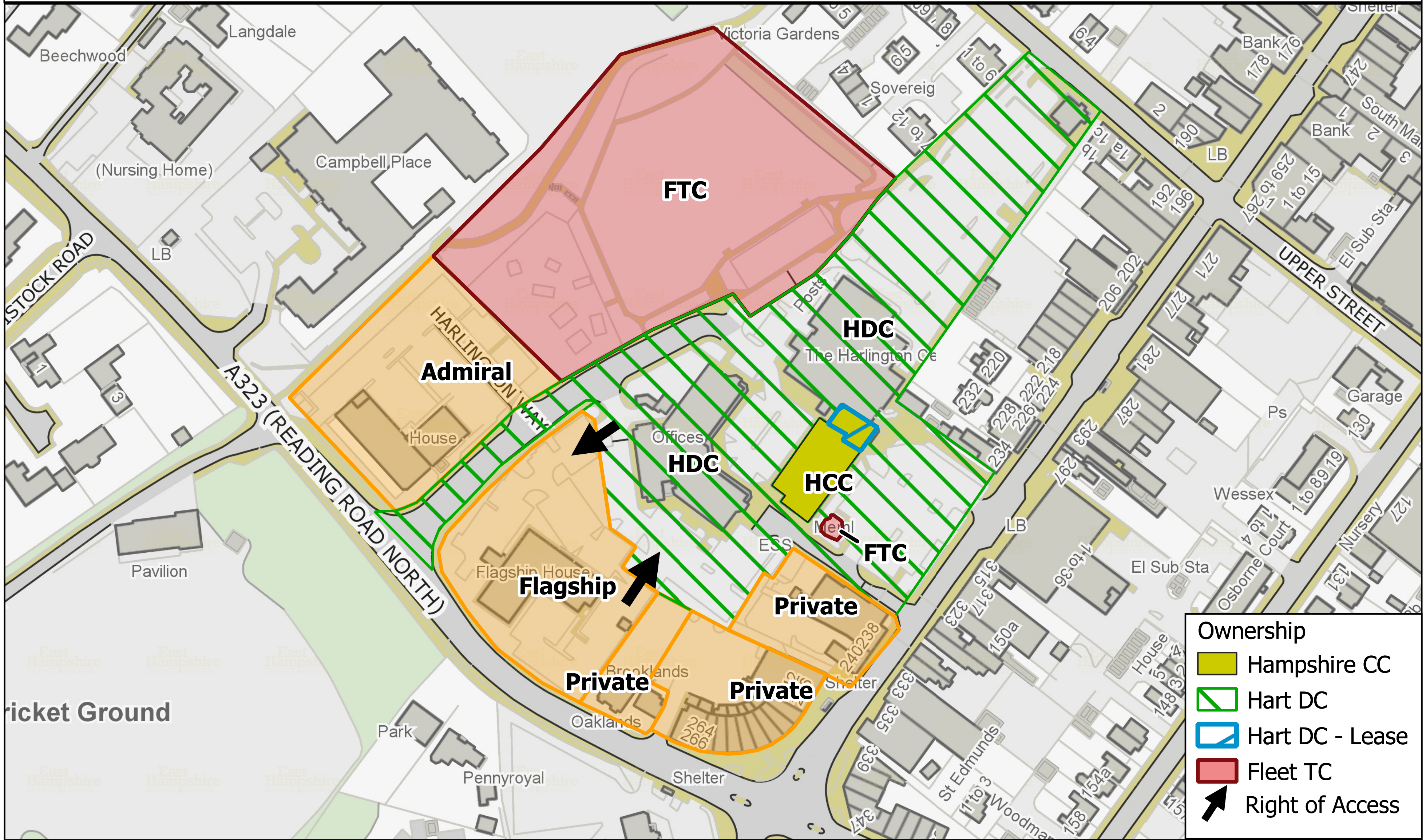
I hope this is helpful and we look forward to discussing.

With very best wishes,

David Milner
Projects Director, CREATE Streets

PAPER B Appendix 2

Civic Quarter Ownership Map



0 10 20 30 40 50 m

Map scale 1:2000

OVERVIEW AND SCRUTINY COMMITTEE

DATE OF MEETING: **19 JANUARY 2021**

TITLE OF REPORT: **DRAFT BUDGET 2021/2022**

Report of: **Head of Corporate Services**

Cabinet Member: **Councillor James Radley, Deputy Leader and Finance**

1 PURPOSE OF REPORT

1.1 This report provides a summary of the revenue and capital budget proposals for 2021/2022 to enable Committee to forward its comments on the proposed draft budget and Council Tax levels to Cabinet.

1.2 This draft budget references numbers included in the provisional finance settlement for 2021/2022 which was published on December 17th 2020. The final settlement is expected in late January or early February 2021.

1.3 It is important to note that the Government's multi-year Spending Review, due in 2019 was once again replaced by a short-term Spending Round. What this means is that, in substance, any budget to be proposed will only be for one-year only. No figures have been made available for local government funding beyond 2021/22, either nationally or locally. This report therefore cannot give any realistic projection for 2022/2023, however indicative budget requirements have been entered.

2 OFFICER RECOMMENDATION

2.1 That the Committee forwards to Cabinet any comments it has on the approach adopted to preparing the draft budget.

3 BACKGROUND INFORMATION

3.1 The Government postponed the Spending Review due in 2019 and once again published a short-term (one-year) Spending Round. This is the second consecutive one-year settlement necessitated this year by the Covid-19 pandemic, following on from last year's Brexit general election.

3.2 The Government has promised once the pandemic is over to revisit the priorities for reform of the local government finance system.

Summary of Proposals for 2021/22:

- a uniform percentage increase in 2020-21 Revenue Support Grant (RSG) allocations, based on the change in the Consumer Price Index (CPI)
- a freeze in Baseline Funding Levels (BFLs) at 2020-21 levels, to match the freeze in the business rates multiplier
- an increase in section 31 grant for the under-indexation of the multiplier, to compensate for the freeze in the business rates multiplier

- eliminating so-called 'negative RSG', through the use of forgone business rates receipts.
- a bespoke council tax referendum principle of up to 2% or £5, whichever is higher, for shire district councils
- a new round of NHB payments in 2021-22, which will not attract new legacy payments
- allocation of a new Lower Tier Services Grant

3.3 This means it is not possible to give any meaningful assessment of the potential budget position beyond 2021/2022. The report details each key areas of the budget in its own section below; to enable Members of the Committee to consider and provide comments accordingly.

