CABINET

This meeting will be recorded and the sound recording subsequently made available via the Council's website.

Please also note that under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, other people may film, record, tweet or blog from this meeting. The use of any images or sound recordings is not under the Council's control.

To: Councillors Bailey, Barkley (Deputy Leader), Bokor, Harper-Davies, Mercer, Morgan (Leader), Poland, Rattray, Rollings and Smidowicz (for attention)

All other members of the Council
(for information)

You are requested to attend the meeting of the Cabinet to be held in Virtual Meeting - Zoom on Thursday, 11th February 2021 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

29th January 2021

AGENDA

1. APOLOGIES

2. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

3. LEADER'S ANNOUNCEMENTS

4. MINUTES OF PREVIOUS MEETING 4 - 8

   To approve the minutes of the previous meeting.

5. QUESTIONS UNDER CABINET PROCEDURE 10.7

The deadline for questions is noon on Wednesday, 3rd February 2021.

6. BUDGET SCRUTINY PANEL 9 - 42

A report of the Head of Strategic Support.

7. 2021-22 GENERAL FUND AND HRA REVENUE BUDGETS AND COUNCIL TAX AND MTFS 2021-24 43 - 93

A report of the Head of Financial Services.

Key Decision

8. CAPITAL STRATEGY, TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY AND ANNUAL INVESTMENT STRATEGY 2021-22 94 - 158

A report of the Head of Financial Services.

Key Decision

9. STRATEGIC RISK REGISTER 2021/22 159 - 176

A report of the Strategic Director; Environmental and Corporate Services.

10. RIPA (REGULATION OF INVESTIGATORY POWERS ACT) POLICY 177 - 197

A report of the Head of Strategic Support.

11. URGENT DECISIONS TAKEN 198 - 217

A report of the Chief Executive.

12. EXEMPT INFORMATION

It is recommended that members of the public be excluded from the meeting during the consideration of the following item on the grounds that it will involve the likely disclosure of exempt information as defined in Paragraphs 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972 and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

13. FUTURE ARRANGEMENTS FOR THE DELIVERY OF PLANNED WORKS, VOIDS AND ASSOCIATED WORKS

An exempt report of the Head of Landlord Services circulated to members.

Notification was given on 13th January 2021 that the public could potentially be excluded during this item since exempt or confidential information could be considered. No representations regarding considering this item in exempt session

have been received.

Key Decision

CABINET
14TH JANUARY 2021

PRESENT: The Leader (Councillor Morgan)
The Deputy Leader (Councillor Barkley)
Councillors Bailey, Bokor, Harper-Davies, Mercer, Poland, Rattray, Rollings and Smidowicz

Councillor Seaton

Chief Executive
Strategic Director; Environmental and Corporate Services
Strategic Director; Commercial Development, Assets and Leisure
Head of Strategic Support
Head of Leisure and Culture
Head of Financial Services
Strategic Asset Manager
Learning and Organisational Development Coordinator
Democratic Services Manager
Democratic Services Officer (LS)

APOLOGIES: None

The Leader stated that this meeting would be livestreamed and recorded and the recording subsequently made available via the Council's website. He also advised that, under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

70. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

Councillors Bokor, Morgan and Rattray declared interests in respect of item 6 on the agenda (Loughborough BID Third Term) as Directors of Loughborough BID. They would leave the meeting during consideration of the item.

71. LEADER'S ANNOUNCEMENTS

No announcements were made.

72. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 10th December 2020 were confirmed as a correct record.

73. QUESTIONS UNDER CABINET PROCEDURE 10.7

No questions had been submitted.

Having declared interests, Councillors Bokor, Morgan and Rattray left the meeting prior to the consideration of the following item.

74. LOUGHBOROUGH BID THIRD TERM

This item was chaired by Councillor Barkley.

Considered, a report of the Head of Leisure and Culture setting out proposals to support the process towards a possible further five-year term of the Loughborough Business Improvement District (BID) (item 6 on the agenda filed with these minutes).

Councillor Seaton, Chair of the Scrutiny Commission, presented a report setting out the Commission's pre-decision scrutiny of the matter and recommendation (copy filed with these minutes).

The Head of Leisure and Culture assisted with consideration of the report.

RESOLVED

1. that authority be delegated to the Chief Executive to undertake the BID ballot;

2. that up to £25,000 be allocated from reinvestment reserves to meet the cost of consultation prior to the BID ballot and the ballot itself;

3. that authority be delegated to the Chief Executive to agree with the BID Company a baseline of Borough Council town centre services;

4. that authority be delegated to the Strategic Director; Environmental and Corporate Services to agree with the BID Company, if required, an operating agreement to cover the collection of the BID levy;

5. that the report of the Scrutiny Commission be noted.

Reasons

1. The Council must consider the respective roles that it may play in the process of developing the BID renewal process in line with BID legislation as a billing authority, as a landowner/occupier in the BID area and as a ballot holder. The local authority ballot holder remains legally responsible for the ballot process as set out within Government regulations.

2. To enable the Council and the BID Company to ensure that the ballot process follows a thorough research and consultation phase that focuses on the needs and requirements of the potential contributors within the area of the BID.

3. It is a requirement of the BID Regulations that the BID proposals include a statement of the existing baseline services provided by the Council and any other

public authority in the proposed BID area. This statement will form part of the BID proposals which demonstrate to businesses voting for the BID that the proposed BID services are additional to the baseline services provided by the public authorities.

4. The Council is required is required to manage the collection and enforcement of the BID levy charges known as an Operating Agreement.

5. To acknowledge the work undertaken by and the views of the Scrutiny Commission.

Councillors Bokor, Morgan and Rattray returned to the meeting.

75. TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MRP POLICY - MID-YEAR REVIEW

Considered, a report of the Head of Financial Services to review the Treasury Management Strategy and the Annual Investment Strategy, plus the various Prudential Borrowing and Treasury Indicators for the first six months of 2020/21 (item 7 on the agenda filed with these minutes).

The Head of Financial Services assisted with consideration of the report. She corrected the report title in that the mid-year review was for the six months ended 30th September 2020 (not 22nd December 2020) and stated that the Cabinet's recommendation on this matter would be submitted to Council on 22nd February 2021 (not 18th January 2021). Updates were given on the current position in respect of a number of items in the report.

RESOLVED that **it be recommended to Council** to note the mid-year review of the Treasury Management Strategy Statement, Prudential Borrowing and Treasury Indicators plus the Annual Investment Strategy, as set out in Part B of the report.

Reason

To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the Revised CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement, that funding of capital expenditure is taken within the totality of the Council's financial position, and that borrowing and Investment is only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

76. PEOPLE STRATEGY 2021-2024

Considered, a report of the Strategic Director; Environmental and Corporate Services setting out a proposed People Strategy 2021-2024 (item 8 on the agenda filed with these minutes).

Councillor Seaton, Chair of the Scrutiny Commission, presented a report setting out the Commission's pre-decision scrutiny of the matter and recommendation (copy filed with these minutes).

The Strategic Director: Environmental and Corporate Services and the Learning and Organisational Development Co-ordinator assisted with consideration of the report.

How well members of staff had adapted to the changes required to ways of working during 2020 was recognised. The Cabinet Lead Member wished to thank the Learning and Organisational Development Co-ordinator for his work on the Strategy.

RESOLVED

1. that the Charnwood Borough Council People Strategy 2021–2024, as appended to the report, be approved;

2. that the Strategic Director; Environmental and Corporate Services is given delegated authority to make amendments to the specific actions outlined in the Strategy as they are incorporated into a People Development Plan;

3. that the report of the Scrutiny Commission be noted.

Reasons

1. So that the Council has a clear strategy in place for developing its workforce over the next four years to effectively deliver services and meet the objectives outlined in the Corporate Strategy.

2. To allow adjustments to be made to specific actions as they are incorporated into the People Development Plan. Possible changes are expected to be minor and may occur following consultation with staff and management groups or following evaluation feedback from the implementation of proceeding actions.

3. To acknowledge the work undertaken by and the views of the Scrutiny Commission.

77. URGENT DECISIONS TAKEN

Considered, a report of the Chief Executive setting out an action taken by the Chief Executive and/or Strategic Directors and Heads of Service under urgency provisions (item 9 on the agenda filed with these minutes).

The Democratic Services Manager assisted with consideration of the report.

RESOLVED that the action taken by the Chief Executive and/or Strategic Directors and Heads of Service under urgency provisions, as set out in the report, be noted.

Reason

To ensure that the action has been reported to the Cabinet in accordance with the requirements of the Council's Constitution.

78. EXEMPT INFORMATION

RESOLVED that members of the public be excluded from the meeting during the consideration of the following item on the grounds that it would involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

The Democratic Services Manager confirmed that the meeting was no longer being livestreamed.

79. SALE OF LAND - CEMETERY ROAD, SILEBY

Considered, an exempt report of the Strategic Director; Commercial Development, Assets and Leisure proposing the sale of Council-owned land for a capital receipt (item 11 on the agenda filed with these minutes).

The Strategic Director; Commercial Development, Assets and Leisure and the Strategic Asset Manager assisted with consideration of the report. They were thanked for their work in respect of the matter.

RESOLVED that decisions be made as detailed in the exempt minute (Cabinet Minute 79E 2020/21).

Reasons

As set out in the exempt minute (Cabinet Minute 79E 2020/21).

NOTES:

1. The decisions in these minutes not in the form of recommendations to Council will come into effect at noon on Friday, 22nd January 2021 unless called in under Scrutiny Committee Procedure Rule 11.7. Decisions in the form of recommendations to Council are not subject to call in.

2. No reference may be made to these minutes at the next available Ordinary Council meeting unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on Friday, 22nd January 2021.

3. These minutes are subject to confirmation as a correct record at the next meeting of the Cabinet.

CABINET – 11TH FEBRUARY 2021

Report of the Head of Strategic Support
Lead Member: Cllr Barkley

Part A

ITEM 6 BUDGET SCRUTINY PANEL

Purpose of Report

To consider the recommendations of the Budget Scrutiny Panel following its scrutiny of the Council's draft budget for 2021/22.

Recommendation

Set out below are the Panel recommendations to the Cabinet (1-8), followed by the officer response and recommendation in each case. The Cabinet is asked to consider each of these and decide which recommendations it wishes to agree, if any.

Reason

To acknowledge the work undertaken by and the views of the Budget Scrutiny Panel and to ensure implementation of scrutiny recommendations where agreed by the Cabinet.

Panel Recommendation 1

The income from commercial investments should be monitored and reported by the Audit Committee and/or Scrutiny Commission on a monthly basis, since this income is crucial for maintaining safe and appropriate level of reserves.

Response of the Strategic Director, Commercial Development, Asset and Leisure

Due to the nature of the commercial investments and their supporting leases, monthly reporting is not recommended. Rents and charges paid by tenants for all investment properties are paid in advance on a quarterly basis. The level of reserves required considering the Council's risk exposure have been modelled in line with CIPFA code and are reviewed periodically.

Officer Recommendation 1

In order to better reflect true asset performance, it is recommended that reports are submitted to the Audit Committee and/or Scrutiny Commission a quarterly basis, after the quarter days where rent payments are made.

Panel Recommendation 2

An analysis of potential 'austerity reductions' over a 5-year period may help in re-planning local services.

Response of the Strategic Director, Environmental and Corporate Services

The latest iteration of the Medium Term Financial Strategy considers future funding prospects. Unfortunately these are extremely unclear at this point in time but it is hoped that the next local government finance settlement will be for a multi-year period and thereby assist in the planning process.

Officer Recommendation 2

The suggestion is noted.

Panel Recommendation 3

There should be recognition of the highly volatile situation currently being experienced with regard to the financial situation of the Council. In the 2019/20 budget, there were concerns that 'underspend' was built into the budget as a requirement of balancing the budget. Under the current circumstances generated by the COVID outbreak, this may not be a sustainable strategic element to balance the budget.

Response of the Strategic Director, Environmental and Corporate Services

The Council has devoted considerable time and effort (which is ongoing) towards the goal of achieving financial sustainability. As a result of this it has been possible to be much more specific on savings and income generation than in the 2019/20 budget. It is acknowledged that this is a much preferred approach in budget setting.

Officer Recommendation 3

The comment is noted.

Panel Recommendation 4

The Council needs to better understand what financial stresses will trigger action regarding the performance of the 2021/22 budget.

Response of the Strategic Director, Environmental and Corporate Services

The key financial stresses identified at present are:

- Future levels of government funding the Council is likely to receive
- The progression of the COVID-19 pandemic and its impact on the Council's income and expenditure, and the wider economic health of the Borough

All income and expenditure is monitored regularly and whilst there is no specific decision rule, as it is unlikely that any one 'thing' would create a material issue on its own, if necessary a revised budget would be drawn up.

Officer Recommendation 4

The comment is noted.

Panel Recommendation 5

Currently there is not an easy way to estimate savings that have been made directly as a result of scrutiny work over recent years. Efforts towards providing metrics on Committees and Panels' efficiency may be a developmental need.

Response of the Strategic Director, Environmental and Corporate Services

No record of savings made directly as a result of scrutiny work has been maintained. Consideration of maintaining such a record could be considered by the Scrutiny Commission.

Officer Recommendation 5

Scrutiny Commission consider maintaining a record of savings made directly as a result of scrutiny work.

Panel Recommendation 6

In light of the £413k overspend in building control fees as set out on page 15 of the Outturn General Fund report that an active and far reaching advertising campaign be pursued promoting the building control service at Charnwood Borough Council.

Response of the Strategic Director, Community Planning and Housing

Of the £413k overspend in the Planning and Regeneration Service in 19/20, £90k was on account of a reduction in Building Control fee income. Cabinet resolved to accept the delegation of the North West Leicestershire building control service at its meeting on 19 November 2020 and a new joint service was launched on 4 January 2021 (minute 52 20/21 refers). The implementation plan for the new service agreed by members includes a marketing strategy, communications strategy and service plan with a hard launch of the new service planned for the end of the financial year 2020/21. The performance of the new joint service will be overseen by the Joint Management Board formed of senior officers of both councils and managed day to day by a sub group of finance and building control officers from each council.

Officer Recommendation 6

That the marketing strategy, service plan and communications strategy are prepared before the new financial year and to support the hard launch of the new service.

Panel Recommendation 7

That in future years it would be helpful for the Panel to be provided with breakdowns of overall numbers. Not only would this give the Panel a greater understanding of the budget, but it would also mean that such detailed and lengthy questions would not need to be asked during the already lengthy meetings.

Response of the Strategic Director, Environmental and Corporate Services

It is understood that additional detail would be helpful in some areas and we will seek to provide this in future years. One caveat here is around staffing restructures where it may not be appropriate to provide detailed information.

Officer Recommendation 7

Additional detail will be provided where appropriate.

Panel Recommendation 8

The Panel consider that continuity in the Budget Scrutiny Panel membership is necessary as getting to grips with the Council's finances is difficult.

Response of the Strategic Director, Environmental and Corporate Services

It is agreed that continuity in membership of the BSP would be helpful. This is a matter for individual members and the Scrutiny Commission.

Officer Recommendation 8

That the issue of continuity in the Budget Scrutiny Panel membership is considered by the Scrutiny Commission.

Policy Justification and Previous Decisions

The Scrutiny Commission, at its meeting on 11th January 2021, agreed that the report of the Budget Scrutiny Panel be submitted for consideration by the Cabinet.

Scrutiny Committee Procedure 11.12(a) sets out the procedures by which a report of a Scrutiny Committee should be considered by the Cabinet.

In accordance with Scrutiny Committee Procedure 11.12(d), background information and officer advice has been provided within this report to enable the Cabinet to make any decisions without undue delay.

Implementation Timetable including Future Decisions and Scrutiny

A report setting out the draft General Fund and HRA Budget 2021/22 is included on the agenda for this meeting, for recommendation to Council at its meeting on 22nd February 2021 for approval.

The Cabinet's response to the Panel's recommendations will be fed back to the Scrutiny Commission, indicating what (if any) action the Cabinet proposes to take. Where necessary, the Scrutiny Commission will review the implementation of any Cabinet decisions at an appropriate time, usually after 6 months.

Report Implications

Implications, if any, are as set in out in the above officer responses.

Key Decision: No

Background Papers: None

Officer to contact: Nicky Conway
Democratic Services Officer
(01509) 634787
nicky.conway@charnwood.gov.uk

Part B

Background

1. Following a decision of the Cabinet at its meeting on 13th February 2020 and a decision of the Scrutiny Commission at its meeting on 10th August 2020, a Budget Scrutiny Panel has undertaken scrutiny of the Council's draft budget for 2021/22.

2. The Scrutiny Commission considered the Panel's report at its meeting on 11th January 2021 and resolved that eight of the nine recommendations of the Panel be submitted for consideration by the Cabinet. During its consideration of the report the Commisssion considered that as recommendation (i) of the Panel report was within the remit of the Scrutiny Commission it would be managed by the Scrutiny Commission and did not require submission to the Cabinet. The discussion was as follows:

   "*It was proposed by Councillor Hamilton, seconded by Councillor Bolton, and resolved that the proposal set out in recommendation (i), for all Councillors to participate in the scheduled review of the scrutiny structure by the Scrutiny Commission in March 2021, be amended in that the Head of Strategic Support be requested to consult with all members of the existing four standing directorate based scrutiny committees rather than with all councillors. It was considered that consulting those councillors currently serving on scrutiny committees was more appropriate, noting that any scrutiny proposals would be reviewed by full Council at a later date, when all councillors would have an opportunity to consider any recommended changes to the scrutiny structure."*

3. The Scrutiny Commission resolved:

   'that the Budget Scrutiny Panel report be submitted to Cabinet at its meeting on 13th February 2020, except that Cabinet should not be required to consider recommendation (i), as this has been dealt with by the Scrutiny Commission' (minute 2020/21, 112 refers).

The report submitted to the Scrutiny Commission is set out at Annex 1. This includes a foreword by the Chair of the Panel, Councillor Hadji-Nikolaou.

Annexes

Annex 1 Report of the Budget Scrutiny Panel, January 2021

REPORT OF THE BUDGET SCRUTINY PANEL – 2021/22 DRAFT BUDGET

Foreword by Councillor Leon Hadji-Nikolaou, Chair of the Panel

The Panel wishes to thank the officers for their hard work during these difficult times. Despite the COVID pandemic, a number of schemes remain of paramount importance for the future of Charnwood and it is apparent that there is a certain amount of commitment towards them. The Loughborough and Leicester Science and Innovation Enterprise Zone, including the Loughborough University Science & Enterprise Park and Charnwood Campus, as well as the Town Deal are of great significance. The Charnwood Campus Medicinal and Synthetic Chemistry Research Centre is a good example of good progress. It is common sense that these developments are destined to generate employment and prosperity for the people in Charnwood.

It is inevitable that coping with the impact of the pandemic and maintaining the vision of future developments, good service provision and enterprise progression in Charnwood will come with certain sacrifices. In this context, the Panel has noted the proposed increase in council tax. It seems that years of underspending, although not systematic, have contributed to dealing reasonably well with the current pressures and challenges. It has also been noted that there is substantial borrowing ahead, which may contribute to uncertainties in the near future.

It is the feeling of more than one member of the Panel that modifying Scrutiny Committee structures, which could lead to reduced function of scrutiny panels, may not be a prudent plan. Under the current pressures and the difficult decisions which are lying ahead, the need for proper and transparent scrutiny processes cannot be overemphasized. It has been recognized, however, that if scrutiny panels do not provide the expected standards of scrutiny, there may be a need for a revision of their efficiency.