4 COUNCIL TAX

4.1 The Government anticipates, as in previous years, that local authorities such as Hart will increase council tax in 2021/2022 by a core principle of up to 2% or £5 on a Band D property. Any higher rise will require holding a local referendum. Consequently, the budget proposals included in this report assume a £5 increase in 2021/2022. The financial effect of this increase is to add approximately £205k annually to income. The Government has incorporated the full increase as an assumption in Local Authorities' increase in spending power.

5 NEW HOMES BONUS (NHB)

5.1 The Government made substantial changes to the NHB scheme from April 2017, as it diverted funding away from districts to counties and unitaries to fund adult social care pressures. Payment periods have also been reduced from 6 to 4 years. From 2017 a national baseline of 0.4% growth was introduced. The Council relies heavily on funding from NHB with approximately 25% of the net revenue budget being funded by NHB in 2020/2021.

5.2 In the 2020/21 Finance Settlement the Government made a new round of allocations to the NHB maintaining the growth baseline for payments at 0.4%. They will not however make any legacy payments on allocations made in earlier years. The Government plans to consult on the future of the housing incentive in early 2021/22. This will include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering needed homes.

5.3 The Financial Settlement proposes that Hart will receive £1.847 million in NHB in 2021/22, a reduction of £0.503 million. The NHB is likely to further reduce to £0.506 million in 2022/23. The Government makes it clear that that NHB will be phased out.

5.4 There is, therefore, a significant future risk to the Council and whilst the Government has said that it will consult on replacements for NHB in 2021 there is absolutely no certainty as to what this could look like.

6 LOWER TIER SETTLEMENT GRANT

6.3 The 2020/21 Finance Settlement introduced an un-ringfenced lower tier services grant, which is to be used specifically to ensure that no council sees a reduction in core spending power because of the NHB changes. This funding is in response to "the current exceptional circumstances and is a one-off". The increase in spending power relies on Local Government increasing Council Tax by the core principle of up to 2% or £5 on a Band D property.

6.4 The Financial Settlement proposes that Hart will receive £0.1839 million in Lower Tier Settlement Grant in 2021/22. This will reduce the impact in the reduction in NHB from £0.503 million to £0.319 million.

7 COUNCIL TAX SUPPORT SCHEME

7.1 Since 2013, local authorities in England have been responsible for running their own local schemes for help with council tax - Council Tax Support. Councils can choose to either reduce the discount paid to working age claimants or find income to make up the reduction. The Council has always agreed not to reduce the discount (benefits) paid to such claimants but to fund the cost from the revenue account. There are no proposals to change the arrangement for 2021/22, however a detailed review of this scheme will be commissioned to take place in early 2021/22 to inform future years.

8 FEES AND CHARGES

8.1 The Budget has been prepared taking account of the following changes to charges in the main service areas:-

- Car Parking – Charges have remained the same with the exception of Annual Residents and Visitors Parking Permits, which will see price rises of up to £40.

- Council Accommodation - The hiring of Council Rooms has seen material increases to hourly charges (by up to £15.50 in the highest case).

- In all other cases, where the Council has flexibility in setting and charges the general intention is to increase them by inflation (0.5%) or up to the nearest £, where applicable, unless any individual scheme of delegation allows flexibility to set specific fees and charges or Statutory charges apply.

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9 GROWTH AND SAVINGS INCLUDED IN BUDGET

9.1 An incremental approach to the budget is being followed in building this budget. It includes identifying areas for further savings, as well as any opportunities to secure new sources of income.

9.2 Section 12.1 below shows the current pressure for movement of budgets between 2020/2021 and 2021/2022. In light of current risks the details of any budget movements are still being evaluated and will be refined further before final consideration by Cabinet.

9.3 However, the following areas represent some of the more significant and <u>ongoing</u> cost pressures:

- Contract changes; insourcing services can bring initial increased costs in earlier years. £140K
- Recyclate income reduction from Hampshire County Council £250K
- Downward adjustments in Covid due to likelihood in full income recovery during early months of 2021-22 - £220K

9.4 A combination of reduced income and increased cost pressures have left the Council with an anticipated budget deficit for 2021/22 of £381K and in 2022/23 a further deficit of £1,018K. The deficit is both structural and significant and the current lack of commercial opportunities coming forward requires the Council carries out a root and branch review of income and expenditure which will require Members to take difficult decisions to prioritise available budget in future years. It is essential that expenditure decisions for future years are made by Period 5 of 2021/22 to allow plans to be implemented to deliver savings in 2022/23.

10 OUTTURN BUDGET FOR 2020/2021

10.1 The outturn budget is expected to be in deficit in 2020/2021. This is due to the loss in income plus an increase in expenditure in response to the COVID-19 pandemic.

10.2 Significant income will be lost in 2020/21 primarily in Parking and Leisure. The Government partly compensates for this loss. The loss is estimated to be c.£700K.

10.3 Additional spending has also been necessary to support the community, employees, and the workplace during the pandemic. The additional expenditure is likely to be c.£500K.

10.4 These pressures are tempered by savings in staff vacancies, travel and expenses plus Government support grants – c. £500K.

10.5 Some of the above losses are expected to mitigated by both use of reserves and Central Government subsidies to counteract the direct effects of Covid-19 on Council income and expenditure.

11 CAPITAL PROGRAMME

11.1 The proposed 2021/2022 Capital Programme is attached as Appendix 2.

12 DRAFT BUDGET 2020/2001

12.1 The table below summarises the draft budget for 2021/2022 compared to the approved (revised) 2020/2021 budget

	2020/2021	2021/2022	
	Budget	**Draft**	
	£000	£000	
Net Service Budget	9,174	10,536	
SANG Expenditure	258	258	Funded from allocated S106 receipts
Cost of Service	**9,432**	**10,794**	
Debt Interest	12	12	
MRP	469	406	
New Homes Bonus	-2,377	-1,847	Provisional Local Government Settlement
Lower Tier Services Grant		-200	Provisional Local Government Settlement
Pressures	1,218	610	Change programme variables
Net Expenditure	**8,754**	**9,776**	
Financed by			
Council Tax	-7269	-7,487	Provisional Local Government Settlement maximum increase
Business Rates Retained	-1,297	-1,400	Provisional Local Government Settlement
Collection Fund – CT Surplus	-31		Collection Fund estimate
Collection Fund – NNDR Deficit	154		Collection Fund estimate
S106 receipts	-53	-53	Allocation as per approved expenditure
SANG receipts	-258	-258	Allocation as per approved expenditure
Commercial Income		-196	
Total Financing	**-8,754**	**-9,395**	
Transfer from Reserves		381	

12.2 The major revenue funding risks and decisions looking beyond 2021/22 to be considered to ensure financial sustainability:

Funding Risks

- Spending Review 2021 – may reduce the totality of local government funding
- Fair Funding Review – risk of losing further central government funding as it is distributed elsewhere
- Changes to New Homes Bonus
- Changes to 75% business rates retention from 2022/2023
- General delays and uncertainty on future funding caused by Covid-19
- Uncertainty over future Planning Fee income (this will inevitably fluctuate)
- Concerns in delivering previously estimated levels of Commercial Income.

12.3 Appendix 2 details areas for discussion and a timeline for implementing savings plans to ensure a balanced position in 2022-23.

CONTACT: Emma Foy, Head of Corporate Services x4207, email: emma.foy@hart.gov.uk

APPENDICES:
Appendix 1 – Capital programme 2021/2022
Appendix 2 - Confidential Appendix

Appendix 1 - Capital programme 2021/2022

Capital Programme 2021-2022

Service Area and Description	2021/22 Budget requested £'000	2022/23 Estimate £'000	2023/24 £'000	Source of Funding
Upgrade of Checkpoint Firewall	20	0	0	Digital Transformation Reserve
Upgrade of Backup solution	15	0	0	Digital Transformation Reserve
Warranty for laptops	10	0	0	Digital Transformation Reserve
Server Infrastructure refresh	20	0	0	Digital Transformation Reserve
Edenbrook apartments final payment	6,800	0	0	PWLB External Borrowing
Total Corporate Services	**6,865**	**0**	**0**	
Disabled Facilities Grant	500	500	500	Grant – Better Care Fund
Total Community Services	**500**	**500**	**500**	
Fleet Pond - Visitor Enhancement	75	31		S106
Fleet Pond - Fencing	21			Capital receipts reserve
Fleet Pond - Ecology	25			S106
Hazeley Heath - Grazing Project	50			S106
Hazeley Heath - Notice Boards / HW improvements	27			S106
Hazeley Heath - Access Improvements		10		S106
HW Central Common - Access Improvements	80			S106
Edenbrook - Play Tree	30			SANGs
Edenbrook - Visitor Improvements	20			S106
Edenbrook - History Walk	20			SANGs
Edenbrook - Skate park and Bike Track	165			S106
Edenbrook - Teen Health		65		S106
Edenbrook Community Garden	120			S106
Bramshot Farm - Capital	150	145	500	LEP Grant (SANGs)
Fleet Pond - Access Track	110			S106
EV Chargers	82			Capital Receipts Reserve
New Tractor	25			TBA SANGs
New Bailer	20			TBA SANGs
Total Environmental and Technical	**1,020**	**251**	**500**	
Council Totals	**8,385**	**751**	**1,000**	

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Exempt from Publication

OVERVIEW AND SCRUTINY COMMITTEE

DATE OF MEETING: **19 JANUARY 2021**

TITLE OF REPORT: **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY**

Report of: **Head of Corporate Services**

Cabinet member: **Councillor James Radley, Deputy Leader and Finance**

1.0 PURPOSE OF REPORT

To present the draft Treasury Management Strategy Statement for 2021/22 which incorporates the Annual Investment Strategy and Prudential and Treasury Indicators.

2.0 OFFICER RECOMMENDATION

That the Committee consider any recommendations it wishes to make to Cabinet in respect of the Treasury Management Strategy Statement and Annual Investment Strategy

3 .0 BACKGROUND

3.1 The Local Government Act 2003 ("the Act") and supporting regulations require the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); these set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.3 The Treasury Management Strategy Statement and Annual Investment Strategy are attached as Annex A.

CONTACT: Emma Foy, Head of Corporate Services, emma.foy@hart.gov.uk

Annex A

1.Introduction_

1.1 Background

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

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

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

1.1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.1.5 CIPFA defines treasury management as:

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

2.0 Reporting Requirements

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a) **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers the capital plans (including prudential indicators); a Minimum Revenue Provision (MRP) policy; the Treasury Management Strategy and Investment Strategy.

b) **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Committee.

3.0 **Capital Strategy**

In addition to the above the CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

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

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities.
- Any service objectives relating to the investments.
- The expected income, costs and resulting contribution.
- The debt related to the activity and the associated interest costs.
- The payback period (MRP policy).
- For non-loan type investments, the cost against the current market value.
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

3.0 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas; these are Capital Expenditure and MRP and Operational and Strategic Treasury Management.

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

4.0 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Non-mandatory training for all Members was carried out in December 2020. The training needs of Treasury Management Officers are periodically reviewed, and Officers at both Hart and Mendip Councils have recently attended a day long training workshop hosted by Link Asset Management.

5.0 Treasury Management Consultants

5.1 The Council uses Link Group, Independent Treasury solutions as its external treasury management advisors.

5.2 The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

5.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

6.0 The Capital Prudential Indicators 2021/22 – 2023/24_

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

6.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure by Service	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Community Services	1,256	555	500	500	500
Corporate Services	368	1,588	65	0	0
Env and Technical	581	635	1,020	251	500
Place	40	24	0	0	0
Total	**2,245**	**2,802**	**1,585**	**751**	**1,000**
Commercial activities/ non-financial investments *	7,038	0	6,800	0	0
Total capital expenditure	**9,283**	**2,802**	**8,385**	**751**	**1,000**
Financed By					
Capital receipts	329	55	103	0	0
Capital grants	1,346	700	1,482	751	1,000
Revenue	21	0	0	0	0
Total financing	**1,696**	**755**	**1,585**	**751**	**1,000**
Borrowing requirement	**7,587**	**2,047**	**6,800**	**0**	**0**

* Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.
Other long-term liabilities - The above financing need excludes other long-term liabilities.

6.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes.
The Council is asked to approve the CFR projections below:

Capital Financing Requirement (CFR)	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Brought Forward	16,263	23,405	24,936	31,194	30,585
Borrowing requirement	7,587	2,047	6,800	0	0
Less MRP and other financing movements	445	516	542	610	610
Net movement in CFR	**7,142**	**1,531**	**6,258**	**(610)**	**(610)**
CFR Carried Forward	**23,405**	**24,936**	**31,194**	**30,585**	**29,975**

6.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

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

This option provides for a reduction in the borrowing need approximately over the asset's life. Repayments included in annual PFI or finance leases are applied as MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The Council is yet to make a MRP overpayment.

6.4 Borrowing

The capital expenditure plans set out in Section 6.1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

6.5 Current Portfolio Position

The overall Treasury Management Portfolio as of March 2020 is shown below for investments.