It should also be highlighted that there is a solid recommendation by a member to pursue an active and far reaching advertising campaign promoting the Building Control service at Charnwood Borough Council.

1. Background

Following a decision of the Cabinet at its meeting on 13th February 2020 and a decision of the Scrutiny Commission at its meeting on 10th August 2020, a Budget Scrutiny Panel has undertaken scrutiny of the Council's draft budget for 2021/22.

2. Panel Membership

Councillors Hadji-Nikolaou (Chair), Bolton, Draycott, Hamilton, C.Harris, Parsons, Seaton and co-opted member Mr Angell.

3. Meetings and Matters Considered

<u>29th September 2020</u>

At this meeting, the Panel considered:

- Revised Budget 2020-21 (draft)
- Revised Capital Plan 2020 - 2023 (Cabinet report 15th October 2020);
- Budget Scrutiny Panel Report 2019-20

<u>1st December 2020</u>

At this meeting, the Panel considered:

- 2019-20 outturn accounts to inform its scrutiny of draft 2021-22 budget;
- Draft Budget for 2021-22
- a breakdown of the benefits, assessment of profit, risks and liabilities, and it impact on council tax rates in relation to the Enterprise Zone and the Town Deal;
- the criteria for assessing the suitability of properties, how it is determined that a net income of 3.5% will be achieved, the checks and balances that will be done and its impact on council tax rates in relation to commercial property acquisitions;
- an explanation of the rationale behind increased funding that has been allocated for Commercial property acquisition, Enterprise Zone and Town Deal;
- Further information regarding the Environmental Services Fleet clarifying why it has been proposed to finance with reserves, an analysis of other options that were considered and the benefits of proposed approach

5th January 2021

At this meeting, the Panel was provided an update on any significant adjustments to the Budget after receiving the Government local settlement and also agreed its report. Minor amendments were agreed and additional information was provided with respect to the Scrutiny Committee Structure which resulted in the first recommendation being amended.

The detail of the discussion at the above meetings is set out in the minutes of those meetings, attached as an **appendices** to this report.

4. Officers and Cabinet Lead Members

The Panel was assisted in its scrutiny of the Council's draft budget for 2021/22 by:

The Cabinet Lead Member for Finance and Property Services
The Strategic Director; Commercial Development, Assets and Leisure
The Strategic Director; Environmental and Corporate Services
The Head of Financial Services
The Head of Strategic Support

5. Recommendations

The Panel wishes to make the following recommendations in respect of future budgets and budget scrutiny:

(i) There was a strong sentiment amongst the Members' of the Panel, that the Scrutiny Commission and Committees structure should be maintained in its current form and shape. In view of additional information received at its meeting on 5th January 2021, all councillors should be given the opportunity to participate in the scheduled review of the scrutiny structure by the Scrutiny Commission in March 2021.

The risk for the public interest from curtailing scrutiny outweighs the benefit of saving the small and rather negligible amount of £9,830 p.a. The assertion that reducing scrutiny may lead to further, un-cashable, efficiency savings relating to the time spent by officers to produce reports and attend committees can be challenged by the perception of bypassing 'checks and balances' by the elected representatives of the public. If Scrutiny Committees and Panels have not been effective and efficient, the members should be challenged and not the committees dispensed with.

(ii) The income from commercial investments should be monitored and reported by the Audit Committee and/or Scrutiny Commission on a monthly basis, since this income is crucial for maintaining safe and appropriate level of reserves.

(iii) An analysis of potential ‘austerity reductions’ over a 5-year period may help in re-planning local services.

(iv) There should be recognition of the highly volatile situation currently being experienced with regard to the financial situation of the Council. In the 2019/20 budget, there were concerns that ‘underspend’ was built into the budget as a requirement of balancing the budget. Under the current circumstances generated by the COVID outbreak, this may not be a sustainable strategic element to balance the budget.

(v) The Council needs to better understand what financial stresses will trigger action regarding the performance of the 2021/22 budget.

(vi) Currently there is not an easy way to estimate savings that have been made directly as a result of scrutiny work over recent years. Efforts towards providing metrics on Committees and Panels’ efficiency may be a developmental need.

(vii) In light of the £413k overspend in building control fees as set out on page 15 of the Outturn General Fund report that an active and far reaching advertising campaign be pursued promoting the building control service at Charnwood Borough Council.

(viii) That in future years it would be helpful for the Panel to be provided with breakdowns of overall numbers. Not only would this give the Panel a greater understanding of the budget, but it would also mean that such detailed and lengthy questions would not need to be asked during the already lengthy meetings.

(ix) The Panel consider that continuity in the Budget Scrutiny Panel membership is necessary as getting to grips with the Council’s finances is difficult.

6. Observations

The Panel wishes to make the following observations in respect of future budgets and budget scrutiny:

(i) There is significant risk for the budget, since a single large unpredictable expense could reduce the budget to an unsafe level of reserves.

(ii) It is noted that in view of the financial situation a Council Tax increase has been proposed.

(iii) The Council has now committed to substantial General fund borrowings which is by itself imposing a significant risk.

(iv) The uncertainties in the 2021/22 budget are significant. It is difficult to predict the financial impact of New Homes Bonus and Supported Living on the budget.

(v) Although the HRA Accounts presently remain in decent shape, the Council should start making capital repayments on the £79M loan as from 2024/25. It seems that the Council currently save money in the HRA account, to cover these future payments; however, this will become more difficult in a potential environment where it is unable to collect as much rent as in the past.

(vi) There are HRA concerns regarding Tenancy Services cleaning contract. The budget has been re-profiled to reflect a more accurate estimate of expected spend. Some of the reduction may be attributed to the introduction of the communal cleaning scheme. The budget also provides for pest control and cleaning at individual dwellings to reduce health and safety risks.

(vii) The options provided as part of the Community Grants Service Review, which included the proposed reduction to the Member Grants scheme has been noted.

(viii) Fusion Leisure Centre: An effective communications plan has ensured membership holders (and other customers) are fully appraised of the ongoing situation due to Covid-19 and the options open to them.

(ix) Loughborough Town Hall has been affected by the COVID outbreak. Whilst Charnwood continues to be under current COVID restrictions, any shows affected would either be postponed or cancelled depending on discussions with the Producer/Promoter. Any decisions take account of the latest government guidelines. Customers are contacted via email, telephone, offering the option to transfer to a rescheduled show date (if applicable), then offer a credit to the customer’s account or if requested a refund (minus booking fees) in line with the venues Terms & conditions of sale. The Marketing team use social media and the venue website to announce programme changes as required in response to changes to scheduled shows. Since the first lockdown in March there has been 62 programmed shows impacted by the pandemic and venue closure, 10,617 refund have been given a total of £184,142.50.

(x) It was noted that views on the Loughborough Special Rates will be addressed by the Loughborough Area Committee. Two requests for further information were requested by the Panel and have now been provided.

(xi) With regard to the process of the Budget Scrutiny Panel, it would have been beneficial to review the Budget after the Local Council settlement had been received.

7. Background Papers

No further papers to those already identified in/appended to this report.

8. Appendices

Minutes of the meetings of the Budget Scrutiny Panel held on 29th September 2020 (appendix 1), 1st December 2020 (appendix 2) and 5th January 2021 (appendix 3).

BUDGET SCRUTINY PANEL
29TH SEPTEMBER 2020

PRESENT: The Chair (Councillor Hadji-Nikolaou)

Councillors Bolton, Draycott, Hamilton, C. Harris, Parsons, and Seaton.

Co-opted member Mr Angell

Strategic Director; Commercial Development, Assets and Leisure
Strategic Director; Environmental and Corporate Services
Head of Financial Services
Democratic Services Officer (NC)

APOLOGIES: none

The Chair stated that the meeting would be livestreamed and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

1. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

No disclosures were made.

2. DECLARATIONS - THE PARTY WHIP

No declarations were made.

3. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions had been submitted.

4. REVISED BUDGET 2020-21 (DRAFT)

The Strategic Director of Environmental and Corporate Services presented a Finance Update setting out the details of the revised 2020/21 budget, the updated MTFS 2020-2023, the revised Capital Plan 2020-2023 and the Capital Strategy 2020-21.

Assisting with the consideration of the presentation: The Cabinet Lead Member for Finance and Property Services, the Strategic Director of Environmental and Corporate Services, the Strategic Director for Commercial Development, Asset and Leisure and the Head of Finance Services.

Summary, key points of discussion:

- revenue contributions to capital of 213K for 2019/20 - this was an indicator of the Council's capital purchases and contributions from the revenue budget. It was not proposed to budget for this in 2020/21.
- less interest on balances - money earnt by the Council through investment in money markets was used as a balance to support returns, earn interest and undertake commercialisation.
- changes from the original budget to revised budget highlighted - DCLG COVID income loss claim and DCLG COVID emergency grant approx. £3mill difference. The Council had received £2.1mill to cover additional COVID costs and anticipated a further £1.2mill from the Government. This was based on estimates of the predicted total claim by the end of the year. Three claims would be made (September, December and April) and with this support the budget position was more favourable. With the Government grant, balances had not depleted significantly in the first half of the year, but interest received had reduced to £300K in comparison to previously stated £500K.
- in-year cost savings – it was indicated that the Town Hall was expected to be closed for the remainder of this year and that the Panto for 2020 had been cancelled; this had been budgeted for.
- salary savings of £700K – this did not impact service delivery. This had been calculated after a thorough exercise reviewing vacancy provision. The Council usually budgeted for a 100% filled vacancy factor but over time as certain positions reduced in hours or were not filled, extra money had been carried over. This has resulted in a history of underspend by the Council although the money had also been allocated towards agency costs. The monitoring exercise completed in period 4 had resulted in the salary savings and would be taken forward into the following year's budget.
- Minimum Revenue Provision (MRP) would be paid to replenish borrowing. This was perceived as beneficial and it was noted that it related to a policy change whereby there would not be an MRP charge until a year after the asset had been acquired.
- interest on General Account – the previous year had resulted in good interest gains. It was noted that the 'interest marketplace' was volatile, would be monitored on a quarterly basis and that figures reflected a lower amount than previously conjectured. Currently the Council had not seen a reduction in its cash holdings although interest rates had not risen as much as anticipated. The Council had benefited from investments in the portfolio receiving a good rate of interest from before the pandemic and the decrease in national interest rates.
- potential depletion in Council Tax - the collection rate at present had diminished to 0.9% of its target. The situation would be monitored, and it was likely that the end of the furlough scheme in the new year could impact this.
- recruitment process – there was not an embargo on recruitment, but the process had been adjusted to allow the Senior Leadership Team oversight of all recruitment requests to approve/reject as required. It was not discounted that there may be a need to reduce headcount in the future.
- supported living (Housing benefit) - an explanation of how this affected the Borough was given. It was noted that due to the introduction of Universal Credit the Council was unable to re-claim housing benefit unless the housing provider was a registered provider. It was important to state that this was a

national issue and the Council fully supported the provision of supported living, but the burden was applied unevenly across local authorities and added £0.4mill pressure on top of budgeted cost of £0.5mill to the Council's finances.

- concerns were raised for people being affected by homelessness or ejections from rented accommodation – a budget had been allocated for additional spending this year, the MTFS projections included this. It was currently unknown what additional Government support would be available and if the regulations would change.
- the confidence of the Council in obtaining government funding for COVID losses – the bulk of the losses had been incurred in the first 4 months and the Council considered it reasonable to claim £700K in September. The Council would claim for less if its income improved with lockdown restrictions lessening, but the revised budget reflected income reductions for the whole year.
- whether costs for a second wave of coronavirus had been included in the budget - a reasonable estimate of costs had been included going forward beyond 31st March, although it was noted it was a challenge to determine an accurate figure.
- MTFS projections 2020-23 (Service Pressures, Planning) – the Planning service pressure of £332K was based on reduced fees and reduced numbers of applications. There were no plans currently to reduce staff numbers but the ongoing service review and the recent changes to planning procedure indicated in the Planning White Paper could affect this. Budgetary structural changes could be required, and the data provided by the Heads of Service would be challenged robustly before submission of a final draft MTFS projection.
- substantial overspend – in previous years it had been challenging to make savings. It was planned to continue to build cost savings going forward. A Service Review programme was underway and a review of major contracts, asset procurement and the Council's commercial approach would be progressed.
- that the working balance was showing a negative position and that it would be beneficial in the meeting scheduled in December to look in more detail at savings proposals.
- the draft revised budget presented was considered challenging and it was noted that not all issues highlighted were as a result of the pandemic.

Councillor Harris left the meeting.

The Lead Member for Finance and Property Services noted that the budget was an honest appraisal of the current circumstances, reducing costs where possible, but acknowledged that there were many uncertainties and challenges to face. The Cabinet was aware that the Council was moving into a high-risk environment and noted that although a report from the recent Audit Committee meeting had not been drafted to submit to Cabinet, Cabinet members were particularly aware of the situation.

The Director of Environmental and Corporate Services stated that the information presented to the Panel at this meeting of the revised budget for 2020-21 was to provide background information and aid the Panel in scrutinising the 2021-22 budget at its next meeting.

Cllr Bolton had issues with her connection and left the meeting partway through this item.

RESOLVED

1. that the impact of Supported Living (housing benefit) on the Council's finances is highlighted to members, and that an explanation of the process by which this had an impact is included, if appropriate, in the Council Tax Member training scheduled for November;

2. that the Panel wished to acknowledge the work carried out by officers to draft the revised budget for 2020-21 and to express their full understanding of the seriousness of the decisions that had been made and would be required in the future for the Council regarding its finances.

Reasons

1. Members wished to highlight this aspect of the Council's finances and considered that all councillors would benefit from further awareness of the supported living financial position.

2. Members of the Panel were mindful of the difficult financial decisions to be made by the Council in the near future and wished to acknowledge this.

5. REVISED CAPITAL PLAN 2020-23 (DRAFT)

Considered a report of the Head of Financial Services setting out details of the revised Capital Plan 2020-23 (item 6 on the agenda filed with these minutes). It was noted that details in this report had been partially covered during item 5.

Assisting with consideration of the report: the Cabinet Lead Member for Finance and Property Services, Strategic Director of Environmental and Corporate Services, the Strategic Director for Commercial Development, Asset and Leisure and Head of Financial Services.

Summary, key points of discussion:

- the Environmental Services fleet would be partially funded using reserves earmarked for capital expenditure, allowing the reduction in MRP to create savings of £350K per year. Previously the Council had stated the funding would be through prudential borrowing, but this was now being applied to other projects. If the fleet had been funded through prudential borrowing the costs would have depended on the interest rate but could have cost up to £700K a year rather than the proposed £350K costs.
- the deferral or postponement of pre-existing capital schemes was disappointing as they appeared to relate to local or neighbourhood schemes. As these projects were the responsibility of the Council, local groups did not require notifying and Heads of Service had reviewed carefully which capital schemes could be deferred. Schemes under S106 agreements or by Parish councils would not be impacted.

- the proposed increase of investment in commercial property acquisitions from £10mill to £25mill appeared high risk, particularly as Government rules were likely to change. The Council would cease operations if regulations required but powers given under 1972 legislation entitled the Council to make commercial property acquisitions. Issues seen at other local authorities in purchasing commercial property had related to the types of assets acquired and level of due diligence performed. The Council would mitigate risk by completing due diligence on the property, the tenant and the economic viability before acquisition. A member briefing would be arranged to inform members on the process and explain further the rationale behind the expansion of funding for commercial property.
- concerns were raised in relation to recommendation 6 of the Budget Scrutiny Panel 2019-20 report. 'Random' amounts of money were being committed for general as yet unspecified revenue generation and this appeared to be an inappropriate way of proceeding. It was acknowledged that it was challenging to provide the rationale, risk profiles and detailed strategy for increased funding for the Town Deal, the Enterprise Zone and commercial property acquisition as individual projects had not yet been identified and it would be based on conjecture. Any commercial investment by the Council would require a minimum 3.5% net income target to be met. All potential commercial property purchases would be subject to a robust due diligence process and be available for scrutiny.
- an explanation regarding the allocation of £15mill to the Town Deal was given. Although funding was provided nationally by the Government for Town Deals, some projects identified could require match funding or additional funds to be viable commercially. The Council wished to be ready to take advantage of these opportunities, but submission of a robust business case with risk assessments would be required prior to investment.
- the 2.4mill deficit was anticipated to be reduced by Service Reviews and commercial investment. With the appointment of an experienced Strategic Director for commercial development, the Council had the required skills to move forward.

Councillor Parsons momentarily lost his internet connection.

- it was strongly questioned whether appropriate governance procedures were in place. The increase of borrowing up to £57mill over three years should be scrutinised effectively, to provide confidence of proper use of public funds. Before a commercial property was acquired, the Chair of Scrutiny Commission would be requested to approve the exemption from call-in; this was a statutory requirement of the Local Government Act 1972 (schedule 12a, paragraph 3/5) due to commercial sensitivity. The Chair and other invited councillors could choose not to approve the exemption if wished.
- it was important to have a quick robust process as commercial property transactions usually completed within 15 days, unlike domestic property purchases. Legal assessments and scrutiny by the executive would be undertaken during the 15 days. It was not possible to fit within usual committee timeframes due to the limited time available, but all delegated decisions would be reported to the next available ordinary Council meeting and the exemption

from call-in would no longer apply at this point. It was noted that the Capital Plan and Strategy could be amended within a financial year.

- the increase of borrowing from £10mill to £25mill was not linked to the risk appetite of the Council. Although guidance was lacking, the figure had been calculated by assessing its proportionality to the size of the Council and was considered an appropriately sized fund for the Council's size, concerns would be raised by the Treasury and CIPFA if the Council were to invest more than was proportionate. If the Council achieved an average return of 4% from its commercial property portfolio this would generate £1mill towards the general fund.

It was noted that it could be beneficial to provide further information regarding the process undertaken to assess the commercial viability of the first commercial property acquisition with Audit Committee Members at its meeting scheduled in December.

RESOLVED

1. that the following information be submitted to the Panel at its next meeting:

    a. a breakdown of the benefits, assessment of profit, risks and liabilities, and it impact on council tax rates in relation to the Enterprise Zone and the Town Deal;

    b. the criteria for assessing the suitability of properties, how it is determined that a net income of 3.5% will be achieved, the checks and balances that will be done and its impact on council tax rates in relation to commercial property acquisitions;

    c. an explanation of the rationale behind increased funding that has been allocated for Commercial property acquisition, Enterprise Zone and Town Deal.

2. that a draft of the proposed Commercial Development training to be scheduled for councillors is submitted to the Panel at its next meeting**

Reasons

1. The Panel was strongly concerned about the level of prudential borrowing and wished to receive further detailed information to scrutinise the Council's approach.

2. The Panel wished to clarify the process for commercial property acquisitions to support its scrutiny of budgetary matters.

*** Post meeting note – the proposed commercial development training has been arranged before the next meeting of the Budget Scrutiny Panel (2nd November).*

6. BUDGET SCRUTINY PANEL REPORT 2019-20

Considered a report of the Head of Strategic Support setting out details of the Budget Scrutiny Panel 2019-20 recommendations (item 7 on the agenda filed with these minutes).

The Panel had no questions.

RESOLVED to note the report**.**

Reason

Members acknowledged that circumstances had altered significantly since the Budget Scrutiny Panel of 2019-20 had made its recommendations.

Items for the next meeting

Members considered items to be submitted to its next meeting and discussed the benefits of scrutinising the Outturn Accounts for 2019-20 to aid its scrutiny of the 2021-22 Budget. After consulting with the Lead Member of Finance and Property Services and the Director of Environmental and Corporate Services it was suggested scrutinising the Outturn Accounts for 2019-20 would not add value as circumstances had since changed dramatically and it was the Panel's remit to scrutinise the draft Budget for 2021-22.