Investments / Lending Summary as at: March 2020	Amount Invested (£)	Length of Deposit	Limit (£)	Within Limit Y/N	Terms	Rate (%)
Cheshire East Council	4,000,000	102 days	5,000,000.00	Y	Fixed Term	0.76%
Fareham Borough Council	5,000,000	366 days	5,000,000.00	Y	Fixed Term	0.90%
Mid Suffolk District Council	5,000,000	85 days	5,000,000.00	Y	Fixed Term	0.80%
Standard Chartered	2,000,000	92 days	5,000,000.00	Y	Fixed Term	0.72%
Bank of Scotland	2,000,000	Call Account	5,000,000.00	Y	32 Day Notice	0.40%
Bank of Scotland	1,000,000	Call Account		Y	32 Day Notice	0.25%
Lloyds Bank	5,000,000	Call Account	5,000,000.00	Y	32 Day Notice	0.25%

Santander	3,320,167	Call Account	5,000,000.00	Y	Instant Access	0.40%
Barclays	2,320,541	Call Account	5,000,000.00	Y	Instant Access	0.45%
TOTAL	**29,640,707**					

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Borrowing	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Borrowing	12,337	11,055	16,554	15,239	14,348
Other long-term liabilities	0	0	0	0	0
Total debt	**12,337**	**11,055**	**16,554**	**15,239**	**14,348**
CFR	23,405	24,936	31,194	30,585	29,975
Under / (over) borrowing	**11,068**	**13,881**	**14,641**	**15,346**	**15,627**

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Corporate Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

6.6 Treasury Indicators: limits to borrowing activity

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

Operational Boundary for external debt	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000

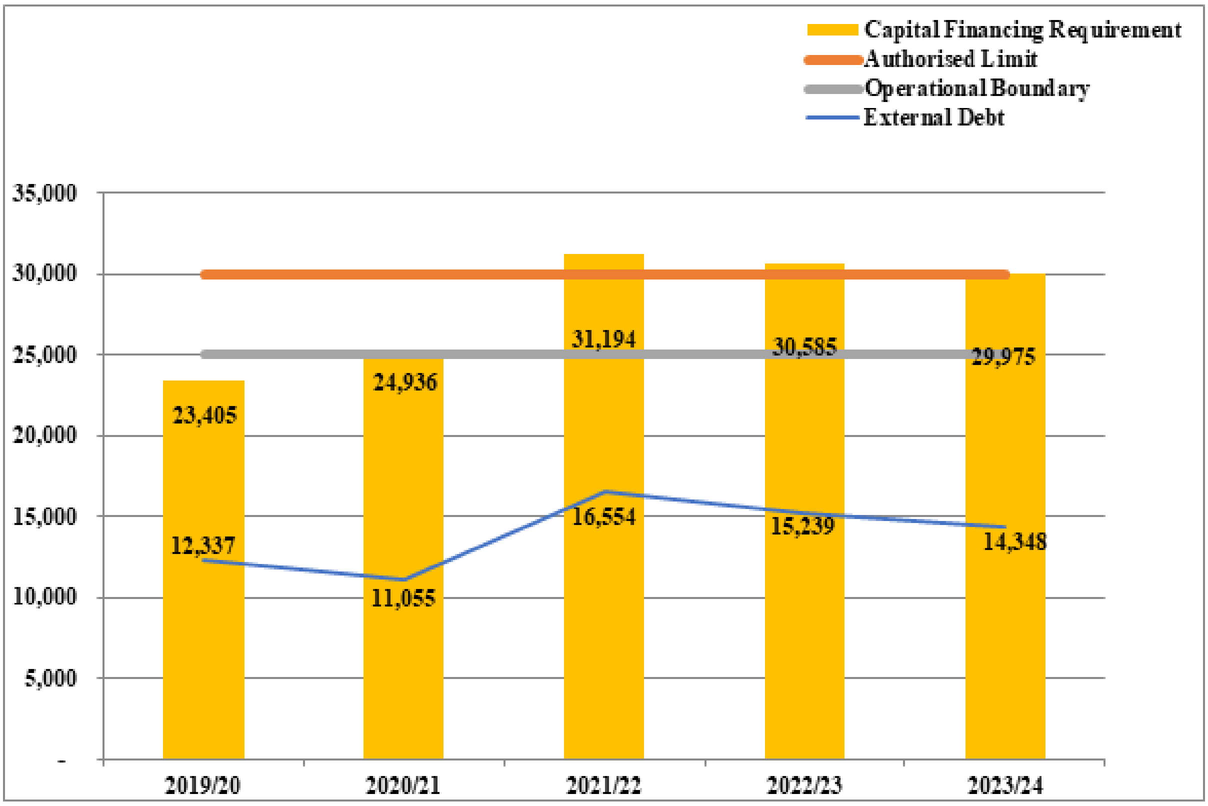
Borrowing	25,000	25,000	25,000	25,000	25,000
Other long-term liabilities	0	0	0	0	0
Total debt	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**

The authorised limit for external debt: A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised Limit for External Debt	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Borrowing	30,000	30,000	30,000	30,000	30,000
Other long-term liabilities	0	0	0	0	0
Total	**30,000**	**30,000**	**30,000**	**30,000**	**30,000**

Capital Financing Requirement	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Authorised Limit	30,000	30,000	30,000	30,000	30,000
Operational Boundary	25,000	25,000	25,000	25,000	25,000
Capital Financing Requirement	23,405	24,936	31,194	30,585	29,975
External Debt	12,337	11,055	16,554	15,239	14,348
Under / (over) borrowing	11,068	13,881	14,641	15,346	15,627
Change in External Debt	(1,261)	(1,281)	5,498	(1,315)	(891)



6.7 Prospects for Interest Rates

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 interest rates. Link provided the following forecasts on 11.8.20. However, following the conclusion of the review of PWLB margins over gilt yields on 25.11.20, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

Link have provided some explanation for the above which is detailed below: -

- *Please note that we have made a slight change to our interest rate forecasts table above for forecasts for 3, 6 and 12 months. Traditionally, we have used LIBID* *forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that all LIBOR rates up to 6m are currently running below 10bps, using that convention would give negative figures as forecasts for those periods. However, the liquidity premium that is still in evidence at the short end of the curve means that the rates being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 10 bps is achievable for 3 months, 10bps for 6 months and 20 bps for 12 months.*

- *During 2021, Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.*
- *We will maintain continuity by providing clients with LIBID investment benchmark rates on the current basis.*

6.8 Impact of COVID-19 on interest rates

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative rates could happen. However, the Governor of the Bank of England has indicated that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

6.9 Gilt yields / PWLB rates

There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

6.10 Investment and borrowing rates

Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years. **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. The following rates have been confirmed:
PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
Local Infrastructure Rate is gilt plus 60bps (G+60bps)

Because of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
Local Infrastructure Rate is gilt plus 60bps (G+60bps)

Borrowing for capital expenditure. As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.

While this authority will seek to borrow internally where it can, some external borrowing may be required and there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

6.11 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Head of Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed orif it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

6.12 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

6.13 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

If rescheduling was done, it will be reported to the Council, at the earliest meeting following its action.

6.14 New financial institutions as a source of borrowing and / or types of borrowing

Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

6.15 Approved Sources of Long and Short-Term Borrowing On Balance Sheet Fixed Variable

PWLB
Municipal bond agency
Local authorities
Banks
Pension funds Market (long-term)
Market (temporary)

Market (LOBOs)
Stock issues

Local temporary
Local Bonds
Local authority bills
Overdraft
Negotiable Bonds

Internal (capital receipts & revenue balances)
Commercial Paper
Medium Term Notes
Long term multi-asset diverse funds
Finance leases

7 Annual Investment Strategy

7.1 Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

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

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

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 50%.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in 4.2.

8. This authority will set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 4.2).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.4). Regular monitoring of investment performance will be carried out during the year.

7.2 Creditworthiness policy

This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, as well as information on any external support for banks to help support its decision making process.

	Colour (and long-term rating where applicable)	Money Limit*	Time Limit
Banks	Yellow	£5m	5yrs
Banks	purple	£5m	2 yrs.
Banks	orange	£5m	1 yr.
Banks – part nationalised	blue	£5m	1 yr.
Banks	red	£5m	6 months
Banks	green	£5m	100 days
Limit 3 category-Council's banker	No colour		1day
Other institutions limit	-	£5m	1yr
DMADF	AAA	unlimited	6 months
Local authorities	n/a	£5m	1yr
Housing Associations	Colour bands	£5m	As per colour band

	Fund rating	Money Limit*	Time Limit
Money Market Funds CNAV	AAA	£5m	liquid
Money Market Funds LVNAV	AAA	£5m	liquid
Money Market Funds VNAV	AAA	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light pink / AAA	£5m	liquid

*This Money Limit relates to principal amounts invested and could be exceeded with interest received but consideration will be given to keep this to a minimum and allowable under this Strategy.

Creditworthiness

Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30.6.20 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for expected credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on actual levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

7.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a. **Non-specified investment limit.**
b. **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
c. **Other limits.** In addition:
   - limits in place above will apply to a group of companies.
   - sector limits will be monitored regularly for appropriateness.

7.5 Investment Strategy

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

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

7.5.1 Investment returns expectations

Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long-term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

7.5.2. Negative investment rates

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen several market operators, now including the DMADF, offer nil or negative rates for very short-term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are several financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set regarding the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	2021/22	2022/23	2023/24
Principal sums invested > 364 & 365 days	£5m	£5m	£5m
Current Investments as at 31.12.20 in excess of 1 year maturing each year	£0	£0	£0

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access, money market funds and short-dated deposits (overnight to 100 days), in order to benefit from the compounding of interest.

7.5.3 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

8 APPENDICES

8.1 Prudential and treasury indicators
8.5 Interest rate forecasts
8.6 Economic background
8.7 Treasury management practice 1 – credit and counterparty risk management
8.8 Approved countries for investments
8.9 Treasury management scheme of delegation
8.10 The treasury management role of the section 151 officer

8.1 The Capital Prudential and Treasury Indicators 2021/22 – 2023/24

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

1. **Capital expenditure**
   Please see table in Section 6.1

8.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Ratio of financing costs to revenue stream (%)	5.97	6.09	6.70	7.02	6.92

The estimates of financing costs include current commitments and the proposals in this budget report.

8.3 Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	50%

5 years to 10 years	0%	50%
10 years to 20 years	0%	50%
20 years to 30 years	0%	50%
30 years to 40 years	0%	50%
40 years to 50 years	0%	50%
Maturity structure of variable interest rate borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years to 20 years	0%	50%
20 years to 30 years	0%	50%
30 years to 40 years	0%	50%
40 years to 50 years	0%	50%

8.4 Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

8.5 Interest Rate Forecasts 2020-2024

PWLB forecasts are based on PWLB certainty rates

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

8.6 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.

- ***UK.*** *The Bank of England's Monetary Policy Committee kept* ***Bank Rate*** *unchanged on 5th November. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of* ***quantitative easing (QE) of £150bn****, to* *start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".*

- *Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:*
  - *The economy would recover to reach its pre-pandemic level in Q1 2022*
  - *The Bank also expects there to be excess demand in the economy by Q4 2022.*
  - *CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".*
- *Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.*
- *One key addition to **the Bank's forward guidance** in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase through to quarter 1 2024 but there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly. **Inflation** is unlikely to pose a threat requiring increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. It is expected to briefly peak at around 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern.*
- *However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2nd December, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31st March will limit the degree of damage done.*
- *As for **upside risks**, we have been waiting expectantly for news that various **COVID19 vaccines** would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, their phase three trials are still only*

two-thirds complete. More data needs to be collected to make sure there are no serious side effects. We don't know exactly how long immunity will last or whether it is effective across all age groups. The Pfizer vaccine specifically also has demanding cold storage requirements of minus 70C that might make it more difficult to roll out. However, the logistics of production and deployment can surely be worked out over the next few months.

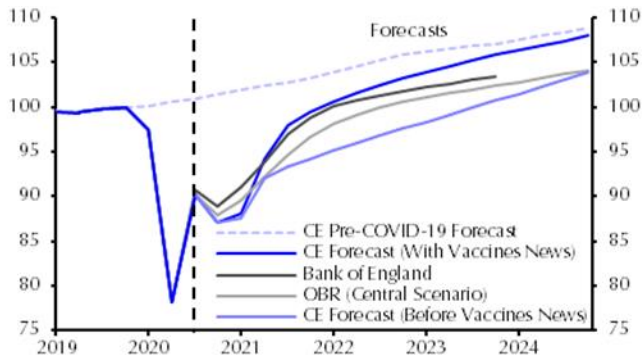
- *However, there has been even further encouraging news since then with another two vaccines announcing high success rates. Together, these three announcements have enormously boosted confidence that* ***life could largely return to normal during the second half of 2021****, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services.*

A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021, once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would remain some years away. There is also a potential question as to whether the relatively optimistic outlook of the Monetary Policy Report was swayed by making positive assumptions around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.