RESOLVED that the following items and other requests for information as agreed during this meeting be submitted to the Budget Scrutiny Panel meeting scheduled for 1st December 2020:

1. Reflection on 2019-20 outturn accounts to inform its scrutiny of draft 2021-22 budget;
2. Draft Budget for 2021-22 – to include proposed areas for savings and pressures;
3. Further information regarding the Environmental Services Fleet clarifying why it has been proposed to finance with reserves, an analysis of other options that were considered and the benefits of proposed approach.

Reasons

1-3. to support the Panel's scrutiny of the finances of the Council.

NOTES:

1. No reference may be made to these minutes at the Council meeting on 9th November 2020 unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Budget Scrutiny Panel.

BUDGET SCRUTINY PANEL
1ST DECEMBER 2020

PRESENT: The Chair (Councillor Hadji-Nikolaou)

Councillors Bolton, Draycott, Hamilton, C. Harris, Parsons and Seaton
Mr Angell (co-opted member)

Strategic Director; Commercial Development, Assets and Leisure
Strategic Director; Environmental and Corporate Services
Head of Financial Services
Democratic Services Officer (NC)

APOLOGIES: none

The Chair stated that the meeting would be live streamed and the recording made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

7. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 29th September 2020 were confirmed as a correct record.

8. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

No disclosures were made.

9. DECLARATIONS - THE PARTY WHIP

No declarations were made.

10. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions had been submitted.

11. AGENDA VARIANCE

RESOLVED that items 7, 8, 9 And 10 on the agenda be considered by the Panel before item 5 - Draft Budget 2021-22.

Reason

To support the Panel in its scrutiny of the draft Budget 2021-22. Members considered it would be of value to review information provided in items 7, 8, 9, and 10 before its consideration of the draft Budget 2021-22.

12. GENERAL FUND AND HRA REVENUE OUTTURN 2019-20

Considered a report of the Head of Financial Services, the General Fund and HRA Revenue Outturn 2019-20 as submitted to the Cabinet on 9th July 2020, provided to support the Panel in its scrutiny of the draft 2021-22 budget (item 7 on the agenda).

Assisting with consideration of the report: Lead Member for Finance and Property Services, Strategic Director, Environmental and Corporate Services, Head of Financial Services.

Summary, key points of discussion:

- overspend of budget of £234k (43%) a bad debt provision for the Fusion contract – prudent to assume in accounting matters that these monies would not be received, but not written off as a bad debt. A percentage of the income loss from this year had been claimed back from the Government's COVID emergency fund. A detailed report submitted to Cabinet had considered support required for leisure centres during this year. It was hoped that by April 2021 leisure centres would be able to operate closer to normal and recoup losses.
- the Council were following strict guidelines to claim for COVID related income losses from the Government which included some mitigation steps required by the Council, the first claim had been received and the draft budget had been revised to allow for the anticipated funding from the government and to reflect COVID related losses.
- clarity provided on the collection of debt and that major contracts such as the Fusion contract operated differently to normal debt procedures.
- finding savings in 2019/20, a non-COVID year, had been challenging, concerns raised regarding Planning Service over and underspends for two years running and overspends for Supported Living housing benefits costs.
- it was important not to underestimate the challenges faced in 2021-22 and the role of Scrutiny Councillors in highlighting issues.
- the reduction of the number of scrutiny committees from 4 to 2 (as highlighted in the draft budget 2021-22) and whether this was acceptable particularly in the current situation when the role of scrutiny was considered vital.

The Lead Member for Finance and Property Services noted that Fusion had obtained £13mill Government loan to support its survival during this difficult year and that the Council were committed to leisure centres opening within the appropriate social distancing guidelines.

RESOLVED to note the report

Reason

Members were satisfied with its reflection on the General Fund and HRA Revenue Outturn 2019-20.

13. COMMERCIAL PROPERTY ACQUISITIONS - PROCESS

Considered a report of the Strategic Director, Commercial Development, Asset and Leisure regarding the process for acquiring commercial properties, including an explanation of the rationale behind the allocation of increased funding (Commercial Property, Enterprise Zone and Town Deal), Item 8 on the agenda).

Assisting with consideration of report: Lead Member for Finance and Property Services, Strategic Director, Commercial Development, Asset and Leisure, Strategic Director, Environmental and Corporate Services.

It was noted that the Councillor briefing in commercial property acquisition processes had been completed in November prior to this meeting and the information from the briefing had been shared with members.

Summary, key points of discussion:

- consideration of the financial risks taken by the Borough Council in relation to other councils who had invested significantly larger sums.
- monitoring of commercial property purchases and income - officer led reporting and analysis of purchases would be performed and that the monitoring of properties purchased would be added to the Audit Committee's work programme to review the financial returns. This would provide a long-range view over several years. A reserve would be maintained to smooth cash flow, using methods provided by CIPFA.
- the relevance of the Panel scrutinising the Capital Plan this year in light of the new development by the Council to acquire commercial property – it was set every other year for three years and was considered by the previous Budget Scrutiny Panel at its meeting in December 2019 when the plan was set for 2019-22. An updated strategy and programme to align with covid impact, was submitted to the Cabinet in October 2020 and was considered by the Council at its meeting in November 2020. A Capital Plan Amendment report would be considered by the Cabinet at its meeting on 10th December with minor amendments included. When the new plan was set next year it could be scrutinised by the Budget Scrutiny Panel in detail in 2021-22.
- commercial property acquisitions had been allocated budget codes and would therefore be included in the routine quarterly revenue monitoring plan. The role of the Budget Scrutiny Panel was to scrutinise the draft budget 2021-22.
- as borrowing from the Public Works Loan Board (PWLB) was no longer an option for purchasing commercial property to generate yield, the increased risk with borrowing internally from the Council's treasury function was concerning. Other options to borrow privately were available and competitive although likely to have longer assessment time periods. The Council's internal borrowing position was checked by financial advisors and considered robust. The Council could continue to use the PWLB if commercial property acquisition was not part of its capital programme and it was noted that this tranche of investment was almost completed and could be removed from the capital plan at any point.

- it would be pertinent for the Audit Committee to review the increased risk although the risk was considered minimal and was a short term issue in terms of revenue.
- with respect to funding Town Deal or Enterprise Zone projects, (para 5, page 27) it was difficult to determine the level of additional funding the Council could be required to provide. Projects with a regeneration focus or of social value would be considered differently to purely commercial project business cases. The Council would consider a lower return or breakeven analysis as acceptable in conjunction with balancing the benefits of the project to the Borough.
- it was important to note that the Council would not fund projects that would have a significant adverse impact on the budget.

The Lead Member for Finance and Property Services stated that all commercial borrowing would be evaluated irrespective of the source of borrowing and would be assessed against the Council's criteria to ensure the return was sufficient and justified. It would still be possible to borrow from PWLB as long as the Capital Plan did not include commercial property investment and it was likely to be removed by April 2021.

RESOLVED to note the report.

Reason

The Panel were satisfied with its scrutiny of the matter and responses obtained from officers to queries.

14. ENTERPRISE ZONE AND TOWN DEAL - PROCESS

Considered a briefing note of the s151 Officer providing a breakdown of the benefits, assessment of profit, risks and liabilities and its impact on council tax rates in relation to the Enterprise Zone and Town Deal (item 9 on the agenda).

Assisting with consideration of the report: Strategic Director, Environmental and Corporate Services.

It was clarified that the Charnwood Campus was located at the site previously occupied by Astra Zeneca and that the funding would be used to refurbish one of the buildings on the site. Members considered that the project was welcome and would provide the town with high level investment and employment.

RESOLVED that the report is noted.

Reason

The Panel were satisfied with the information received.

15. ENVIRONMENTAL SERVICES FLEET - OPTIONS

Considered a briefing note of the s151 Officer regarding financial proposals for funding the Environmental Services Fleet, including an analysis of other options considered and the benefits of proposed approach, (item 10 on agenda).

Assisting with consideration of report: Lead Member for Finance and Property Services, Strategic Director, Environmental and Corporate Services.

Summary, key points of discussion:

- consideration of why funding of the Environmental Services Fleet used Council reserves - this was a finance transaction and did not include operational management obligations. The cost to the Council would have been increased if it had chosen to not purchase the Fleet itself.
- the decision to use council reserves was not based on access to Public Works Loan Board funding and through this option the Council would not be required to pay Minimum Revenue Provision (MRP) charges. It was recognised that MRP charges were beneficial in future financing of replacement of assets but noted that the charges were exempt for 6 years and the vehicles were expected to last for 8 – 10 years.
- clarification that further savings mentioned in the report (page 3) did not refer to removing pre-existing schemes but to defer projects.

When considering the resolution of this item, it was requested that recognition be given to the history of this matter and the complications in its delivery. In 2018 the Environmental Services contract had been renewed and the purchase of the Fleet had been included. During the last two years it had been considered advantageous for the Council to purchase the Fleet itself and, subject to some delays due to the pandemic, this had now almost been completed.

RESOLVED that the report be noted

Reason

The Panel were satisfied with the information provided.

16. DRAFT BUDGET 2021-22

A report of the Head of Financial Services regarding the draft Budget 2021-22 was submitted (item 6 on the agenda).

Assisting with consideration of the report: Lead Member of Finance and Property Services, Strategic Director, Environmental and Corporate Services and Head of Financial Services.

Summary, key points of discussion:

- reduction in the number of scrutiny committees from four to two and whether this would impact the ability of councillors to scrutinise matters thoroughly. Considering the number of issues that had been scrutinised, some project savings were likely to have been made as a result of scrutiny but did not appear to have not been taken into account. It was explained that savings had been identified through workshops with Cabinet Lead Members to review options and this had been one of the savings identified. The cash saving of £10k did not include the resource saving of officer time in servicing scrutiny committees.

- whether councillors had been consulted regarding the reduction of member grants from £1000 to £500. As the minimum limit for grants to be allocated was £250 this could impact small community organisations.
- concerns regarding proposed £200k service pressure for Supported Living additional Housing Benefit losses could rise. It was noted that this was not under the Council's control, it could vary significantly, as providers were increasing living capacity to meet the needs of the homeless. However negotiations were in progress with the two main housing providers to become registered providers, which would enable the Council to claim back some of the losses. This was not the case for residents claiming Universal Credit.
- the recently published pay freeze for public sector workers did not directly impact local government pay as it was not directly regulated by Government but as local government pay tended to reflect trends in public sector pay there could be an impact on future pay rises.
- there was an element of uncertainty over the figures in the draft budget with Business rates and New Homes Bonus identified as having a downside risk, but this would be clarified once accurate data was available in mid-December.
- Corporate staff - Terms and Conditions (appendix 1) related to the proposed discontinuation of essential car user allowance. Although included in the draft budget the proposal would be subject to standard HR consultation processes and was not confirmed to be included in the budget at this time.
- the deletion of vacant posts or vacant hours had been identified by Heads of Service and tended to relate to circumstances where staff had reduced their hours through part time working or phased retirement. Other savings may be considered in the new year.
- it was perceived that the Council historically did not have a good track record at achieving savings. Concerns were raised regarding keeping the reserve at £2mill working balance and what plans were in place if the uncertainties around identified schemes in the budget were to come in at a higher service pressure. There were other reserves unallocated totalling £5.16mill (reinvestment, capital plan) that could be utilised if significant adjustments were required. A detailed budget monitoring exercise reviewing the outturn position this year would be completed at Period 7 and caution had been applied with respect to COVID funding in the following year which would be reviewed before final budget was presented.
- Business rates appeals adjustment (p 9) figures were based on last years' provisions which had been determined as too high so this income reflected an accounting adjustment exercise. It was a 'one-off' adjustment and all preceptors would receive a contribution from this budget income.
- it was recognised that there were big issues, and sensitivities in this budget and it was important to ensure these were identified and highlighted to the Cabinet. It was hoped that the Government provided the financial support to make the budget balance. The provision of accurate information by mid-December after this meeting had been held, could impact the Panel's scrutiny of the budget and change any recommendations it wished to identify It was noted that the numbers contained in the draft budget were as robust as possible and that if any material adjustments were required after the receipt of the Government information this would be shared with the Panel.

The Lead Member for Finance and Property Services stated that the budget had been drafted without knowing what the government settlement would be. There was still further savings to make but this would not necessarily be during 2021-22 financial year, and the Council were looking to maintain the £2mill working balance.

Several queries with respect to Service detail would be raised with Heads of Service outside of the meeting.

It was stated that it would be beneficial if notes could be provided for the draft budget as detailed in Appendix 3 of the report for Loughborough Special Expenses.

RESOLVED

1. that the following information be requested from Heads of Service and circulated to the Panel:

    a. reduction in the number of Scrutiny Committees (p15) – the income obtained from savings made by scrutiny recommendations, how the savings for reducing the number of committees had been calculated;
    b. reduction of Member Grants funding from £1000 to £500 (p15) – understanding of the consultation process;
    c. Loughborough Special Expenses (Parks – Loughborough and Loughborough in Bloom) (p18)– a breakdown of figures;
    d. deletion of vacant posts or vacant hours (p15) – the total numbers of deleted posts;
    e. Fusion Contract / Leisure Centres (p16)– how deferred subscriptions or refunds were handled and total costs;
    f. Town Hall (p16)– how deferred tickets or refunds had been handled and total costs;
    g. Tenancy Services (p17) – further information regarding the cleaning of HRA properties and pest control;
    h. Compliance (p17)– further information regarding the reduction of fire alarms budget

2. that the Strategic Director, Environmental and Corporate Services provides a verbal update at the next meeting of the Panel regarding any significant adjustments to the draft budget after the Government funding is received in mid December;

3. that the Panel endorses the recommendations in the report to Cabinet.

Reasons

1. the Panel wished to receive additional information to support its scrutiny.

2. The Panel considered that any recommendations it may wish to make after scrutinising the draft budget 2021-22, as presented at this meeting, may change in light of decisions made by the Government to provide funds in mid-

December and that it wished to be cognisant of all the facts before submitting its recommendations to the Scrutiny Commission.

3. The Panel considered the recommendations were appropriate.

17. PROPOSED RECOMMENDATIONS REVIEW

Considered any recommendations the Panel wished to propose for inclusion in the draft report and to agree a process by which recommendations would be proposed for inclusion in the draft report before the next meeting (item 11 on the agenda).

The Panel discussed a process by which recommendations could be proposed and agreed by members for inclusion in the draft report. To aid the discussion, the Democratic Services Officer clarified that the process followed by the Panel in 2019-20 involved an email discussion identifying any recommendations or observations to be highlighted in the report based on the minutes of the meetings of the Panel on 29th September and 1st December 2020, and was coordinated by the Chair of the Panel.

Given the short period of time between the Panel's meeting to agree its report and consideration of that report by Scrutiny Commission, it was noted that the report considered by the Panel at its meeting on 5th January 2021 should have been seen by all members, commented upon and any agreed amendments made such that any further amendments agreed at the Panel's meeting on 5th January 2021 were minimal.

There were no recommendations made by the Panel at this meeting for inclusion in the Panel's draft report although the proposed rise in council tax was observed.

RESOLVED

1. that Panel Members review the minutes of the meetings of the Panel and forward proposed recommendations and observations to the Chair in a timely manner to enable resolutions 2 and 3 below to be completed within deadline;

2. that the chair collates the proposed recommendations and observations into the draft Panel report and then circulates the report to Panel Members for agreement;

3. that a draft of the agreed Panel report is made available for publication with the agenda on 18th December 2020, and that the consideration of the report at its meeting on 5th January 2021 ensures it requires minimal amendment.

Reasons

1-3 to enable proposed recommendations and observations to be agreed by Panel members and to ensure that the Panel report reviewed at its meeting on 5th January 2021 requires minimal amendment before submission to the Scrutiny Commission at its meeting on 11th January 2021.

NOTES:

1. No reference may be made to these minutes at the next ordinary Council meeting unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Budget Scrutiny Panel.

BUDGET SCRUTINY PANEL
5TH JANUARY 2021

PRESENT: The Chair (Councillor Hadji-Nikolaou)

Councillors Bolton, Draycott, Hamilton, C. Harris, Parsons, Seaton
Mr Angell (co-opted member)

Strategic Director; Commercial Development, Assets and Leisure
Strategic Director; Environmental and Corporate Services
Head of Financial Services
Head of Strategic Support
Democratic Services Officer (NC)

APOLOGIES: none

The Chair stated that the meeting would be live streamed and the sound recording made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

18. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 1st December 2020 were confirmed as a correct record and signed.

A member of the Panel raised two outstanding actions. Information regarding the deletion of vacant posts or vacant hours – total numbers, (minute 16, 1 (d)), had not been provided. It was also noted that the process by which refunds for cancelled or postponed Town Hall events appeared to have changed, and that refunds were no longer available.

The Strategic Director, Environmental and Corporate Services and the Strategic Director, Commercial Development, Asset and Leisure explained that to provide the total number of deleted vacant posts or vacant hours was complex and required sensitivity. Some posts or hours had been identified where employees were reducing the number of hours due to phased retirement, but other posts to be deleted would not be identified until after service reviews had been completed. The usual HR processes would apply, and information could be provided in the future.

RESOLVED

1. that the Strategic Director, Commercial Development, Asset and Leisure investigates the concerns regarding the provision of refunds for cancelled or postponed Town Hall events and provides an update to Panel Members;

2. that the Strategic Director, Environmental and Corporate Services provides further information regarding the number of deleted vacant hours and vacant posts, when the information becomes available, to Panel Members.

Reasons

1. Members sought clarity on the current process for provision of refunds to members of the public for cancelled or postponed Town Hall events in light of the continuing pandemic restrictions.

2. Although it was noted that some of the information could be provided, Members understood that the situation was complex and that some posts had not yet been identified. The Panel considered that the information should be provided when available and would be beneficial for future budget scrutiny panels.

19. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

No disclosures were made.

20. DECLARATIONS - THE PARTY WHIP

No declarations were made.

21. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions had been submitted.

22. DRAFT BUDGET 2021-22 AMENDMENTS

A verbal update by the Strategic Director, Environmental and Corporate Services, was made regarding any amendments required to the draft budget after receiving the Government's settlement in December 2020.

Assisting with the consideration of the item: Lead Member of Finance and Property Services, Strategic Director, Environmental and Corporate Services and the Head of Financial Services.

The Strategic Director, Environmental and Corporate Services, provided a detailed update on the financial settlement received from the Government. He stated that the budget position, as considered by the Panel in December, was slightly less favourable and down by £0.44million, however, the General Fund working balance would be up to £2.6million by March 2022. He noted that the Council would be able to move forward with the draft budget as presented with the minor refining of calculations that routinely occurred at this stage in the process.

Summary, key points of discussion:

- the number of one-off funding streams were highlighted, and the level of uncertainty noted.
- the impact on the Council's income stream by COVID had been significant and was likely to continue during the early part of 2021. Some income losses (i.e.

car parking and leisure centres) were budgeted as one off pressures for the whole year. The Council were preparing to claim for the previous four months from the Government.

- it was anticipated that Supported Living additional Housing Benefit losses could rise, although it was hoped that this could be mitigated by a change in government policy or by local housing providers obtaining registered provider status.
- clarity provided regarding Council Tax settlement and the Council Tax Base and how the process would be applied with respect to Loughborough Special Area and the rest of the Borough. It was noted that the proposed rise would apply to the Charnwood Borough Council precept part of the Council tax claimed and that other partners (Police and County Council etc.) would also apply their own rises. The Borough was a low Tax council.
- the reduction in New Homes Bonus (NHB) was disappointing but the Council had received a favourable payment of the lower tier services grant in comparison to some district councils in the area.
- clarity was sought on the financial 'trigger points' that would alter the Council's financial approach and prompt urgent action. It was likely a trigger would be after the Government's settlement was received in 2021 although it was anticipated that the situation would be clearer by the summer. The Council used an MTFS tracker tool to review savings and monitor the financial situation regularly. An updated MTFS would be submitted to Cabinet which was available for all councillors to view and it was acknowledged that the Council would look to address the deficit over the MTFS period.

The Lead Member of Finance and Property Services noted that there was still uncertainty in the financial situation of the Council and that work needed to be carried out this year to stabilise the Council's position. He was hopeful that progress could be made and noted that all were conscious of the need to act now.

Panel Members wished to acknowledge the work carried out by the Finance officers with respect to the draft Budget 2021-22.

RESOLVED

1. that training be arranged in Council Tax processes for all councillors;

2. that the update be noted.

<u>Reasons</u>

1. Members recognised that Council Tax processes were complex, and that additional training would be beneficial.

2. The Panel were satisfied with the information provided.

23. PANEL REPORT

A report of the Panel was submitted for agreement of the Panel, to then be submitted to the Scrutiny Commission on 11th January 2021 (agenda item 7 filed with these minutes).

Assisting with the consideration of this item: Strategic Director, Environmental and Corporate Services, Head of Strategic Support and the Democratic Services Officer.

Members considered that paragraph 5, bullet point (i), in the Panel report required amendment. Points raised during the discussion were as follows:

- the removal of the words 'general consensus' from the first sentence of bullet point (i) was considered to reflect more appropriately the Panel's views.
- the importance of having four scrutiny committees and ensuring effective scrutiny. A reduction in the number of scrutiny councillors was perceived to reduce the effectiveness of democratic processes.
- the current scrutiny structure based on directorates was no longer in line with the strategic directorates, which had changed after the recent senior management restructure.
- that other district councils appointed less standing scrutiny committees than Charnwood Borough Council and that savings by scrutiny work was not routinely monitored It was noted that in some cases recommendations by scrutiny did not always result in savings but could incur additional costs.
- recommendations made by scrutiny tended to be as a result of Scrutiny Panels and it wasn't proposed to reduce the number of panels allowed in one council year.
- that the Scrutiny Commission was scheduled to review the scrutiny structure at its meeting in March and whether it was appropriate for only the Scrutiny Commission to perform this review. It was considered that there was a need for input from a wider pool of councillors but it was uncertain whether this was within the remit of the Panel to recommend.

Minor amendments were agreed by the Panel to the foreword of the Panel report and to paragraph 6 bullet point (ix).

The Chair thanked the Panel for its work in scrutinising the draft budget 2021-22 and the Lead member of Finance and Property Services for his support.

RESOLVED

1. that paragraph 5, bullet point (i) of the Panel report be amended to include the recommendation that all councillors be provided an opportunity to participate in the Scrutiny Review scheduled by the Scrutiny Commission at its meeting in March;

2. that the words 'general consensus' be removed from paragraph 5, bullet point (i) of the Panel report;

3. that the foreword of the Panel report be amended and the word '5%' be removed from the sentence '*the Panel has noted the proposed 5% increase in council tax';*

4. that paragraph 6 bullet point (ix) of the Panel report be amended to replace the words 'tier 3' with '*current covid restrictions' in the sentence 'if Charnwood continues to be in tier 3…*'.

5. that the Panel report be submitted to the Scrutiny Commission for its consideration at its meeting on 11th January 2021.

<u>Reasons</u>

1. To support the majority of Panel members' views that it was appropriate for the Panel to recommend that all councillors had an opportunity to participate in the scheduled Scrutiny review.

2,3,4. Minor amendments agreed by the Panel for accuracy.

5. To enable the Scrutiny Commission to consider the report with a request that it be recommended to the Cabinet at its meeting on 11th February 2021.

<u>NOTES:</u>

1. No reference may be made to these minutes at the next ordinary Council meeting unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Budget Scrutiny Panel.

CABINET – 11TH FEBRUARY 2021

Report of the Head of Finance

Lead Member: Councillor Tom Barkley

Part A

ITEM 7 GENERAL FUND AND HRA REVENUE BUDGETS 2021/22

Purpose of the Report

This report sets out the proposed General Fund and Housing Revenue Account (HRA) Revenue Budgets for 2021/22, which together, represent the financial spending plans for all services of the Council. It is a legal requirement to set a balanced budget each financial year. The report also incorporates the proposed Council Tax levy which must be set by Council at its meeting on 22nd February 2021. The indicated Council Tax for Charnwood Borough Council as a whole is based on the budget to be recommended to Council and it is proposed that there is equivalent to an overall increase of £5.00 (3.60%) per band D property per annum in 2021/22 including Loughborough Special Levy. This is the allowable increase for the Council based upon the Council's current band D charge being in the lowest quartile across England.

The report also presents the 2021/22 proposals to increase rent and service charges within the ring fenced Housing Revenue Account.

Finally, the report incorporates the latest iteration of the Medium Term Financial Strategy which uses the 2021/22 budget as a base for financial projections into2022/23 and 2023/24

Recommendations

That Council are recommended:

1. To approve the Original General Fund Revenue Budget for 2021/22 at £17,919,418 as set out in Appendix A1.

2. To set a base Council Tax at £131.08 at Band D, an increase of £4.45 on the 2020/21 rate as set out in Appendix A2.

3. To set the Loughborough Special Levy at £77.98, a 1.99% increase on 2020/21 rate, as set out in Appendix A3 and to approve the following savings and pressures

    - Loughborough Community Grant - £13.5k ongoing saving
    - Biggin Street toilet amalgamation with Town Centre toilet - £4.6k ongoing saving
    - Management of Open Spaces Contract - £1.3k ongoing saving (apportionment)

- Street Trading consent license - Loss of income £10.8k one off pressure
- Carillion - Loss of income £3k one off pressure

4. To approve the Original HRA Budget for 2021/22 as set out in Appendix A5.
5. To amend the HRA weekly rents in line with the Ministry of Housing, Communities and Local Government (MHCLG) guidance.
6. To amend the non-HRA dwelling properties in line with the Ministry of Housing, Communities and Local Government (MHCLG) guidance.
7. To approve the HRA service charges in accordance with the MHCLG Guidance.
8. To approve that the shop rents retain their current rents in accordance with an assessment by the Valuation Office.
9. To approve that garage rents retain their current rents in accordance with an assessment by the Valuation Office.
10. To approve that the Leasehold Management and Administration charge increases to £131.94 per annum Leasehold flats, and £130.45 for Leasehold shops.
11. That the Lifeline weekly charge is increased in line with MHCLG Guidance.
12. To determine that the basic amount of Council Tax for 2021/22 is not excessive according to the principles set out by the Secretary of State.
13. That delegation be given to the s151 Officer, in conjunction with the Lead Member for Finance, to amend this report for Council in line with the final settlement and updated NNDR figures.
14. To note the Medium Term Financial Strategy 2021-2024 as set out at Appendix B

Reasons

1. That the necessary finance is approved to carry out services in 2021/22.
2. That the Council Tax can be set in accordance with legal and statutory requirements.
3. That a Loughborough Special Levy can be set in accordance with legal and statutory requirements.
4. To ensure sufficient funding for the Housing Revenue Account in 2021/22.

5. To comply with social housing rents guidance.

6. To be consistent with the other council house stock.

7. To ensure the correct alignment of costs and service charges for tenants in accordance with best practice.

8. That shop rents follow the assessment and guidance provided by the Valuation Office.

9. To increase the rent generated for garages in line with the guidance from the Valuation Office.

10. That there is sufficient recovery of the costs associated with operating the leasehold flat and shop services.

11. That there is sufficient recovery of the costs associated with operating the Lifeline service.

12. To comply with the requirements of the Local Government Finance Act 1992.

13. To update the budget report in line with final settlement figures once these are received.

14. To inform members of the future financial outlook for the Council.

<u>Policy Justification and Previous Decisions</u>

The budget is essential to all policies of the Council and the setting of a Council Tax levy is a legal requirement of the Council. The rents are set in accordance with MHCLG Guidelines.

<u>Implementation Timetable including Future Decisions and Scrutiny</u>

This report will be available for consideration by the Scrutiny on 8th February 2021 and, if approved by Cabinet, will be tabled for agreement by Full Council on 22nd February 2021. The actual budget will then come into effect on 1st April 2021.

The draft budget was also considered by the Budget Scrutiny Panel on 1st December 2020 and their comments are due to considered separately by Cabinet at the 11th February meeting and are also referred to later in this report.

<u>Report Implications</u>

Financial Implications

The effects of the adoption of these budgets are explained in Part B of the report

Risk Management

Risks identified in respect of the Original Budget are tabulated below:

Risk Identified	*Likelihood*	*Impact*	*Overall Risk*	*Risk Management actions planned*
Failure to take account of the spending plans of the Council.	Unlikely (2)	Minor (1)	Very Low (2)	Robust budget planning and Budget Monitoring process are in place.
Further exceptional spending being required during the financial year.	Likely (3)	Major (3)	Moderate (9)	It is considered that the Working Balance reserve (and other revenue reserves) remain sufficient to manage normal and one-off events for 2021/22.

Equality and Diversity

There are no specific Equalities and Diversity issues affecting the recommendation in this report, although any such issues arising from particular service pressures and savings will be considered and subject to an equalities impact assessment prior to proposals being implemented.

Key Decision: Yes

Background Papers: Public consultation on the draft budget – detail

Officer to Contact:

Lesley Tansey
Head of Finance
01509 634828
lesley.tansey@charnwood.gov.uk

Simon Jackson
Strategic Director of Environmental & Corporate Services
01509 634699
simon.jackson@charnwood.gov.uk

Part B

General Fund Revenue Budget 2021/22

1. Appendix 1 shows the General Fund summary position and includes a variance column comparing the Original budget being recommended to Council with the draft one reported to Cabinet on 12th December 2020. The changes are set out below.

2. Net Service Expenditure has reduced since the draft budget £196k, this being the removal of the proposed 2% pay award £236k, an increase of £100k for contractual insurance costs and a reduction of £60k for Covid Homelessness costs, which can be funded by Homelessness grants reserve and will be allocated as a one-off pressure in 2021/22.

3. The precept Income has reduced by £1,120k being the impact of the settlement, this can however be offset by two one off government grants allocated as part of the settlement for 2021/22 (Lower Tier Services Grant £617k and Tranche 5 Covid Grant £801k) £1,418 giving a net precept difference of £298k.

4. At the date of drafting this report the NNDR1 Budget (National Non-Domestic Rates, also known as business rates) income figure has not yet been finalised. Whilst this has the potential to alter the Council's projected funding position it is not anticipated that any changes would be material in the context of the General Fund budget. If material, an update will be provided to Cabinet at the date of the meeting and for the purposes of the Council meeting updated figures will be provided.

5. It was envisaged that the new national business rate retention scheme would be in place from 2020/21 (with a headline 75% retention rate compared to the current 50% retention scheme currently in place), as the new funding regime derived from the Fair Funding review. However, this will now be delayed until at least the 2022/23 financial year and this budget assumes current business rate funding arrangements will continue. This budget assumes a 'safety net' position (92.5% of the government settlement adjusted for inflation, reflecting the current negative outlook for business rates. (The NDR settlement baseline position, plus Growth).

   The council is part of the Leicestershire business rate pool which means that they do not have to pay this balance over to Central Government and payments instead are directed to the Local Enterprise Partnership (LLEP) via the business rates pool.

6. Due to timing differences between years in finalising amounts due to other parties, e.g. the County, Police and Fire in respect of Council Tax and the County, Fire and central government in respect of NNDR, the authority operates a Collection Fund. This acts like a trust account where amounts are paid in/out during the year and surpluses/deficits are retained at the year end and then paid out/recovered in following years once final figures are known. The Collection Fund and the NNDR figure are linked and both of these figures will change for the final report to Council on 22nd February 2021 as the figures for County, Fire and Police are still provisional.

7. The amount due to the Council from Council Tax receipts has increase by £58k compared with the draft report. This reflects the increase in the Council Tax by charging permitted £5 per band D property, which is the fifth year in a row. (Loughborough Special Levy will increase by 1.99%, with the Borough precept calculated to ensure that the overall increase remains within the £5 limit)

8. The New Homes Bonus (NHB) Grant figure for 2021/22 shows a decrease of £1,289k since the draft report. This grant figure is the confirmed settlement figure based on 3-year NHB Legacy payment for 2021/22, (not 4 payment years as anticipated in the draft budget). It is not yet known what the financial impact will be in future years this has been delayed until 2022, this figure remains volatile for future financial planning.

9. The working balance shows a use of General Fund reserves of £847k to balance the budget, this is after allocating £1,418k two, one-off Government grants, otherwise there would have been a shortfall of £2.2m.

10. Service Pressures, Savings and additional income generation are summarised at Appendix 6. These include unavoidable Service Pressures of £1.8m, of which £0.8m are one off due to Covid offset by ongoing savings of £2 m. In addition, there are two one-off planning service pressures, connected with the delivery of the local plan of £0.1m funded from an earmarked planning reserve.

11. Commercialisation budget included within the Service Savings (Appendix 6) £470k which added to base budget of £180k is a net Commercial budget of £650k. The breakdown of this budget relates to the purchase of 4 Commercial Investment Properties, plus the vaccination centre. Further detail of the Commercial Property portfolio is provided within the Capital Strategy 2021/22

Consultation on the Budget

12. A programme of consultation commenced following the consideration of the draft budget by Cabinet 10th December 2020. This has involved members of the public, partner organisations, scrutiny (especially the Budget Scrutiny Panel), unions and businesses.

Results of public consultation

13. An on-line public consultation (36 responses) was undertaken as was a separate 'virtual chat' with seven residents. The detailed responses are available as background documents to this report but the key themes emerging from these exercises were:

- There was a general recognition that the Council was under financial pressure
- Of the proposals within the budget, the most contentious (all comments negative) was around the closure of Biggin Street toilets – this has been justified because of the proximity of these toilets to the public facility on Market Street and the general availability of toilets within restaurants and cafes around Loughborough
- Feedback on the reduction in community grants and increase in garden waste collection fees was more mixed with a net balance of negative comments but some respondents supporting the proposals
- There was some support for the purchase of an electric vehicle for the Mayor although other respondents queried why the Mayor should be provided with a vehicle at all

Budget Scrutiny Panel

14. A Budget Scrutiny Panel has undertaken scrutiny of the draft budget for 2021/22. The recommendations of the Panel are set out in a separate report to this Cabinet meeting (item 6 on the agenda).

Comments of the Industrial and Commercial Ratepayers Meeting

15. A consultation meeting with representatives of Industrial and Commercial Ratepayers was held on 13th January 2021. In summary:
    - The attendees raised concerns around the closure of Biggin Street toilets and reductions in community grants but accepted the Council's financial position required action to reduce the cost base
    - The national business rating system was raised as a concern and the possible timetable for reform was discussed
    - (Attendees also welcomed the Council's capital investment in the public realm and support for businesses through the Town Deal and the enterprise Zone.)

Comments of the Loughborough Area Committee

16. This Committee met on 16th December 2020 where the agenda included an opportunity to provide feedback on the draft budget. Principal matters raised were:
    - Concerns were expressed around the closure of Biggin Street toilets
    - Changes in recharges were discussed, particular in respect of CCTV and festive decorations
    - Reduction in the community grants schemes were discussed; it was clarified that strategic partner grants to community centres were not being reduced
    - A request to provide additional bus shelters was discussed

17. We would like to take this opportunity to thank all those who responded to the consultation. Further of the consultation discussions and responses referred to above are available as background documents to this report (public consultation results) or as meeting minutes, published on the Council's website.

<u>Loughborough Special Expenses</u> (Appendix 3)

18. The budget position for Loughborough Special Expense and Levy for 2021/22. The increase to the Loughborough Special Levy is 1.99% to a rate of £77.98 per Band D property (2020/21: £76.46). The savings and pressures have been identified as follows:
    - Loughborough Community Grant - £13.5k ongoing saving
    - Biggin Street toilet amalgamation with Town Centre toilet - £4.6k ongoing saving
    - Management of Open Spaces Contract - £1.3k ongoing saving (apportionment)
    - Street Trading consent license - Loss of income £10.8k one off pressure
    - Carillion - Loss of income £3k one off pressure

<u>Council Tax Base</u>

19. The tax base, as approved by a decision delegated to the s151 Officer, has been used in the relevant calculations.

Precept Amount

20. The NNDR figures are not yet available, and the settlement figures have been used in these calculations. Appendix 2 shows an equivalent overall increase of £4.56 on the Base Band D Council Tax plus the Loughborough Special Levy. The band D rate for 2021/22 is set at £131.08 for the base precept.

Parish and Town Councils and Other Precepts

21. All Parish and Town Council precepts have been received and are detailed in Appendix 4. Approved precept information is still to be received from the County Council, the Police and Fire Authorities and the figures therefore shown in Appendix 2 are provisional. These will be updated in time for the main Council meeting on 22nd February 2021.

General Fund Revenue Balances and Reserve

22. The General Fund Balances are included in Appendix A1. The budget shows that £847k use of Working Balance is required to balance this year's budget, in addition a transfer of £1,561K Business Rate Appeals Adjustment will be added, with a Working Balance estimated to be £2.534m as at March 2022.

It is a requirement to ensure that the level of balances is appropriate for the Council's commitments and current level of expenditure. The recommended minimum working balance set by the Section 151 Officer is £2m, representing six weeks net expenditure, in line with good practice. The original budget balance on this fund at the end of March 2022 is projected is above this limit.

The Reinvestment Reserve This is used for three purposes, these being:

- For items that produce a payback to the Council;
- To fund costs that lead to appreciable service improvements;
- To fund one-off costs.

The Reinvestment reserve has a balance of £357k to be used for the above purpose. This may be topped up should this be operationally justified and financially feasible.

The Capital Plan Reserve is estimated to be £1.819m at the end of March 2022. This revenue reserve is used to finance General Fund capital expenditure, also the reserve can be used for revenue expenditure and there is no minimum balance for this reserve.

There are nine other Earmarked Reserves which may be used in line with the purpose of the reserve fund or for general purposes totaling £1,007m.

The overall total General Fund reserve balances estimated as at March 2022 is £5,717m.

We will create a new Commercialisation Reserve in 2021/22 based on paragraph 11 above, to cover any future losses on the Commercial Property Income; by the end of 2021/22 we estimate that the balance on this reserve will be of the order of £500k.

Housing Revenue Account (Appendix A5)

19. The HRA budget position for 2021/22 is a breakeven. The overall position of the balances is an increase of £72k from draft budget.

20. There have only been some minor changes to the final budget compared with the draft budget that was presented to Cabinet on 10th December 2020. Amounts totaling £106k have been taken out to reflect 2% salary pay award, offset by service charge income is lower £34k, due to the recovery of costs spread over additional financial years.

HRA Balances

21. The HRA Balances have been budgeted at £110 per property at approximately £602k. At 31 March 2022, the HRA Financing Fund balance is forecast as being £6,027k. This includes adding an estimated underspend of £332k from the 2020/21 budget.