- ***Public borrowing*** *is now forecast by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.*
- *Overall,* ***the pace of recovery*** *was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. However, the second national lockdown starting on 5th November for one month is expected to depress GDP by 8% in November while the rebound in December is likely to be muted and vulnerable to the previously mentioned downside risks. It was expected that*

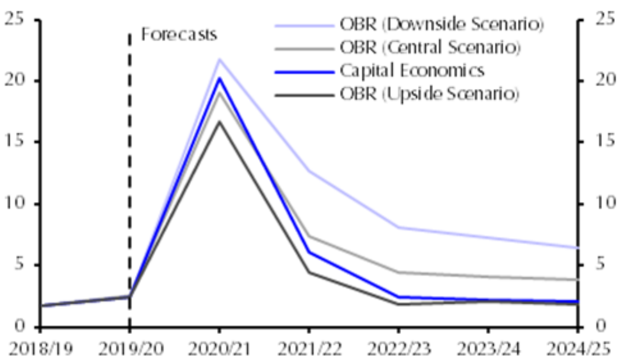
the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, the graph below shows what Capital Economics forecast will happen now that there is high confidence that successful vaccines will be widely administered in the UK in the first half of 2021; this would cause a much quicker recovery than in their previous forecasts.

Chart: Level of real GDP (Q4 2019 = 100)



This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to 2% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assume that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (As a % of GDP)



- *Capital Economics have not revised their forecasts for Bank Rate or gilt yields after this major revision of their forecasts for the speed of recovery of economic growth, as they are also forecasting that inflation is unlikely to be a significant threat and so gilt yields are unlikely to rise significantly from current levels.*

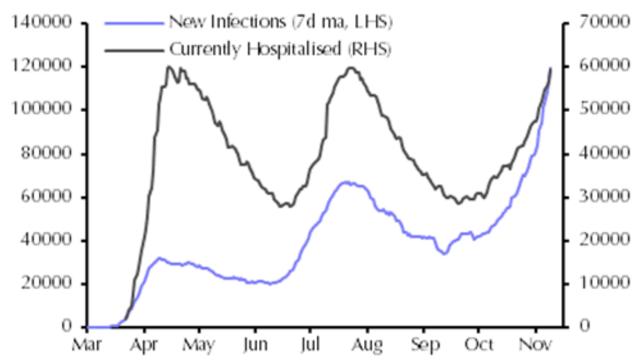
- *There will still be some* ***painful longer term adjustments*** *as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how* *vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.*

- *The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.*

***US.** The result of **the November elections** means that while the Democrats have gained the presidency and a majority in the House of Representatives, it looks as if the Republicans will retain their slim majority in the Senate. This means that the Democrats will not be able to do a massive fiscal stimulus, as they had been hoping to do after the elections, as they will have to get agreement from the Republicans. That would have resulted in another surge of debt issuance and could have put particular upward pressure on debt yields – which could then have also put upward pressure on gilt yields. On the other hand, equity prices leapt up on 9th November on the first news of a successful vaccine and have risen further during November as more vaccines announced successful results. This could cause a big shift in investor sentiment i.e. a swing to sell out of government debt to buy into equities which would normally be expected to cause debt prices to fall and yields to rise. However, the rise in yields has been quite muted so far and it is too early to say whether the Fed would feel it necessary to take action to suppress any further rise in debt yields. It is likely that the next two years, and possibly four years in the US, could be a political stalemate where neither party can do anything radical.*

*The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the **pandemic** with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a third wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the latest wave has been driven by a growing outbreak in the Midwest. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.*

COVID-19 New infections & hospitalisations



However, with the likelihood that highly effective vaccines are going to become progressively widely administered during 2021, this should mean that life will start to return to normal during quarter 2 of 2021. Consequently, there should be a sharp pick-up in growth during that quarter and a rapid return to the pre-pandemic level of growth by the end of the year.

*After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that "it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time." This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal. The Fed's meeting on 5 November was unremarkable - but at a politically sensitive time around the elections.*

***EU.** The economy was recovering well towards the end of Q2 and into Q3 after a sharp drop in GDP caused by the virus, (e.g. France 18.9%, Italy 17.6%). However, growth is likely to stagnate during Q4, and Q1 of 2021, as a second wave of the virus has affected many countries, and is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the worst affected countries. With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. It is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support from governments. The current PEPP scheme of €1,350bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, the PEPP scheme is regarded as being a temporary measure during this crisis so it may need to be increased once the first PEPP runs out during early 2021. It could also decide to focus on using the Asset Purchase Programme to make more monthly purchases, rather than the PEPP scheme, and it does have other monetary policy options.*

However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle during the closing and opening quarters of this year and next year respectively before it finally breaks through into strong growth in quarters 2 and 3. The ECB will now have to review whether more monetary support will be required to help recovery in the shorter term or to help individual countries more badly impacted by the pandemic.

China. *After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.*

However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. *Japan's success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. While the second wave of the virus has been abating, the economy has been continuing to recover at a reasonable pace from its earlier total contraction of 8.5% in GDP. However, there now appears to be the early stages of the start of a third wave. It has also been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. There has also been little progress on fundamental reform of the economy. The change of Prime Minister is not expected to result in any significant change in economic policy.*

World growth. *While Latin America and India have, until recently, been hotspots for virus infections, infection rates have begun to stabilise. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.*

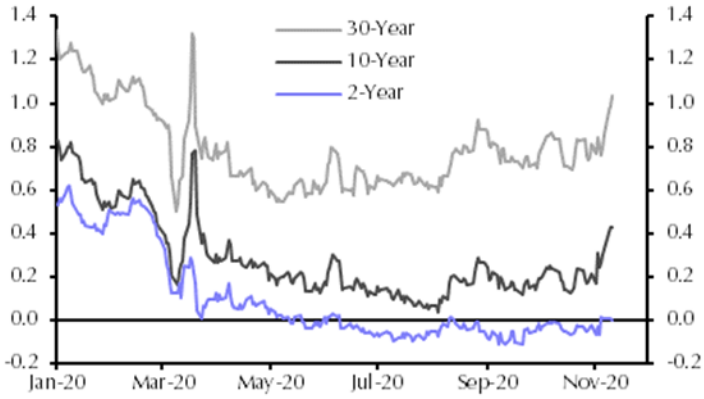
Until recent years, world growth has been boosted by increasing ***globalisation*** *i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high-tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a* ***reversal of world globalisation and a decoupling of western countries*** *from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.*

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

The graph below as at 10th November, shows how the 10 and 30 year gilt yields in the UK spiked up after the Pfizer vaccine announcement on the previous day, (though they have levelled off during late November at around the same elevated levels): -



INTEREST RATE FORECASTS

Brexit. *The interest rate forecasts provided by Link in paragraph 3.3 are predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. However, as the differences between a Brexit deal and a no deal are not as big as they once were, the economic costs of a no deal have diminished. The bigger risk is that relations between the UK and the EU deteriorate to such an extent that both sides start to unravel the agreements already put in place. So, what really matters now is not whether there is a deal or a no deal, but what type of no deal it could be.*

The differences between a deal and a no deal were much greater immediately after the EU Referendum in June 2016, and just before the original Brexit deadline of 29.3.19. That's partly because leaving the EU's Single Market and Customs Union makes this Brexit a relatively "hard" one. But it's mostly because a lot of arrangements have already been put in place. Indeed, since the Withdrawal Agreement laid down the terms of the break-up, both the UK and the EU have made substantial progress in granting financial services equivalence and the UK has replicated the bulk of the trade deals it had with non-EU countries via the EU. In a no deal in these circumstances (a "cooperative no deal"), GDP in 2021 may be only 1.0% lower than if there were a deal. In this *situation, financial services equivalence would probably be granted during 2021 and, if necessary, the UK and the EU would probably rollover any temporary arrangements in the future.*

The real risk is if the UK and the EU completely fall out. The UK could override part or all the Withdrawal Agreement while the EU could respond by starting legal proceedings and few measures could be implemented to mitigate the disruption on 1.1.21. In such an "uncooperative no deal", GDP could be 2.5% lower in 2021 than if there was a deal. The acrimony would probably continue beyond 2021 too, which may lead to fewer agreements in the future and the expiry of any temporary measures.