HRA Services Pressures

22. The ongoing service pressures for the HRA are the same as those listed in the draft budget (Cabinet report 10th December 2020) and total £22.5k whilst net savings total £176.3k, a net ongoing saving of £153.8k. (Appendix A5)

Report of the Chief Finance (Section 151) Officer under Section 25 of the Local Government Finance Act, 2003

23. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer) of a local authority to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This report must be considered by Cabinet and full Council as part of the budget approval and council tax setting process.

24. The proposed budget is set against the context of continued reductions in core Government funding and significant uncertainty as to future funding levels. The budget proposed, in the light of the ongoing impact of the COVID-19 pandemic, is appropriately prudent and, if delivered, will leave the Council's Working Balance at £2.5m at 31st March 2022, above the £2m minimum set by the s151 Officer.

25. The Council's S151 Officer is required to report to Cabinet and full Council the key risks facing the Council in relation to current and future budget provision. The short term impact of COVID-19 can be regarded as the principal budget threat in 2021/22. In subsequent years the lack of certainty around Government funding combined with the medium and longer term impact of COVID-19 are the key budgetary risks.

26. The Medium-Term Financial Strategy (MTFS) provided at Appendix B of this report considers the medium term financial outlook for the Council in more detail.

Robustness of Estimates

27. The Local Government Finance Act 1992 also requires an authority to take due consideration before setting the budget as there is no recourse to setting a further

levy during the year, and any unexpected financial event would have to be met from reserves, or by cutting expenditure on services.

28. This budget has been drawn up using the best estimates of the cost of service delivery by those officers delivering the services, under the overall management of the Chief Financial Officer and with professional advice and guidance from the Financial Services team. The basis of estimation has been to take account of all known costs in delivering a set level of service together with any new or amended services that have been approved by Members.

29. It is recognized that during the eighteen months period, from the start of the budget process until the end of that financial year, there are likely to be budgets that have pressures on spending; equally there are budgets that will under spend. The key is to ensure that the position is under control at all times and that timely, effective action is taken where budget issues are identified in year. Financial procedures are in place to ensure that all decisions that affect spending are fully considered before committing the authority, and that effective monitoring is in place.

30. All spending plans are based on the service planning process and the proposed use of reserves and balances conforms to the approach set out in the Financial Strategy.

Adequacy of Reserves

31. The Chief Financial Officer can confirm that the levels of reserves for both the General Fund and HRA are considered to be adequate to fund the planned expenditure identified by the Council as presented in this report. However, they will need to be monitored and reviewed in the future to ensure that they can be maintained at an adequate level.

Assurance Statement of the Council's Section 151 Officer

32. The Chief Financial Officer confirms that this budget, as set out above and in the attached appendices, is robust and meets the requirements of the Council for its current spending plans and conforms with the procedures agreed for the use of balances.

Appendices

A1 - General Fund Budget Summary 2021/22
A2 - Council Tax Analysis 2021/22
A3 - Loughborough Special Expenses 2021/22
A4 - Council Tax Town and Parish Council Precepts 2021/22
A5 - HRA Revenue Budget Summary 2021/22
A6 - HRA Services Pressures and Savings 2021/22
A7 - General Fund Service Pressures and Savings 2021/22

B - Medium Term Financial Strategy 2021 - 2024

Actual 2019/20 £000	General Fund Budget Summary	Original Budget 2020/21 £000	Revised Budget 2020/21 £000	Draft Original Budget 2021/22 £000	Final Original Budget 2021/22 £000	Variance Draft Budget vs Final Budget 2021/22 £000
19,176	General Fund Service Expenditure	19,038	22,643	19,262	19,026	236
0	Service (Savings) 2021/22	0	0	(2,059)	(2,059)	0
0	Service Pressures 2021/22	0	0	1,819	1,859	(40)
0	Service Pressures One Off 2021/22	0	0	106	106	0
19,176	**Net Service Expenditure**	**19,038**	**22,643**	**19,128**	**18,932**	**196**
213	Revenue Contributions to Capital	0	0	0	0	0
227	Interest Paid	240	240	240	240	0
(562)	Less: Interest on Balances	(500)	(300)	(300)	(300)	0
19,054	**Total Borough Expenditure**	**18,778**	**22,583**	**19,068**	**18,872**	196
74	Contribution (from)/to Reinvestment Reserve	(36)	(195)	0	0	0
(2,200)	Contribution(from)/to Working Balance	(1,069)	(1,822)	(1,391)	(849)	(542)
(173)	Contribution (from)/to Collection Fund	143	143	50	2	48
(213)	Contribution(from)/ to Capital Plan Reserve	0	500	0	0	0
395	Contribution (from)/to Other Reserves	(45)	(63)	(106)	(106)	0
16,937	**Precept Requirement**	**17,771**	**21,146**	**17,621**	**17,919**	**(298)**
5,290	NNDR/RSG	4,947	4,947	4,379	4,547	(168)
6,893	Council Tax Receipts	7,288	7,288	7,582	7,640	(58)
1,213	Loughborough Special Levy	1,271	1,271	1,321	1,311	10
3,731	New Homes Bonus	4,122	4,122	4,289	3,000	1,289
0	Lower Tier Services/Tranche 5 one off Grant	0	0	0	1,418	(1,418)
(17)	General Government Grants (Covid)	0	3,375	0	0	0
(173)	Collection Fund Surplus/(Deficit)	143	143	50	2	48
16,937	**Precept Income**	**17,771**	**21,146**	**17,621**	**17,919**	**(298)**

£000 Actual 2019/20	**REVENUE RESERVE BALANCES**	£000 Original 2020/21	£000 Revised 2020/21	£000 Draft Budget 2021/22	£000 Final Budget 2021/22
6,871	**Working Balance at 1 April**	5,900	4,498	1,820	1,820
(2,373)	Transfer from/(to) General Fund	(926)	(1,679)	(1,341)	(847)
0	Transfer from Growth Support Fund	0	101	0	0
0	Transfer from/(to) Reinvestment Reserve	(170)	0	0	0
0	Contribution to the LLEP Enterprise Zone	0	(1,100)	0	0
0	Business Rates Appeals Adjustment	0	0	1,561	1,561
4,498	**Balance at 31 March**	**4,804**	**1,820**	**2,040**	**2,534**
809	**Reinvestment Reserve at 1 April**	366	883	418	357
0	Transfers from/(to) Fund one off Item	(36)	(195)	0	0
0	Committed Reinvestment Reserve	0	(270)	0	0
74	Transfers from/(to) General Fund	170	0	0	0
883	**Balance at 31 March**	**500**	**418**	**418**	**357**
2,193	**Capital Plan Reserve at 1 April**	1,288	1,980	1,808	1,819
0	Transfer from/(to) General Fund	0	500	0	0
(213)	Funding of Capital Expenditure	0	(630)	0	0
1,980	**Balance at 31 March**	**1,288**	**1,850**	**1,808**	**1,819**
101	**Growth Support Fund at 1 April**	5	101	0	0
0	Transfer from/(to) General Fund	0	(101)	0	0
101	**Balance at 31 March**	**5**	**0**	**0**	**0**
763	**Other Revenue Reserves at 1 April**	700	1,158	1,113	1,113
395	Transfers from/(to) Fund one off Item	(45)	(45)	(106)	(106)
1,158	**Balance at 31 March**	**655**	**1,113**	**1,007**	**1,007**
8,620	**TOTAL BALANCES**	**7,252**	**5,201**	**5,273**	**5,717**

COUNCIL TAX ANALYSIS 2021/22					
2020/21			**2021/22**		% Change Per Band D
57,607.2		**TAX BASE (at CBC collection rate)**	58,286.9		
16,621.0		**LOUGHBOROUGH TAX BASE**	16,815.4		1.18
£	£ p		£	£ p	%
17,771,035	308.49	TOTAL BUDGET REQUIREMENT	17,919,418	307.43	(0.34)
(1,270,842)	(22.06)	Less: Loughborough Special Levy	(1,311,265)	(22.50)	1.99
16,500,193	286.43		16,608,153	284.93	(0.52)
		Less:			
(4,121,865)	(71.55)	New Homes Bonus	(3,000,484)	(51.48)	(28.05)
(4,947,000)	(85.87)	NNDR	(4,379,000)	(75.13)	(12.51)
0	0.00	Government Grants/S.31 Compensation	(1,417,924)	(24.33)	0.00
0	0.00	Revenue Support Grant	(168,489)	(2.89)	0.00
7,431,328	129.00		7,642,256	131.11	1.64
(142,865)	(2.48)	Collection Fund (Surplus)/Deficit	(2,009)	(0.03)	(98.79)
7,288,463	**126.52**	**BASIC BOROUGH PRECEPT**	**7,640,247**	**131.08**	**3.60**
		Other Precepts			
3,821,293	66.33	Parishes	4,051,639	69.51	4.79
77,408,639	1,343.73	Leicestershire County Council	77,408,639	1,328.06	(1.17)
3,914,985	67.96	Combined Fire Authority	3,914,985	67.17	(1.16)
13,435,739	233.23	Police & Crime Commissioner for Leics	13,435,739	230.51	(1.17)
98,580,656	1,711.26		98,811,002	1,695.25	(0.94)
1,270,842	76.46	SPECIAL LEVY (LOUGHBOROUGH)	1,311,265	77.98	1.99
107,139,961	1,859.84	**TOTAL REQUIREMENT**	107,762,514	1,848.83	(0.59)
105,869,119	1,837.78	**AVERAGE PARISH PRECEPT**	106,451,249	1,826.33	(0.62)
103,318,668	1,847.90	**LOUGHBOROUGH PRECEPT**	103,710,875	1,834.80	(0.71)

Final Figures still awaited

Appendix A3

LOUGHBOROUGH SPECIAL EXPENSES

2020/21		2021/22
Loughborough Special Expenses Budget	**Service**	**Loughborough Special Expenses Budget**
£		**£**
68,400	Loughborough CCTV	78,900
80,300	Community Grants - General / Fearon Hall / Gorse Covert	66,800
45,700	Marios Tinenti Centre / Altogether Place / Community Hubs	45,800
8,800	Charnwood Water Toilets	6,300
35,300	Voluntary & Community Sector Dev Officer post (75% LSX)	35,700
4,500	Biggin Street Toilet - Friday Opening	0
121,000	Contribution towards Loughborough Open Spaces Grounds Maintenance	122,400
(8,300)	November Fair	(2,700)
	Parks:	
350,400	Loughborough - including Loughborough in Bloom	353,200
69,800	Gorse Covert and Booth Wood	70,300
	Sports Grounds:	
115,300	Derby Road	115,600
43,200	Lodge Farm	43,100
74,300	Nanpantan	75,400
19,000	Park Road	19,100
20,700	Shelthorpe Golf Course	23,800
37,300	Loughborough Cemetery	47,700
43,300	Allotments - Loughborough	49,200
14,000	Carillon Tower	16,600
48,400	Festive Decorations and Illuminations	55,800
99,600	Town Centre Management	112,600
1,291,000		1,335,600
	Adjustments from Year 2019/20	(24,335)
(20,158)	Adjustments from Year 2018/19	
1,270,842	AMENDED SUB TOTAL	1,311,265
Divided by		Divided by
16,621.00	Council Tax Base	16,815.40
76.46	Special Council Tax	77.98

Appendix A4

2021/22 Council Tax - Parish Precepts

Parish/Meeting/Town Council	Precept Requirement	Council Tax Base	Parish/ Special Requirement at Band D
	£		£
Anstey	309,361	2,627.3	117.75
Barkby / Barkby Thorpe	13,794	159.5	86.48
Barrow-upon-Soar	208,715	2,484.1	84.02
Beeby	0	42.4	0.00
Birstall	456,136	4,565.1	99.92
Burton-on-the-Wolds, Cotes, & Prestwold	31,500	554.8	56.78
Cossington	14,500	216.9	66.85
East Goscote	59,000	936.7	62.99
Hamilton Lea	0	281.4	0.00
Hathern	47,000	897.2	52.39
Hoton	11,550	147.1	78.52
Mountsorrel	508,260	2,989.6	170.01
Newtown Linford	54,075	532.3	101.59
Queniborough	62,161	1,232.9	50.42
Quorndon	284,627	2,435.1	116.89
Ratcliffe-on-the-Wreake	3,000	90.4	33.19
Rearsby	23,010	485.6	47.38
Rothley	190,207	2,290.3	83.05
Seagrave	18,984	275.6	68.88
Shepshed	335,000	4,889.3	68.52
Sileby	225,248	2,766.0	81.43
South Croxton	11,751	134.1	87.63
Stonebow Village	0	8.5	0.00
Swithland	4,650	160.4	28.99
Syston	526,163	4,366.5	120.50
Thrussington	11,500	257.5	44.66
Thurcaston & Cropston	40,842	942.6	43.33
Thurmaston	470,652	2,836.5	165.93
Ulverscroft	0	60.1	0.00
Walton-on-the-Wolds	5,000	129.5	38.61
Wanlip	3,000	87.2	34.40
Woodhouse	83,126	977.7	85.02
Wymeswold	38,827	611.3	63.52
	4,051,639	41,471.5	
Loughborough (Special Expenses)	1,311,265	16,815.4	77.98
Total	5,362,904	58,286.9	
Average			92.01

2019/20 Actual	Housing Revenue Account	2020/21 Original Budget	2020/21 Revised Budget	2021/22 Draft Original Budget	2021/22 Final Original Budget
£000		**£000**	**£000**	**£000**	**£000**
	Expenditure				
5,220	Supervision and Management	5,550	5,540	5,441	5,393
6,718	Repairs and Maintenance	6,769	6,824	6,802	6,752
191	Rents, Rates and Other Charges	139	224	225	225
270	Provision for Bad Debts & Other Charges	383	593	383	383
3,249	Depreciation	3,189	3,189	3,409	3,409
(17,892)	Net Revaluation non-current assets increase	0	0	0	0
18	Debt Management Expenses	10	10	10	10
(2,226)	**Expenditure Sub-total**	16,040	16,380	16,270	16,172
	Income				
(20,483)	Dwelling Rent Income	(20,937)	(20,580)	(21,100)	(21,100)
(366)	Shops, Land and Garages Rent	(360)	(350)	(355)	(355)
(55)	Warden Service Charges	(57)	(49)	(49)	(53)
(355)	Central Heating, Cleaning and Communal Charges	(350)	(323)	(336)	(309)
(143)	Leasehold Flat and Shop Service Charges	(158)	(143)	(143)	(143)
(26)	Hostel Service Charges	(31)	(30)	(29)	(24)
(11)	Council Tax Recharged	(11)	(10)	(10)	(10)
(21,439)	**Income Sub-Total**	(21,904)	(21,485)	(22,022)	(21,994)
(23,665)	**Net (income)/Cost of service**	(5,864)	(5,105)	(5,752)	(5,822)
(85)	Transfer from General Fund – Grounds Maintenance	(84)	(84)	(85)	(85)
2,709	Interest Payable	2,706	2,709	2,709	2,709
(124)	Investment Income and Mortgage Interest	(66)	(35)	(25)	(27)
(21,165)	**Net Operating Expenditure/(Income)**	(3,308)	(2,515)	(3,153)	(3,225)
3,659	Revenue Contribution to Capital	3,308	3,308	3,153	3,225
(556)	Pension Adjustment	0	0	0	0
(1)	Accumulated Absence Adjustment	0	0	0	0
17,892	Reversal of Gain on Revaluation	0	0	0	0
20,994	Appropriations	3,308	3,308	3,153	3,225
(171)	**(Surplus)/Deficit for the year**	**0**	**793**	**0**	**0**
	<u>HRA Balances</u>:				
(613)	**HRA Balance at beginning of year**	(610)	(610)	(607)	(607)
(171)	(Surplus)/Deficit for the year	0	793	0	0
174	Transfer to/from Reserves	3	(790)	5	5
(610)	**HRA Balance at end of year**	**(607)**	**(607)**	**(602)**	**(602)**
(8,061)	**HRA Financing Fund beginning of year**	(8,235)	(8,235)	(6,320)	(6,320)
0	Adjustments to 2020/21 Budget	0	(332)	0	
(174)	Transfer to/from Reserves	(3)	790	(5)	(5)
0	Revenue Contribution to Capital	1,457	1,457	370	298
(8,235)	**HRA Financing Fund at end of year**	**(6,781)**	**(6,320)**	**(5,955)**	**(6,027)**
(3,364)	**Major Repairs Reserve at end of year**	**(3,364)**	**(3,111)**	**(3,111)**	**(3,111)**
(12,209)	**Overall HRA balances end of the year**	**(10,752)**	**(10,038)**	**(9,668)**	**(9,740)**

Appendix A6

Housing Revenue Account Service Pressures & Savings Summary 2021/22		2021/22 £ 000's	2021/22 £ 000's
	Ongoing One-Off	Savings	Pressures
Supervision and Management			
Housing Income Team - reduction of Travel expenses	Ongoing	(2,800)	
Post: M294 (Financial Inclusion Officer) vacancy savings of 5hrs	Ongoing	(4,100)	
Tenancy Services - Cleaning of HRA Properties and Pest Control	Ongoing	(13,800)	
Tenancy Services - reduction of Travel expenses	Ongoing	(10,800)	
Post: Q077 (Tenancy & Estate Management Officer) 37hr saving	Ongoing	(35,900)	
ASB - reduction of Travel Expenses based on previous years actuals	Ongoing	(4,500)	
Tenant Participation & Consultation - reduction of Travel expenses	Ongoing	(1,000)	
Tenant Participation & Consultation - reduction of Subsistence	Ongoing	(2,300)	
Wardens Services - reduction of Furniture budget	Ongoing	(5,000)	
Wardens Services - reduction of Equipment budget	Ongoing	(4,000)	
Central Control - reduction of Buildings R&M budget	Ongoing	(1,800)	
Central Control - reduction of Travel expenses	Ongoing	(600)	
Repairs and Maintenance			
Grounds Maintenance variation	Ongoing		1,400
Compliance - increase in Legionella budget	Ongoing		15,000
Compliance - reduction of Legal income budget	Ongoing		3,600
Central Control - Disaster Recovery Plan contract	Ongoing		2,500
Responsive Repairs- reduction of Travel expenses	Ongoing	(3,200)	
Voids - Hire of Rooms	Ongoing	(700)	
Voids - reduction of Travel	Ongoing	(1,100)	
Rechargeable Repairs - cost saving	Ongoing	(1,800)	
Health & Safety - reduction of Equipment budget	Ongoing	(5,000)	
Capital Team - reduction of Travel expenses	Ongoing	(15,700)	
Capital Team - reduction of Equipment budget	Ongoing	(1,500)	
Compliance - reduction of Gas App replace & renew budget	Ongoing	(30,000)	
Compliance - reduction of Disabled Adaptations budget	Ongoing	(10,000)	
Compliance - reduction of Fire Alarms budget	Ongoing	(13,000)	
Compliance - reduction of Travel expenses	Ongoing	(800)	
Compliance - Fire Ext budget no longer needed	Ongoing	(1,000)	
Compliance - reduction of Legal cost budget	Ongoing	(3,600)	
Business Support - reduction of Travel expenses	Ongoing	(2,300)	
Total Ongoing Savings		**(176,300)**	**22,500**
Overall Net savings			**(153,800)**

General Fund Service (Savings) and Pressures Summary 2021/22	£'000's	one off /ongoing
Corporate Savings		
Minimum Revenue Provision & interest savings on Fleet purchase	(350)	ongoing
Corporate - staff T&Cs	(200)	ongoing
Increase manage vacancy allowance from 2.5% to 3.5% based on vacant hours analysis	(150)	ongoing
Commercialisation		
Commercialisation - Rental Income Increase to a £650k Budget	(470)	ongoing
Deletion of vacant posts or vacant hours - No service changes required		
Finance - Payments Assistants 21.5hrs Post Q045 4.5hrs, Post M142 17hrs	(17)	ongoing
Procurement Team - 3-year SLA with Nottingham City Council Post M267 20 hrs, Post L310 37 hrs	(13)	ongoing
Neighbourhood Development Post A052 7 hrs, Post P002 Admin Assistant 22 hrs	(25)	ongoing
Street Management - Street Warden Post M005 37 hrs	(29)	ongoing
Environmental Planning Assistant M388 37hrs, Compliance Technician P139 37hrs, & Principal Planning Officer P214 0.50 hrs	(64)	ongoing
Customer Service and Contact Centre vacant posts	(56)	ongoing
Other service reviews – changes in organisational structure		
Service Reviews across 8 Head of Service Areas	(340)	ongoing
Service changes		
Reduce Member Grants to £500 per Cllr	(13)	ongoing
Merge grant including sports grants and reduce to £50k in total. Community Development Engagement and Loughborough Grants total £104k	(54)	ongoing
Reduce LLEP Funding to £9k	(8)	ongoing
Reduce Staff Training budget from £60k to £50k and Member Training Budgets from £10k to £7.5k based on the reduced cost of online training going forward	(12)	ongoing
Reduce Scrutiny Committees by two from four Member Allowance saving	(10)	ongoing
Change Mayoralty car to electric at the end of the current lease in Jan 2021	(2)	ongoing
Reduce Environmental Services Communications budget, related to campaigns and other Environmental projects	(60)	ongoing
Consistency in the opening hours at the museum all year to allow for the option of delivering specific events at the Museum in the hours closed to the public.	(2)	ongoing
Biggin Street Public Toilets - Consolidate onto Market Place facilities	(20)	ongoing
Sell wood from the Outwoods	(10)	ongoing
Increase Garden Waste charge by £1 per year from £40 to £41 and £45 to £46 (national average is £40)	(30)	ongoing
Reduce quality of life tree works budget to £28k	(10)	ongoing
Planning Applications - Bank Charges reduction	(2)	ongoing
Planning Applications - Increase in Pre-Application Advice Income	(7)	ongoing
Provision of Building Control Services for NWLDC - Management Fee	(20)	ongoing
Crematorium Turnover Commission Income increase	(15)	ongoing
Total Savings	**(2,059)**	

General Fund Service Pressures 2021/22	£'000's	one off /ongoing
One Off Covid 19 Related Pressures		

Leisure Centres - Assumes No income but no subsidy	247	one off
Markets income - Estimated income Loss	128	one off
Town Hall - Estimated income loss, assumes Panto attendance is unrestricted by COVID	273	one off
Town Centre Street trading income Loss	11	one off
Public Conveniences loss of income	18	one off
Museum loss of income	4	one off
Carillon income shortfall	3	one off
Car parking - Estimated loss of income, assumed at 85% of pre Covid 19 Levels	141	one off
Contractual Costs/Pressures		
Revenues & Benefits - Capita	23	ongoing
Environmental Services Serco contract costs including Fleet costs	236	ongoing
Open spaces - Idverde	17	ongoing
Trade Waste	19	ongoing
HR contractual inflation	6	ongoing
Corporate Merchant Bank Charges	17	ongoing
Members Allowance inflation	16	ongoing
Other Pressures		
Planning Fees & Charges - Income Levels reduced to reflect recent history	300	ongoing
Local Plans - Contribution to Strategic Growth Plan	30	ongoing
Building Control - Street Naming & Numbering – Income reductions recent history	26	ongoing
Reduced Lottery Income to reflect recent history	11	ongoing
Organisational Development - Residents Survey	8	ongoing
Website Development	2	ongoing
Cyber Insurance, Commercial Property and Insurance Contractual increases	100	ongoing
Supported Living additional Housing Benefit losses to £665k (worse case could be £1.1m)	200	
Total Pressures	**1,859**	
Net (Saving)	**(200)**	
Items to be funded as One Off from un ringfenced Planning Reserve		
Local Plans Examination Costs	96	
Appeals & Enforcement Costs	10	
Total One-off Items funded by Planning Reserve	**106**	

APPENDIX B

Charnwood Borough Council

Medium Term Financial Strategy

2021 – 2024

Table of Contents

1. Foreword 3
2. Executive summary 5
3. Introduction 7
4. Political, economic and regulatory outlook 9
5. Financial projections - overview 12
6. The local government financing regime 13
7. Treasury management and projected investment income 20
8. Key operational assumptions 22
9. Transformation and Efficiency Plans 25
10. Existing financial resources and use of prudential borrowing 27
11. Financial Projections 29
12. Risks and Sensitivities 32
13. Notes on the Housing Revenue Account 33
14. Reserve Strategy, Action Plans and Efficiencies 33
15. Monitoring, Delivery and Review 33

1. Foreword

As I write each new foreword to the latest iteration of the Medium Term Financial Strategy (MTFS) I reflect on the significant financial uncertainties facing the Council, but console myself with the thought that next year we will have much greater clarity over our financial position.

Writing now, in January 2021 the entire fabric of society continues to be stressed by the ongoing impact of the COVID-19 pandemic which we have all lived through now for many months.

The impact of this on communities across the planet has been profound, not least in terms of the global impact on health and mortality. In this context, the financial fortunes of an individual local authority may not be seen as significant, but we have an important role in continuing to deliver critical services for our communities within Charnwood and helping them recover from the pandemic. A forward look at our financial prospects and our progress towards financial sustainabilty is an important element in our efforts to continue in this vital role

Of fundamental importance to local government is the outcome of the Fair Funding review, which was due in the autumn of 2019. A combination of (initially) Brexit uncertainty combined with the impact of COVID-19 has resulted in this exercise being delayed. It is hoped that the results of this review maybe forthcoming in the autumn of this year, although there is no certainty in the timescales at this time, and previous experience suggests that this may be optimistic .

One anticipated outcome of the Fair Funding review is a multi-year settlement which would enable medium term financial planning, but in the absence of this, we have been forced to rely on projections based on prior years. However, the recent provisional local government financial settlement (December 2020) offers very little information beyond the 2021/22 financial year due to the one-year only nature of many elements of the settlement. Unfortunately therefore, the funding projections for future years are extremely speculative. Further, the actual funding that we’re likely to receive (excluding COVID-19 grants) leaves us around £0.4m below what we projected in the draft budget and of the total funding, around £2.8m is identified as either specifically one-off or earmarked for reduction in future years. In practice, we would expect to see the government mitigate the impact of this, perhaps by relaxing the cap on council tax increases, but at the time of writing there are no indications as to what future financial settlements might look like.

Notwithstanding the impact of COVID-19 on our finances in this financial year, which were summarized in the Revised Budget report presented to the Council meeting in November 2020, the Council’s reserves remain adequate. However, there is little doubt that our financial challenges are greater, and the timescale to address these has been shortened. Great progress has already been made in developing our commercial property income streams and identifying savings that are reflected in our budget for 2021/22 but the effort needs to continue as we look to become ever more efficient and develop our transformation and commercialisation programmes.

Councillor Tom Barkley
Cabinet Lead Member for Finance
January 2021

2. Executive summary

This Medium Term Financial Strategy (MTFS) considers the financial outlook for Charnwood Borough Council ('Charnwood', or the 'Council') for the three financial years 2021/22, 2022/23 and 2023/24. The document's focus is on the 'General Fund'; certain aspects of the Housing Revenue Account are also discussed but the outlook for this is dealt with separately within the 30 year Housing Revenue Account business plan.

At the core of this document are the financial projections for these three years which show the funding challenges during this period. The timing of this iteration of the MTFS is somewhat later than in previous years which has allowed us to take account of the provisional local government finance settlement and prepare a draft budget which forms the first year (2021/22) of the projections. Council will be asked to approve this budget in conjunction with this MTFS.

In summary the financial projections show:

- 2021/22 (the budget) shows a use of reserves of some £1.0m
- 2022/23 will see a £1.1m use of reserves
- 2023/24 will see a further £0.8m use of reserves

Over the three year MTFS period this would imply a use of reserves of £2.9m.

The uncertainty, and associated limited confidence that can be placed on these projections should not be underestimated, due to the ongoing impact of COVID-19 on the Council's income and expenditure, the extent to which government wishes to provide financial support help Council's through this period, and the future financial settlements that local government will be offered about which little is known at present.

In broad terms, the projections assume that the impact of the pandemic will abate as the 2021 calendar year progresses and that income levels will return towards pre-pandemic levels and that COVID-19 related expenditure pressures will reduce.

The financial settlement for 2021/22 is some £0.4m below that estimated within the draft budget but its impact is mitigated by-one off COVID-19 funding such that the Working Balance (the Council's principal reserve against financial shocks) should be above the draft budget projections at 31 March 2022 (£2.5m versus £2.0m)

No such mitigation can be assumed for the latter years of the MTFS period so it is assumed – in the absence of other information – that future financial settlements will in total equate to that for 2021/22. This assumption on future financial settlements may appear somewhat pessimistic – being around £1.0m below the initial (pre-COVID-19) 2020/21 allocation it is important to note that within the latest settlement a number of elements are either due to reduce significantly (New

Homes Bonus), or are potentially awards for a single year only (such as Lower Tier Services Grant). It is unlikely that all such funding – some £2.8m - would be removed but all this funding must be regarded as at risk.

Further, this assumption implies that the Government will provide – via as yet unidentified grants – replacement grant funding amounting to £2.7m in 2022/23 and £3.6m in 2023/24. **This assumption is highly speculative and represents the principal financial risk within the MTFS projections.**

The budget for 2021/22 reflects significant progress in commercial income generation and identification of savings but projections for 2022/23 and 2023/24 do not represent a financiallly sustainable outlook in the context of the Councils current reserve levels (Section 11 of this Strategy sets out more detail on this).

Finally, It is important to note that in respect of the 2022/23 and 2023/24 financial years the projections do not take account of management actions – which will clearly be necessary – to address the financial challenges identified these projections. To this extent the financial projections for these years should be be regarded as an estimate of the financial challenge facing the Council, not a financial prediction.

Going forward, it will be necessary to continue with the efforts targeted at financial sustainability and this will be a major component of Council activity for the foreseeable future.

Budgetary approach for 2021/22 and future budgets

It is hoped that one outcome of the delayed Fair Funding review, originally slated for the autumn of 2019, will be a multi-year financial settlement which will significantly assist in future financial planning. In the absence of any reliable steer on future financial settlements at this time however, our budgetary approach will be to aim to maintain the Council's working balance at or above the £2.0m level considered adequate by the Section151 Officer. This objective is achieved in respect of the budget proposed for the 2021/22 financial year.

3. Introduction

The Medium Term Financial Strategy (MTFS) takes a forward look at the political, economic and regulatory environment facing the Council and uses these to create a high level financial model of future potential revenues and costs.

This model attepts to identify potentially significant funding surpluses or shortfalls that may arise in the medium term, and to inform the Council's budget setting process. It takes into account existing income and expenditure patterns – although these are very disrupted due to COVID-19 - together with identified and material cost pressures. The model also incorporates projected savings and efficiencies from the implementation of existing strategies, policies and projects, where these are considered sufficiently likely to materialize, and considers significant budgetary risk identifiable from current budgetary monitoring to attempt a holistic view of the Council's future financial position.

In order to balance the desire to take a long term view of the Council's financial future, and the limits on our ability to create meaningful forecasts over such a period, the MTFS has been developed to cover three years, from 1 April 2021 to 31 March 2024. The first year of this projection uses the 2021/22 budget figures presented to Council for approval alongside this document.

The purpose of this document can be summarised as follows:

- Outline the principal factors that will influence the availability of the Council's financial resources in the medium term
- Inform and define the medium term service delivery plans, in the context of financial challenges identified in financial terms
- Provide the financial basis for the Council to decide its corporate priorities for future years.

However – it is important to state that in respect of the 2022/23 and 2023/24 financial years the projections do not take account of management actions – which will clearly be necessary – to address the financial challenges inherent in these projections. To this extent the financial projections for these years should be be regarded as an estimate of the financial challenge facing the Council, not a financial prediction.

Scope of the MTFS

This strategy document concentrates on the General Fund, which deals with non-housing revenue items and derives its income from charges, government grants, council tax and business rates. The Housing Revenue Account (HRA) has its own business plan and both General Fund and HRA capital expenditure are subject to a three year programme which is reviewed separately from revenue items. However, the impact of capital investment and the HRA on the General Fund is considered as part of this strategy. In particular, the MTFS reflects the impact of the Council’s Capital Strategy, which itself incorporates both the Treasury Management Strategy and the Commercial Investment Strategy.

The Council’s finances are actively managed on an ongoing basis and the adoption of this strategy will require executive decisions to carry out any significant actions identified.

4. Political, economic and regulatory outlook

In assessing prospects for the Council's finances it is necessary to consider how the wider political and macro-economic factors feed through into the availability of funding for the public sector, what proportion of this will be allocated to local government, and within this allocation – eventually informed by the Fair Funding review – what the funding settlement for each Council will be. Local economic factors will also impact Council income streams, the demand for Council services, and the Council's ability to fund these.

At the time of drafting this Strategy (January 2021) the UK has finally secured a free trade deal with the EU following the United Kingdom's exit from the European Union, and whilst the arrival of COVID-19 gives rise to medium term optimism economic activity in the UK remains severely constrained by the restrictions brought about by the pandemic.

An alternative economic forecast, more focussed on monetary policy and interest rates, is presented within the Capital Strategy (also presented to Cabinet and then Council for approval in February 2021). For variation and contrast, the Deloitte economists' more general summary of the UK economy is provided below:

==

Deloitte COVID-19 economics monitor

GDP growth forecast for the UK

We have revised our UK GDP numbers to reflect the impact on activity of restrictions needed to contain the new COVID-19 variant. The main change is a larger contraction in the first quarter, but we expect the downturn in GDP to be smaller than in the first half of 2020, given increased business preparedness and continued fiscal and monetary support. In the second quarter we expect the rollout of the vaccine and warmer weather to allow for a modest easing of restrictions, followed by a strong bounce in the third quarter as vaccine coverage exceeds 50% of the population.

Our forecast profile for UK GDP growth (base case)

Quarterly (QoQ)								Annual	
2020				2021				2020	2021
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY	YoY
-2.5%	-19.8%	15.5%	-2.5%	-3.5%	2.5%	9.0%	1.5%	-11.3%	2.6%

- The conclusion of a EU-UK free-trade agreement has bolstered the sterling exchange rate, bringing it closer to what international price-level differentials would suggest.
- Mortgage approvals hit a 13-year high in November as buyers took advantage of the stamp-duty holiday. Strong demand pushed house prices to a record-high in December.
- In November, the share of retail sales conducted online soared to a record-high 36%.
- In August-October the unemployment rate rose to 4.9%, up from 4.2% in the previous three months. Redundancies rose by 217,000 to a record high 370,000, but fell slightly in the month of October.

Our latest survey of British Chief Financial Officers (CFO's) took place between 2-14 December.

- CFOs' optimism rose to a 12-year high, buoyed by the prospect of mass vaccinations and a return to growth in 2021.

- The Brexit trade deal, which came after the survey closed, should be positive for business confidence. CFOs saw a no-deal outlook as a significant risk to the economy.

- Half of CFOs think it will take until the last quarter of 2021 or later for their own revenues to return to pre-pandemic levels.

- CFOs expect levels of home-working to rise five-fold by 2025 compared to pre-pandemic levels, and forecast higher levels of taxation and regulation in the longer term.

Public health and the lockdown - Cases surge as new COVID-19 variant spreads

- In the UK new daily cases surged starting in mid-December, as a more infectious COVID-19 variant gained traction. Several countries restricted travel from the UK, but cases of the new variant have already been registered in Europe and the US.

- The UK and other European countries have tightened and extended restrictions that were eased after cases peaked in November.

- Hospitalisations from COVID-19, which lag new cases by several weeks are at record highs in the UK and the US. Daily deaths are near record-highs in the US and Germany and rising in the UK.

- The start of vaccinations has raised hopes that we may be nearing the end of the pandemic, but questions remain about the timeline for vaccinating large cohorts of the population, the vaccine's ability to reduce transmission and developing countries' access to the vaccine.

Policy response – fiscal support expanded

- Central banks in the euro area, UK and US are expected to maintain or even expand their loose policy stances – involving ultra-low rates and bond purchases – over the medium term.

- Low interest rates, high private savings and low inflation expectations mean that governments can borrow at record-low rates and spend a lower share of their expenditure on interest payments, despite higher overall debt.

==

In summary, the above analysis offers grounds for cautious optimism for the next financial year with the prospect of economic activity recovering, although still well below pre-pandemic levels.

In the medium term, the consensus opinion amongst professional economists is that 'Brexit' will have a negative impact on the economy in both the short and longer term. Inevitably, there is no consensus on the overall degree of impact, although a 'no deal' scenario has been avoided and the UK will benefit from a more 'managed' exit.

As noted above, the demand for the Council's services and its income streams are affected by the general economic health of the Borough, whilst prevailing interest rates have a direct impact on the Council's interest receipts. Areas of deprivation do exist in the Borough but as a whole Charnwood is above averagely prosperous, with a ranking of 236 out of 317 English local authorities[1] (where '1' is

[1] English local authority Index of Multiple Deprivation 2019 (IMD average ranks – File 10; latest result available, updated October 2019)

the most deprived and ‘317’ the least deprived local authority respectively). This relative prosperity is an important factor in the projected housing growth in the Borough and this growth will affect both costs and revenues as it arises. In the relatively short term however, and over the period of this MTFS, the general assumption is that the economic landscape will be one of an uncertain and patchy recovery.

Fair Funding review and future local government financial settlements

The ‘Fair Funding review’ in which the government is to create a new framework for local government funding based on a greater level of local business rate retention and set new funding baselines was originally planned for implementation from the 2020/21 financial year. This would have created a multi-year financial settlement from this year. However, the results of the Fair Funding review have been further delayed and at the time of writing this report there is no clear timetable for its completion. Local Authorities have therefore been allocated financial settlements on a one-year only basis for both 2020/21 and 2021/22.

Given the one-year only basis of the recent settlements, and the absence of any material indication of future settlements, there is little option but to assume future settlements will be in line with the most recent. This is discussed further in subsequent sections of the MTFS.

More detailed assumptions around the key individual components of the Council’s revenue streams and expenditure are set out in subsequent sections of the MTFS.