Relative to the slump in GDP endured during the COVID crisis, any hit from a no deal would be small. But the pandemic does mean there is less scope for policy to respond. Even so, the Chancellor could loosen fiscal policy by about £10bn (0.5% of GDP) and target it at those sectors hit hardest. The Bank of England could also prop up demand, most likely through more gilt and corporate bond purchases rather than negative interest rates.

Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

So in summary there is not likely to be any change in Bank Rate in 20/21 – 21/22 due to whatever outcome there is from the trade negotiations and while there will probably be some movement in gilt yields / PWLB rates after the deadline date, there will probably be minimal enduring impact beyond the initial reaction.

The balance of risks to the UK

- *The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.*
- *There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.*

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- ***UK** - further national lockdowns or severe regional restrictions in major conurbations during 2021.*
- ***UK / EU trade negotiations** – if they were to cause significant economic disruption and downturn in the rate of growth.*
- ***UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.*
- ***UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.*

- *A resurgence of the* ***Eurozone sovereign debt crisis.*** *The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.*
- *Weak capitalisation of some* ***European banks****, which could be undermined further depending on extent of credit losses resultant of the pandemic.*
- ***German minority government & general election in 2021.*** *In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.*
- ***Other minority EU governments.*** *Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.*
- ***Austria, the Czech Republic, Poland and Hungary*** *now form a strongly anti-immigration bloc within the EU. In November, Hungary and Poland threatened to veto the 7 year EU budget due to the inclusion of a rule of law requirement that poses major challenges to both countries. There has also been a rise in anti-immigration sentiment in Germany and France.*
- ***Geopolitical risks,*** *for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.*

Upside risks to current forecasts for UK gilt yields and PWLB rates

- ***UK -*** *a significant rise in inflationary pressures. These could be caused by an uncooperative Brexit deal or by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population which leads to a resumption of normal life and a return to full economic activity across all sectors of the economy.*
- *The* ***Bank of England is too slow*** *in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.*
- ***Post-Brexit*** *– if a positive agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.*

8.7 Treasury Management Practice 1 (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**** Max % of total investments / £ limit per institution**	**Max. maturity period**
DMADF – UK Government	yellow	100%	6 months (max. is set by the DMO*)
UK Government gilts	yellow	100%	5 years
UK Government Treasury bills	yellow	100%	364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	yellow	£5m	5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA	£5m	Liquid
Money Market Funds VNAV	AAA	£5m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid

Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	yellow	100%	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£5m	

* DMO – is the Debt Management Office of H.M.Treasury

Accounting treatment of investments
The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

8.8 Approved countries for investments (as at 01.12.2020)

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway

- Singapore
- Sweden
- Switzerland

AA+
- Canada
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- France

AA-
- Belgium
- Hong Kong
- Qatar
- **U.K.**

8.9 Treasury Management Scheme of Delegation

The bodies responsible for various functions are as follows:

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

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

Overview & Scrutiny Committee
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

8.10 Role of the section 151 officer

The S151 (responsible) officer is responsible for:
- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.

- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit and liaising with external audit.
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.*

    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments.*

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

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

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

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CABINET

KEY DECISIONS/ WORK PROGRAMME, AND EXECUTIVE DECISIONS MADE

February 2021

Cabinet is required to publish its Key Decisions and forward work programme to inform the public of issues on which it intends to make policy or decisions. The Overview and Scrutiny Committee also notes the Programme, which is subject to regular revision.

Report Title	Date item agreed for report	Outline/Reason for Report/Comments	Original Due Date	Revised Due Date	Key Decision Y? Note 1	Cabinet Member (Note 2)	Service (Note 3)	* This item may contain Exempt Inform-ation
Civic Regeneration Working Group	Jan 21	Post consideration by Overview & Scrutiny Committee, to update on the discussions of the Working Group	Jan 21	Feb 21		RQ	CS	
Draft 2021/22 Revenue Budget, Capital Programme and Council Tax Proposals	Annual	Post consideration by Overview & Scrutiny Committee, to agree to recommend to Council the 2021/22 Revenue Budget, Capital Programme and Council Tax Proposals	Feb 21			JR	F	
Draft 2021/22 Capital Strategy, Treasury Management Strategy Statement and Asset Management Plan	Annual	Post consideration by Overview & Scrutiny Committee, to agree to recommend to Council the 2021/22 draft Capital Strategy, the 2021/22 Treasury Management Strategy Statement and Asset Management Plan	Feb 21			JR	F	

Report Title	Date item agreed for report	Outline/Reason for Report/Comments	Original Due Date	Revised Due Date	Key Decision Y? Note 1	Cabinet Member (Note 2)	Service (Note 3)	* This item may contain Exempt Inform-ation
Debt Recovery Update Policy	Nov 20	To update Cabinet on the Debt Recovery policy	Feb 21			JR	F	
Harlington Roof Repairs	Jul 20	Post consideration by Cabinet in August for updates to future works	Sep 20	Feb 21	Y	RQ	CS	
Community Garden at Edenbrook	Feb 21	Release of additional S106 funding for the delivery of a Community Garden at Edenbrook	Feb 21		Y	DN	H	
Housing Re-Procurement	Sep 20	To inform Cabinet of new software to manage the allocations, choice-based lettings, housing options and homelessness aspects of Housing Services	Feb 21	Mar 21		SB	H	
Budget Monitoring	Quarterly	Post consideration by Overview & Scrutiny Committee, to consider a report on Quarterly Budget Monitoring	Mar 21 Jun 21 Sep 21			JR	F	
Service Plans	Annual	Post consideration by Overview & Scrutiny Committee, agree the 2021/22 Service Plans	Apr 21			DN	All	
Car Boot Sales	Sep 20	To update Cabinet on car boot sales	Jan 21	Apr 21		RQ	JCX	