5. Financial projections – overview

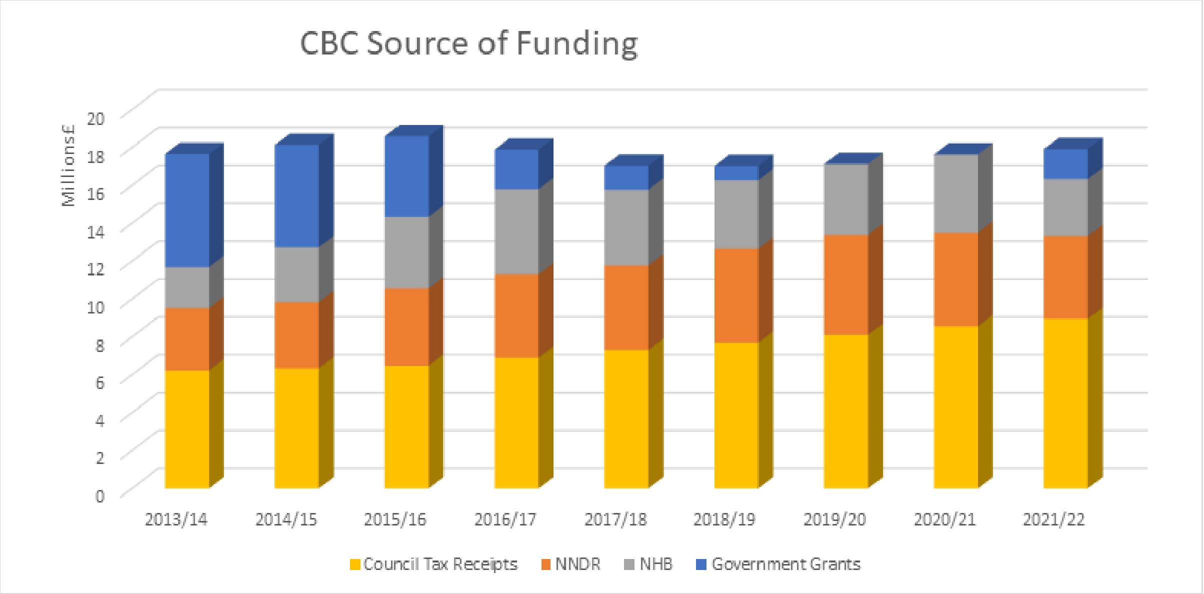
At the heart of this MTFS is the high level financial model. This is used to derive an estimate of the Council's future revenues and costs and the associated impact on the Council's reserves. Subsequent sections describe how the model has been developed and the key assumptions used, as follows:

- Local government financing regime: discusses the projected mix of council tax and government grant revenues over the period of the MTFS
- Treasury management and investment income: discusses the Council's current approach to fund investment and projected levels of interest receivable, together with comments on envisaged future activities
- Key operational assumptions: describes the derivation and key assumptions underpinning the projections of operational income and expenditure
- Transformation and Efficiency Plans: describes the activities undertaken and identified, and initiatives planned and underway that will address the budget challenges
- Budget risks: sets out material high-level risks identified
- Existing financial resources and use of prudential borrowing: describes how revenue and capital expenditure of the Council may be financed over the period of the MTFS using reserves or prudential borrowing
- General Fund financial projections: presents the projected financial outlook for the Council over the period of the MTFS in tabular form

6. The local government financing regime

The Council's funding is currently derived from a mixture of council tax receipts, new homes bonus payments, a share of locally collected business rates and direct government grant funding. A continuing theme from the government has been the drive towards financial independence for local authorities and the move towards localism. In practice this now means a reduction in levels of direct (formula) grant funding, and increasing reliance on council tax receipts. The graph below illustrates this trend.

Table 1: Relative funding streams



The envisaged outcome of the Fair Funding review was a new national business rate retention scheme (with a headline 75% retention rate compared to the current 50% retention scheme currently in place), alongside a possible replacement of the New Homes Bonus scheme to offer incentivization for housing growth. However, this will now be delayed until at least the 2022/23 financial year, and given the impact of COVID-19 and Brexit, combined with the ongoing review of the business rates system, it is possible that previous Fair Funding proposals will be re-evaluated.

The principal features of the financing regime and key assumptions and sensitivities in respect of Charnwood are discussed in more detail in the following paragraphs.

Council tax

It is generally assumed that there is resistance from local citizens to any significant increases in Council Tax. With this in mind, the Coalition government (2010 – 2015) introduced legislation requiring council tax increases above a certain level to be endorsed by the public through a local referendum. This restrictive approach has continued under successive Conservative administrations. However, in recognition of increasing evidence that local authorities are struggling financially the Government somewhat relaxed the limits at which a local authority would trigger a referendum and in recent years has allowed all District and Borough Councils to increase council tax by up to a maximum of £5 or 2% per band D property as well as allowing authorities with Social Care responsibilities an additional 2% increase on top of the standard cap that would have triggered a referendum. These relaxations have only been confirmed on a year by year basis but for the purposes of the MTFS, these limits are assumed to apply to District and Borough Councils for each of the financial years considered. At the time of writing the government consultation on the 2021/22 settlement remains open and the Council, along with the District Council Network, and other local authorities have lobbied for a further relaxation of council capping rules; the outcome of this lobbying is as yet unknown.

In comparison to other districts, Charnwood's council tax charges are still amongst the lowest in the country as the data from the Department of Communities and Local Government below illustrates:

Table 2: Comparison of District Band D Council Tax Charges 2020/21

	Council Tax Band D	***Rank (of 188)***		***Council Tax Band D***	***Rank (of 188)***
NATIONAL PICTURE			LEICESTERSHIRE AUTHORITIES		
Lowest					
Breckland	£95	1	Hinckley & Bosworth	£135	14
West Oxfordshire	£104	2	**Charnwood**	**£149**	**23**
Hambleton	£114	3	Harborough	£168	50
			Blaby	£168	52
Charnwood	**£149**	**23**	North West Leicestershire	£173	67
			Melton	£208	124
Median			Oadby & Wigston	£230	154
South Holland	£188	93			
North Devon	£188	94			
East Staffordshire	£189	95			
Highest			** Calculation includes Band D and Share of Loughborough Special Rate (or Equivalent) spread across whole tax base*		
Oxford	£314	186			
Preston	£321	187	*Source: MHCLG*		
Ipswich	£369	188			

Given Charnwood's low tax charge and future funding uncertainties it is assumed that Council Tax will increase by the maximum amount in all of the financial years covered by this MTFS; this maximum is calculated on the basis of £5 per Band D property but has to be adjusted for the impact of increases in special expenses areas.

The actual amount of Council Tax collected will also vary in line with the tax base, essentially the number of properties against which Council Tax is levied. The tax base for this purpose is assumed to increase by 1.9% year on year over the period of this document (based on a moving average of increases in recent years).

As noted, the £5 increase must also take into account the Loughborough Special Expense area – so the Borough increase has to be below this overall limit.

Table 3: Projected Council Tax income tax increase

(Amounts £000)	*2021/22 budget*	*2022/23*	*2023/24*
Assumed council tax income	7,640	8,055	8,482

Loughborough Special Rate

The town of Loughborough does not have the equivalent of a town council and the role that this organisation would fulfill is therefore undertaken by the Borough Council.

The Loughborough Special Rate is levied on the residents of Loughborough by the Borough Council and is used for activities specifically related to Loughborough town. This set of activities is comparable to those performed by towns and parishes and used by other Councils in equivalent situations. These activities have been validated by the Council and include maintenance of parks, cemeteries and memorials, management of allotments and costs associated with the Loughborough Fair and festive decorations. A full list of activities is set out in the Budget Book issued by the Council each year and available at:

https://www.charnwood.gov.uk/files/documents/2020_21_budget_book/2020-21%20Budget%20Book.pdf

For the purposes of the MTFS the Special Rate is assumed to increase by 1.99% year on year and is included within the projections.

***Note: The above paragraphs assume that council tax increases for 2021/22* will be approved by the meeting of the full Council in February.**

It should also be noted that for the purposes of assessing whether Council Tax increases are excessive when the government calculates the year on year level of increase for Charnwood, it includes both the main Borough charge and the Loughborough Special Rate.

Table 4: Projected Loughborough Special Rate income

(Amounts £000)	*2021/22 budget*	*2022/23*	*2023/24*
LSR – 1.99% increase assumed	1,311	1,364	1,419

Provisional local government finance settlement 2021/22

The latest (albeit provisional) local government finance settlement continues the recent series of 'one-off' allocations, and comprises a mix of business rate retention, historic grant allocations, new, one-off grants, and COVID-19 specific funding. This is tabulated below:

Table 5: Provisional local government finance settlement

(Amounts £000)	*2020/21 budget*	*Draft budget 2021/22*	*Provnl Settlement 2021/22*
Revenue Support Grant	0	0	*168*
Retained business rates	4,947	*4,379*	*4,379*
New Homes Bonus	4,122	*4,289*	*3,000*
Lower Tier Services Grant	0	*0*	*7617*
Movement on collection fund	143	*50*	*2*
Sub-total	*9,212*	*8,718*	*8,166*
Tranche #5 COVID-19 fuding	0	*0*	*801*
Total	**9,212**	***8,718***	***8,967***

Revenue Support Grant

Revenue Support Grant (or 'formula' grant) is (historically) allocated to each local authority by the government using an assessment of need based on the characteristics of population, geography and other sources of finance available to an individual local authority. From 2014/15 this grant – which at that time was worth £4.2m to the Council – was gradually phased out and theoretically eliminated from 2020/21. The rationale and purpose of the award within the 2021/22 provisional settlement is therefore somewhat unclear and there is obvious uncertainty around the existence and amount of any future allocations.

Local share of national non-domestic rates ('business rates' or 'NNDR')

From 1 April 2013 the structure of local government finance changed, with local authorities retaining a share of business rates collected in their area. The calculations are based on target rates of collection set by government and result in Charnwood retaining around 9% of the total collected. A baseline amount of retention is set out within the settlement equating to £4.3m for 2021/22 but the amount the Council receives is subject to a number of variables including collection rates and business rate reliefs for which the Council receives compensation via 'Section 31' grants. Local authorities can increase their business rate income by growing the business rate take in their area; conversely, if collections fall then local authorities bear an element of risk. Additionally, local authorities bear risks associated with rating appeals (many of which extend back for some years) and non-payment by businesses.

Discounting the impact of COVID-19, recent experience in Charnwood suggests, generally, a small degree of business rates growth envisaged over the period of the MTFS. In the medium term initiatives such as the development of the Loughborough University Science Park and, particularly, Charnwood Campus and the inclusion of these in an Enterprise Zone are hoped to offer some additional upside. However, given the prevailing economic climate, and in particularly the impact of COVID-19 on many business sectors, a conservative projection for business rate retention, based on the 2021/22 baseline amount, is considered appropriate for the 2021/22 budget and this iteration of the MTFS.

Table 6: Projected local share of business rates

(Amounts £000)	*2021/22 budget*	*2022/23*	*2023/24*
NDR retention	4,379	4,465	4,551

New Homes Bonus

The New Homes Bonus (NHB) was designed to provide an incentive payment for local authorities to stimulate housing growth in their area. The calculation is based on council tax statistics submitted each October and, up to 2016/17, a ‘bonus’ was payable for the following six financial years based on each (net) additional property using a standardised council tax Band D amount (this varies with the national average but is historically £1,500+ per property). In two-tier local government areas this payment is split in the ratio 20% to county councils, 80% to district councils.

The NHB scheme started in 2011/12, so 2016/17 was the first year in which the Council received a full six years funding. Up until 2016/17 the amount of NHB received grew naturally due to the cumulative funding effect since the scheme was introduced in 2011/12. From 2017/18 the mechanism under which NHB funding levels are determined changed. The number of years over which the funding is received reduced to five in 2017/18 then a further reduction to four years applied from 2018/19 onwards. Additionally a ‘deadweight’ growth upon which no bonus is payable (‘deadweight’ growth) was been introduced, further reducing future payments. The deadweight growth was set at 0.4% in respect of 2018/19; this could vary but has been maintained by the government in future years.

In the 2020/21 settlement the government started, in effect, to phase out NHB and whilst an award was made for this year, this was a one-year award only and attracted no legacy payment; however, the total amount received was in line with previous years as three sets of ‘legacy payment’ were due. In the 2021/22 NHB comprises the remaining two legacy payments due and another one-year award for this year – resulting in a significant (£1.3m) reduction versus the previous year.

Based on the above, and in the absence of any one-year awards, NHB will reduce to just under £1m in 2022/23 and disappear thereafter. Some sort of replacement for NHB aimed at incentivising housing growth

Table 6: Charnwood New Homes Bonus – historic and projected 2015/16 – 2020/21

	2018/19	*2019/20*	2020/21	*2021/22*	*2022/23*	*2023/24*
'Legacy payments'	3,621	3,731	3,023	2,185	988	-
One-off single year awards	-	-	1,106	815	-	-
Total NHB grant received	*3,621*	*3,731*	*4,129*	*3,000*	*988*	*Nil*

Lower Tier Services Grant

The Lower Tier Services Grant is identified within the settlement as a one-year only grant. This is regarded within the local government sector as 'dampening' for the effects of the reduced New Homes Bonus awards in 2021/22.

COVID-19 funding

The government has provided various types of COVID-19 funding within the 2020/21 financial year (more detail of which was set within the Revised budget for this year approved by a meeting of full Council in November 2020). This funding has either been unringfenced – for local authorities to spend as locally determined – or provided with conditions in order to address specific issues such increased homelessness or community support.

Alongside the settlement further COVID-19 support for local authorities was announced, the principal item being the fifth tranche of unringfenced support allocated for 2021/22 which is calculated to amount to £0.8m.

Other support comprises:

- Extension of the compensation scheme for losses of sales, fees and charges into the first quarter of 2021/22 – no detail of this scheme's operation is yet available but it can be regarded as potential additional revenue that will arise in 2021/22

- A local taxation support scheme that will provide compensation for irrecoverable council tax and business rate losses – again, full detail of the operation of this scheme is not yet available; compensation will actually relate to the 2020/21 financial year so in effect, any award will benefit the 'starting position' in terms of the Council's reserves for 2021/22

Given the uncertainty around the operation of these schemes no account of potential grant award in included within either the budget or MTFS.

Summary of funding assumptions

Table 7: Summary of government funding – Budget and MTFS projections

(Amounts £000)	*Budget = Provnl Settlement 2021/22*	MTFS projection 2022/23	MTFS projection 2023/24
Revenue Support Grant	*168*	-	-
Retained business rates	*4,379*	4,465	4,551
New Homes Bonus	*3,000*	988	-
Lower Tier Services Grant	*617*	-	-
Movement on collection fund	*2*	(15)	(15)
Sub-total	*8,166*	*5,438*	4,536
Tranche #5 COVID-19 fuding	*801*	-	-
Other – non-specific funding	-	2,728	3,630
Total	***8,967***	**8,166**	**8,166**

The table above illustrates the risk that a very significant funding gap could arise following the outcome of future local government financial settlements given the one-off or diminishing nature of awards contained within the 2021/22 provisional settlement. This is projected at £3.5m in 2022/23 and some £4.4m in 2023/24.

It does not seem likely that all this funding would be lost without some significant level of mitigation so it is therefore assumed that other government funding will be forthcoming to offset £2.7m and £3.6m of the prospective funding reduction respectively. If correct, this assumption would result in a new equilibrium funding level of £8.2m, in line with the 2021/22 settlement excluding the Tranche #5 COVID-19 grant and some £1m below the funding level allocated for 2020/21.

It must be stressed that, in the absence of further information, this assumption is necessarily highly speculative and gives rise to an enormous level of uncertainty. Other uncertainties within the MTFS projections exist, but are rendered irrelevant by the scale of potential error inherent within this assumption.

7. Treasury management and commercial investment income

Treasury management

The majority of the Council's investments are short-term, mainly made up of cash deposited for short periods on money markets. The remainder is made up of loans to other local authorities for periods of up to two years and longer term holdings in property funds. In recent years these have had a value in the range of £39-£66m at any point in time. Broadly, these amounts represent a combination of Council Reserves (including the Housing Revenue Account), business rates and council tax collected on behalf of the County Council, local police and fire authorities, and parishes. The investment income generated from these balances remains an important source of funding for the Council despite the ongoing low level of interest rates.

In selecting its investments, the Council must balance the rates of return available whilst ensuring the security and liquidity of its investments. As a body that must take its stewardship of public money seriously, the Council adopts a prudent treasury management strategy. This strategy is subject to Council approval each year and aims to allow the Council's finance team appropriate levels of latitude in the day to day management of treasury operations within closely defined operational parameters.

The investment strategy is weighted towards security and liquidity of capital and, in general, it is envisaged that this approach will continue. However, this strategy assumes a continuation of the trend of recent years to seek increased returns through loans to other public sector bodies and investments in a wider range of financial instruments, such as property funds. Therefore, whilst security and liquidity remain paramount, the Council is now adopting a more proactive approach and is accepting a slight degradation in risk and liquidity factors[2] in exchange for higher returns. This matter is discussed in more detail in the Council's Capital Strategy, which is also scheduled for Cabinet and Council approval in February 2021.

For the purposes of projections, it is assumed that:

- Interest rates are likely to rise in the medium term
- Average cash balances available for investment will reduce (reflecting use of internal borrowing to finance the commercial property portfolio and the delivery of the capital plan)
- The net effect of the above will deliver returns in line with the 2020/21 budget

Table 8: Investment income (interest receivable) projections

(Amounts £000)	*2021/22 budget*	*2022/23*	*2023/24*
Interest receivable	(300)	(300)	(300)

[2] Context here is important; the Council's investments can / will still be regarded as low risk within the range of all available financial investment opportunities

Commercial investment income

In 2020/21 (to date) the Council has built up a portfolio of commercial properties for investment purposes at a cost of £22m, generating gross annual rental returns in excess of £1m. Up to date these purchases have been financed by 'internal borrowing' – using existing cash resources earmarked for other activity (such as delivery of the capital plan).

However, additional acquisitions, or any other major capital initiatives, would almost certainly require use of external debt and if the Council wishes to use the Public Works Loan Board (typically the cheapest available source of debt finance) then restrictions imposed as part of the 2020 autumn statement preclude any acquisition of additional commercial property within the extant capital plan. This restriction does not completely prevent additional acquistions but workarounds such as the creation of special purpose corporate bodies may be required and for the purpose of this MTFS it is assumed that no further commercial property investment will occur.

Whilst over £1m in gross annual rentals will be generated from the existing investment properties the Council will adopt a prudent approach to recognizing this income with the 2021/22 budget and MTFS projections assuming net rentals of £0.65m per annum. This allows proper allowance of Minimum Revenue Provision (a charge reflecting the need to repay capital purchases unfunded by earmarked reserves), notional interest payments (reflecting the current internal borrowing arrangements) and creation of a reserve to allow for potential void rent periods, additional interest costs should debt need to be externalized, and similar.

Further details of the investment property portfolio are set out within the Capital Strategy 2021/22.

Table 9: Commercial (investment) property income projections

(Amounts £000)	*2021/22 budget*	*2022/23*	*2023/24*
Net rentals (after MRP, interest and provision)	(650)	(650)	(650)

8. Key operational assumptions

The Council's 'Net Service Expenditure' is the total amount spent on services, offset by income associated with the provision of those services such as planning fees receivable, income generated by the Council's car parks, or service specific grant income. The basis of the Council's projected Net Service Expenditure for the purposes of the MTFS is the 2021/22 budget.

For this iteration of the MTFS the key assumptions are around payroll costs (wages, salaries and on-costs, particularly employer pension contributions), indexation increases in major contracts, and services pressures identified as part of the 2021/22 budget setting process.8

Payroll costs

The Chancellor's autiumn statement included an announcement that public sector pay would be frozen, other than for staff earning at living wage levels. Local government pay is not strictly within the scope of organisations included within this announcement (having separate negotiation arrangements) but usually tracks other public sector pay closely. The MTFS therefore assumes essentially zero pay rises for 2021/22 and a small increase of 1% applicable to subsequent years.