Report Title	Date item agreed for report	Outline/Reason for Report/Comments	Original Due Date	Revised Due Date	Key Decision Y? Note 1	Cabinet Member (Note 2)	Service (Note 3)	* This item may contain Exempt Inform-ation
Outside Bodies	Annual	Post consideration by Overview & Scrutiny of the effectiveness of the Council's involvement with outside bodies	Jun 21			DN	JCX	
Food and Health and Safety Service Plan	Annual	Recommend to Council that the annual Food Safety Plan be adopted	Jul 21			SK	P	
Revenue and Capital Outturn 2020/2021	Annual	Post consideration by Overview & Scrutiny Committee, to consider the Annual report on outturn	Aug 21			JR	F	
Treasury Management 2020/2021 (Annual Report)	Annual	Post consideration by Overview & Scrutiny Committee, to consider the Annual report on Treasury Management Activities 2020/21	Aug 21			JR	F	
Treasury Management 2021/22 (Half Year Report)	Annual	Post consideration by Overview & Scrutiny Committee, to consider a Half Year review report on Treasury Management Strategy 2020/21	Dec 21			JR	F	
Budget and Medium Term Financial Strategy	Annual	To give an early consideration of the emerging budget for 2021/22 and the MTFS	Dec 21			JR	F	

Report Title	Date item agreed for report	Outline/Reason for Report/Comments	Original Due Date	Revised Due Date	Key Decision Y? Note 1	Cabinet Member (Note 2)	Service (Note 3)	* This item may contain Exempt Inform-ation
Frogmore Day Care Centre	Jan 21	To update Cabinet on the position.	Jan 21	TBC		JR	F	

Note 1
A “key decision” means an executive decision which, is likely to -

a) result in Council incurring expenditure or the making of savings which amount to £30,000 or 25% (whichever is the larger) of the budget for the service or function to which the decision relates; or
b) be significant in terms of its effects on communities living or working in an area comprising two or more wards within the area of the district of Hart.

Note 2
Cabinet Members

DN	Leader	SA	Digital	RQ	Commercialisation (Cn)	SB	Community (Cy)
SK	Regulatory	AO	Environment	JR	Finance and Corporate Services	GC	Place

Note 3
Service:

JCX	Joint Chief Executive	CS	Corporate Services	P	Place Services
CSF	Community Safety	PP	Planning Policy	TS	Environmental & Technical Services
F	Finance	H	Community Services		
SLS	Shared Legal Services	MO	Monitoring Officer		

Note 4
*** This item may contain Exempt Information** - Regulation 5 of the Local Authority (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

EXECUTIVE DECISIONS

04/12/20	Cllr Neighbour	To upgrade two tennis courts at Riseley, Wokingham	No Call-in
04/12/20	Cllr Neighbour	Improvements to the Village Pond, Yateley	No Call-in

Agenda Item 13

OVERVIEW AND SCRUTINY COMMITTEE WORK PROGRAMME – Jan 2021						
Issue and Description of Topic	**Current Position Objective**	**Original Due Date**	**Revised Due Date**	**Resources Required**	**Contact**	***This item may contain Exempt Information**
Climate Change Working Group	The Portfolio Holder to update on the proposed interface between the Climate Change Working Group and Overview and Scrutiny.	Jan 21		Update	Portfolio Holder	
Civic Regeneration Working Group	To update on the Civic Regeneration Working Group.	Jan 21		Report	Portfolio Holder for Commercialisation and Commercialisation Manager	
Car Parking Charges	The Portfolio Holder for Technical Services to be invited to update Committee on progress to agree with parish and town councils any localisation of car park charges.	Jan 21		Update	Portfolio Holder	

Draft Budget 2021/2022	To discuss the framework and structural position of the budget for 2021/22 prior to consideration by Cabinet.	Jan 21		Report	Head of Corporate	
Treasury Management Strategy Statement and Annual Investment Strategy	To present the draft Treasury Management Strategy Statement for 2021/22 which incorporates the Annual Investment Strategy and Prudential and Treasury Indicators.	Jan 21		Report	Head of Corporate	
Overview of Member Training	To discuss training required for Members and outstanding subjects and courses already attended.	Jan 21	Feb 21	Report	Joint Chief Executive	
Quarterly Budget Monitoring	Quarterly update on budget position.	Feb 21 Jun 21 Oct 21		Report	Head of Corporate Services	
Performance Monitoring	Quarterly Highlights report.	Mar 21 Jul 21 Nov 21		Report	Performance & Innovation Officer	
Corporate Risk Register	Half-yearly update on corporate risk profile.	Mar 21 Sep 21		Report	Audit Manager	
Service Planning Review	To make recommendations to draft 2021/22 Service Plans prior to consideration by Cabinet.	Annual	Mar 21	Report	Joint Chief Executive	
Flooding	Update from twice yearly meeting of multi-agencies.	Mar 21		Minutes of meeting only	Head of Environment & Technical	

Community Safety Transition	To update on the progression of the transition and return of the Community Safety Team.	Apr 21		Report	Head of Community Services	
Chairman's Annual Review of the Work of the Committee.	To consider the Chairman's draft report to Annual Council on a review of the work carried out in the past year by Overview and Scrutiny Committee.	Annual	Apr 21	Report	Chairman of Overview & Scrutiny Committee.	
Waste Management Contract	To seek Committee's input if material changes to the contract are brought forward for decision.	TBC			Portfolio Holder	
Treasury Management 2020/21	To consider a Half Year review report on Treasury Management Strategy 2020/21 prior to consideration by Cabinet.	Nov 20		Report	Head of Corporate Services	
Medium Term Financial Strategy	Annual report setting out the Council's Medium-Term Financial Strategy position, prior to consideration by Cabinet.	Oct 20	Nov 21	Report	Head of Corporate Services	
Capital Strategy, Treasury Management Strategy Statement and Asset Management Plan	To comment on the annual report setting out the future Capital Strategy, Treasury Management Strategy Statement and Asset Management Plan, prior to consideration by Cabinet.	Annual		Report	Head of Corporate	

Draft Budget	To make comments on the draft 2022/23 Budget prior to consideration by Cabinet.	Annual		Report	Head of Corporate	
Heads of Service Attendance	Once a quarter the respective Heads of Service (in rotation) each be invited to attend Committee to update on performance, targets, and delivery against Service Plans. Jan – Head of Corporate Feb – Head of Environment & Technical Mar – Head of Place Apr – Head of Community Jun – Head of Corporate Jul – Head of Environment & Technical Aug – Head of Place Sep – Head of Corporate Oct – Head of Environment & Technical				Heads of Service	