Table 10: Payroll cost assumptions

(Amounts £000)	*2020/21 Budget*	*2021/22*	*2022/23*
Wages and salaries • No annual increase 2021/22; 1% subsequent years	+0% 14,187	+1% 14,329	+1% 14,472

Indexation cost increases in major contracts

The indexation of major contracts – including environmental services, maintenance of open spaces and revenues and benefits – is reflected in the detailed 2021/22 budget calculations within the 'Savings and Pressures' line. The cost increase is calculated at £0.3m – principally due to costs associated with the impact of the environmental services fleet replacement. In subsequent years the general increase is assumed as:

- £0.2m in 2022/23
- £0.4m in 2023/24 (compared to 2021/22 base)

Table 11: Major contracts – cost indexation

(Amounts £000)	*2020/21 Budget*	*2021/22*	*2022/23*
Revenues & Benefits - Capita	23	23	23
Environmental Services Serco contract costs including Fleet costs	236	236	236
Open spaces - Idverde	17	17	17
Trade Waste	19	19	19

(Amounts £000)	2020/21 Budget	2021/22	2022/23
HR contractual inflation	6	6	6
Corporate Merchant Bank Charges	17	17	17
Members Allowance inflation	16	16	16
General indexation applied	-	200	400
Totals	*334*	*534*	*734*

Service pressures

Service pressures excluding tthose relating to contracts are tabulated below:

Table 12: COVID-19 related and other service pressures

(Amounts £000)	*2020/21 Budget*	*2021/22*	*2022/23*
COVID-19 related pressures			
Leisure Centres – loss of subsidy	247	247	247
Markets income - income losses	128	64	64
Town Hall – income losses	273	-	-
Car parking - Estimated loss of income, assumed at 85% of pre Covid 19 Levels	141	141	141
Other COVID-19 related income losses	36	-	-
Other pressures identified			
Planning Fees & Charges - Income Levels reduced to reflect recent history	300	150	-
Local Plans - Contribution to Strategic Growth Plan	30	30	-
Building Control - Street Naming & Numbering - Income Levels reduced to reflect recent history	26	13	-
Cyber Insurance (new requirement) and Commercial Property Insurance cover	123	126	130
Supported Living additional Housing Benefit losses to £665k (worse case could be £1.1m)	200	300	400
Other sundry	21	21	21
Sub total	*1,525*	*1,092*	*1,003*
Contract related pressures – as above (Table 11)	334	534	734
Totals	***1,859***	***1,626***	***1,737***
OTHER one off – *local plan development*	***106***	***-***	***-***

The assumptions underpinning material elements within the above table are set out below.

COVID-19 related pressures:

- ***Leisure centres*** – it is assumed that in the remaining period of the leisure contract that centre income will recover from the impact of COVID-19 and that no additional Council support to the contractor will be required; however, it is assumed that ongoing fragility amongst leisure providers generally will result in the Council being unable to retain income subsidy in existing or any new contract

- ***Markets*** – it is assumed income levels will recover in 2021/22 and 2022/23 but then plateau towards a new lower normal in 2023/24 reflecting the loss of some existing traders and permanent changes in shopping habits

- ***Town Hall*** – shows and room hire will continue to operate at below previous levels in the initial months of 2021/22 but it is assumed that the key pantomime shows will be able to run in line with pre-pandemic operations for Christmas 2021; in subsequent years the MTFS assumes the Town Hall will operate at pre-pandemic levels

- ***Car parking*** – income is assumed at 85% of pre-pandemic levels across the MTFS period; underpinning assumptions are that economic activity will near normal by late spring 2021 but that permanent changes in shopping and commuting habits will restrict income recovery

Other pressures:

- ***Planning fees*** – the service pressure relating to planning fees in 2021/22 reflects income shortfalls in respect current and previous financial periods; in subsequent years it is assumed that either planning fees will recover and/or the cost base within the service will be adjusted to mitigate income shortfalls

- ***Insurance costs*** – additional insurance costs will be incurred due to an identified need to upgrade the Council's protection against cyber attacks and also to reflect additional property insurance required arising from the development of the commercial property portfolio; the MTFS projections assume some increases due to indexation in the latter years of the projection

- ***Supported living costs*** - these costs arise due to differences between housing benefit payments that the Council is required to make and amounts that are recoverable from the Government in respect of certain supported living facilities; there is little the Council can do to mitigate this issue and the projections assume an increase in units within Charnwood, rental increases applied, and an increasing number of claimants moving onto Universal Credit from housing benefit – all of which adversely affects the Council's financial position

9. Transformation and Efficiency plans

Charnwood has embarked on a programme to achieve financial sustainability. This programme is ongoing and has a number of elements as outlined below:

- Service reviews
- Assets and fixed costs
- Commercialisation and income generation
- Procurement
- Regeneration and economic growth
- Other - Technical and tactical approaches

The initial results of the programme are reflected in the savings and commercial income generating opportunities identified and reflected in the budget for 2021/22. As summarized below:

Table 13: Identified savings and income generation opportunities

(Amounts £000)	*2020/21 Budget*	*2021/22*	*2022/23*
Corporate Savings			
Minimum Revenue Provision & interest savings on Environmental Services Fleet purchase	(350)	(350)	(350)
Corporate - staff T&Cs / increase in managed vacancy allowance	(350)	(350)	(350)
Commercialisation			
Commercialisation - Rental Income Increase to a £650k Budget	(470)	(470)	(470)
Staffing efficiencies – various services			
Deletion of vacant posts or vacant hours - No service changes required	(204)	(204)	(204)
Other service reviews – changes in organisational structure	(340)	(340)	(340)
Service changes			
Reductions in grant schemes - various	(75)	(75)	(75)
Reduce Staff Training budget from £60k to £50k and Member Training Budgets from £10k to £7.5k based on the reduced cost of online training going forward	(12)	(12)	(12)
Reduce Scrutiny Committees by two from four Member Allowance saving	(10)	(10)	(10)
Change Mayoralty car to electric at the end of the current lease in Jan 2021	(2)	(2)	(2)
Reduce Environmental Services Communications budget, related to campaigns and other Environmental projects	(60)	(60)	(60)
Stop managing specific pieces of land - removing them from the Open Spaces Contract (90% is land at Bishops Meadow which is rented to a farmer). Other is land where there is no access, or no maintenance is required.	(70)	(70)	(70)
Consistency in the opening hours at the museum all year to allow for the option of delivering specific events at the Museum in the hours closed to the public.	(2)	(2)	(2)

(Amounts £000)	*2020/21 Budget*	*2021/22*	*2022/23*
Biggin Street Public Toilets - Consolidate onto Market Place facilities	(20)	(20)	(20)
Sell wood from the Outwoods	(10)	(10)	(10)
Increase Garden Waste charge by £1 per year from £40 to £41 and £45 to £46 (national average is £40)	(30)	(30)	(30)
Reduce quality of life tree works budget to £28k	(10)	(10)	(10)
Planning Applications - Bank Charges reduction	(2)	(2)	(2)
Planning Applications - Increase in Pre-Application Advice Income	(7)	(7)	(7)
Provision of Building Control Services for NWLDC - Management Fee	(20)	(20)	(20)
Crematorium Turnover Commission Income increase	(15)	(15)	(15)
Total Savings	**(2,059)**	**(2,059)**	**(2,059)**
Less: Commercial property investment income	470	470	470
Savings net of commercial property income	**(1,589)**	**(1,589)**	**(1,589)**

For the purposes of the MTFS projection it is assumed that savings and income generation identified in respect of the budget year 2021/22 will carry forward into future years, being specific actions and initiatives, and with a high level of probability that these can be delivered and sustained into the medium term.

It is recognized that further savings and / or income generation will be required in 2022/23 and 2023/24 to address the financial challenges identified within the MTFS projections, and as such it is important to note that the projections above are arithmetic in nature rather than predictions of a likely outcome.

10. Existing financial resources and use of prudential borrowing

Currently, the Council retains a number of reserves on its balance sheet, representing amounts that the Council may use to deliver or enhance Council services. Broadly, these are of three types:

- The General Fund balance that can be used to fund any type of expenditure
- Balances that may be used to fund any type of expenditure but which have been earmarked for specific uses by the Council
- Balances that are restricted in use by Government regulation that can be used to fund only specific types of expenditure, usually of a capital nature

There are also other balances on the Council's balance sheet created as a result of Government regulation or accounting rules. These balances are not available to fund expenditure of any type.

In recent years Charnwood has continued to invest in service delivery and the MTFS assumes that:

- The General Fund balance will be maintained at a level of not less than £2m in line with good practice
- Other reserves will be utilised or created during the period of the MTFS as appropriate; additionally, transfers between reserves may be deemed appropriate

As will be seen from the financial projections the Council reserves levels are low and may go into deficit. Further action is required to address the projected net funding deficit across the period of the MTFS, as existing reserves cannot be used to fund ongoing revenue costs as these are to be set aside for one off emergency items.

In addition, the Council could consider utilising reserves in the short term in order that services can be restructured in a cost effective and efficient manner giving a sustainable base for the future.

Growth Support Fund and Capital Plan Reserve

The Growth Support Fund has been established to support growth throughout the Borough. This fund is a revenue reserve and can be used for a variety of purposes, both revenue and capital. In addition, a Capital Plan Reserve has been created so that the Council can supplement its level of usable capital receipts. This reserve is designed to be used for General Fund capital items only but it is not constrained and could also be used to fund general fund revenue expenditure.

Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve represents the proceeds of asset sales available to meet future capital expenditure. The use of this reserve is restricted for application on items of a capital nature.

The Council has a well-established process exists for the management of the capital plan. For the purposes of the MTFS we are therefore able to assume that sufficient resources exist, or will be generated, to finance all uncompleted schemes within the current Capital Plan. Funding required beyond this point will rely on the Council's ability to generate new receipts from asset sales, or funding from revenue and/or reserves or Prudential Borrowing, which is discussed below.

Use of Prudential Borrowing – General Fund

Charnwood had been able to avoid the use of borrowing in recent years but in the 2020/21 financial year undertook Prudential Borrowing to finance the acquisition of commercial properties for investment purposes (some £22m at the date of writing this Strategy) and to part finance the purchase of the new environmental services fleet.

Additional detail of this is set out in the Capital Strategy 2021/22.

Use of Prudential Borrowing for Housing

The Council will externally borrow, if necessary, to undertake works in line with its Housing Capital Investment Programme and 30-Year Housing Business Plan. Where feasible it will 'internally borrow' from the General Fund provided there are surplus amounts available for this purpose. These internally borrowed amounts will be at similar interest rates to those offered by the government's Public Works Loan board (PWLB). The Council retains all its Council dwellings rental income in order to service the HRA debt, pay for repairs and maintenance of the housing stock and for its housing operations generally. This borrowing, and any additional borrowing as mentioned above, is segregated from General Fund borrowing and so does not directly impact on the MTFS. Further details regarding the HRA are set out in the section covering the Housing Revenue Account.

11. Financial Projections 2020 – 2023

Table 14 MTFS financial projections – General Fund

	2021/22	*2022/23*	*2023/24*
	£000	*£000*	*£000*
Expenditure			
Baseline Net Service Costs	19,206	19,348	19,492
Service pressures	1,965	1,626	1,737
Commercial investment contribution	(650)	(650)	(650)
Other service savings	(1,589)	(1,589)	(1,589)
Net Service Expenditure	18,932	18,735	18,990
Interest payable	240	240	240
Interest receivable	(300)	(300)	(300)
Total Borough Expenditure	**18,872**	**18,675**	**18,930**
Funding			
Council Tax Receipts	7,640	8,055	8,482
Loughborough Special Levy	1,311	1,364	1,419
Revenue Support Grant	168	0	0
NNDR	4,379	4,465	4,551
New Homes Bonus	3,000	988	0
Lower Tier Services Grant	617	0	0
Tranche #5 COVID-19 funding	801	0	0
Government Grants - non specific	**0**	**2,728**	**3,630**
Collection Fund Surplus/(Deficit)	2	(15)	(15)
	17,919	17,584	18,066
Projected use of reserves			
General fund	***849***	***1,076***	***848***
Collection fund movement	(2)	15	15
Other revenue reserve	106	0	0
	18,872	**18,675**	**18,930**

The implication of the above projections is that to bring the Council's finances back into a sustainable position (ie. where expenditure is restricted to match funding) is that by 2023/24 the Council will need to remove around £1m from its projected cost base over and above savings identified and income generation created to date. **Critically, this assumes that funding due (or likely to) fall away from 2022/23 is replaced – which is a highly uncertain proposition at this time.**

The impact of these projections on the Council's revenue reserves is set out below:

Table 15: Projected movement on Working Balance

	2021/22 £000	2022/23 £000	2023/24 £000
GF working balance			
Balance brought forward	1,820	2,534	2,000
NNDR - technical adjustment	1,561	-	-
Use of balance in year	(847)	(1,091)	(863)
	2,534	1,443	1,137
Additional Financial challenge	**0**	**557**	**863**
Balance carried forward	**2,534**	**2,000**	**2,000**

The above projection shows that to maintain the Working Balance at a minimum level of £2m (as recommended by the Section 151 Officer) additional savings or income generation of £0.5m and £0.8m will need to be found in 2022/23 and 2023/24 respectively. Failure to find these savings or income streams would see the Working Balance reduce to £0.6m by 31 March 2024.

Table 16: Other Revenue Reserves

	2021/22 £000	2022/23 £000	2023/24 £000
Other Revenue Reserves			
Reinvestment Reserve	357	357	357
Capital Plan Reserve	1,819	1,819	1,819
Other Revenue Reserves	1,007	1,007	1,007
	3,183	**3,183**	**3,183**

(Movements in other reserves are typically not be directly connected to revenue expenditure but will in practice diminish through utilization over the MTFS period)

Collection Fund: In any year the amounts of council tax or business rates actually collected will differ from that budgeted due to additions or removals of properties from the register, or non-collection of amounts billed. These surpluses or deficits are managed through the collection fund and (effectively) reflected in adjustments to precepts in subsequent years.

The ‘NNDR – technical adjustment’ identified within the movements on the Working Balance arises from the unwinding of a Collection Fund adjustment relating to the provision on business rate (or NNDR) appeals.

12. Risk and sensitivities

The delay in the Funding Funding review and the one-year ‘sticking plaster’ nature of the likely local government financial settlement (historically there are little or no changes between the provisional and final settlements - which is usually communicated in mid-February) means that there is a high level of uncertainty around future funding in the latter years of this MTFS and a very wide range of plausible funding outcomes. The difference between maintaining funding at 2021/22 levels (including one-off COVID-19 funding) and minimum assumed future funding (where New Homes Bonus reduces in line with legacy payments and other one-off grants are not replaced) can be calculated at £3.5m in 2022/23 and £4.4m in 2023/24.

The other key sensitivity relates (inevitably) to COVID-19. In 2021/22 COVID-19 related pressures – principally are projected at £0.8m, falling to £0.5m in 2022/23 and 2023/24. Clearly much uncertainty remains about the progression of the pandemic, and whether changes in the patterns of Council income and expenditure prove temporary or permanent.

In the light of the above, other sensitivities are of less relevance but of note:

Supported living

The projections assume these costs increase from £0.7m to £0.9m across the period of the MTFS. Based on current information around supported living units existing and planned, it is possible that costs could exceed £1m. However, should either the Council be successful in lobbying the Government about the impact of this situation, or the main providers in Charnwood achieve Registered Provider status then the cost to the Council could fall significantly.

Planning fees

Planning fees are known to be cyclical in nature. Based on recent history a service pressure of £0.3m relating to loss in income versus historical budget is assumed; however, given the substantial nature of some individual planning fees a variance (adverse or negative) of this sort of amount around the budgeted figure would not be unusual.

Additional COVID-19 support

The budget for 2021/22 does not include any projection for the support available arising from the extension of the sales, fees and charges compensation scheme into the first quarter of this year. It is not yet clear how this scheme extension is to work but based on the existing scheme compensation of up to £0.3m may be possible.

Further, as yet unknown and unspecified COVID-19 support may also be forthcoming depending on the progression of the pandemic.

13. Note on the Housing Revenue Account

The Housing Revenue Account (or HRA) is a ring-fenced set of transactions that sit within the wider financial records of the Council. It had budgeted gross income of £21.9m in 2021/22 of which £20.9m was dwelling rents. Expenditure on management and repairs amounted to £12.3m whilst depreciation was £3.2m. A further £2.7m was required for interest payments on its debt.

There is a surplus or deficit on the HRA each year which is added to the brought forward HRA balance. This balance should always be in surplus and at 31 March 2020 it was £0.6m equating to its target balance of that amount. There is an additional £7.3m in a new Housing Financing Fund, the purpose being to help militate against the financial pressures that national policy may place on the HRA in the medium-term. There is £2.7m in the Major Repairs Reserve which has restrictions on its use to capital expenditure and the repayment of loans.

Rental levels are largely controlled by central government and there are certain other restraints on how the Council may manage its housing stock. The most recent 30 Year Housing Business Plan, which effectively represents the MTFS for the HRA, was approved by Council in November 2014.

14. Reserve Strategy

As outlined above, from 2022/2023 onwards grant funding from central government is highly uncertain. The Council's strategy is to maintain a minimum of £2.0m in the working balance.

The Council's reserves have been adversely affected by COVID-19 (such an emergency is precisely why the Working Balance reserve is maintained) and concerted efforts will need to continue in order to meet this objective and ensure the Council remains financially sustainable.

The budget proposed for 2021/22 would leave the Working Balance at £2.5m, above the £2.0m minimum.

15. Monitoring, Delivery and Review

There are well established processes for the monitoring of budgets which include regular outturn reports to the Performance Scrutiny Panel and Cabinet. For example, Revenue and Capital Plan outturn reports are usually presented to Cabinet in the July following completion of the financial year. Internally, budgets are monitored on a regular basis with regular Senior Leadership Team review whilst a series of 'Boards' chaired by the Council's Directors are in place to drive through the financial sustainability agenda.

CABINET – 11TH FEBRUARY 2021

Report of the Head of Finance and Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 8 CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2021/22

Purpose of Report

This report introduces the Capital Strategy, which is required under the terms of the 'Prudential Code', a statutory code of practice. The report also sets out the Treasury Management Strategy Statement together with the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy. These latter strategies and the MRP policy are integral to the overarching Capital Finance Strategy and are therefore presented within a single report for context.

This Cabinet report recommends the approval of the above strategies to Council.

Recommendations

1. That the Capital Strategy, as set out at Appendix A of this report be approved and recommended to Council.

2. That the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy as shown at Appendix B of this report be approved and recommended to Council.

3. That the Prudential and Treasury Indicators, also set out in within Appendix B of this report be approved and recommended to Council.

Reasons

1. To enable the Council to comply with the statutory code of practice issued by CIPFA: 'The Prudential Code for Capital Finance in Local Authorities, 2017 Edition'.

2. To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement.

3. To ensure that funding of capital expenditure is taken within the totality of the Council's financial position and that borrowing and investment is

only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

Policy Justification and Previous Decisions

The Capital Strategy must be approved by Council on an annual basis.

The Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy must be approved by Council each year and reviewed half yearly.

The latest version of the Medium Term Financial Strategy (covering financial years 2021 - 2024) outlines the prospective financial challenges facing the Council and the contribution expected of the Investment Strategy in mitigating these challenges.

Implementation Timetable including Future Decisions and Scrutiny

If approved by Council the Capital Strategy (including its component strategies) will come into effect from 1 April 2020.

This report is available for the consideration of the Scrutiny Commission on 8 February 2020.

In line with governance requirements the Capital Strategy and associated Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy will also be presented to the Audit Committee on 9 February 2021.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications arising from this report.

Financial issues arising from the implementation of the strategies are covered within the report.

Risk Management

Risk Identified	*Likelihood*	*Impact*	*Overall Risk*	*Risk Management Actions Planned*
Poor treasury investment decisions due to inadequate treasury management strategies in place	Unlikely (2)	Significant (2)	Low (4)	Strategy developed in accordance with CIPFA guidelines and best practice. Adherence to clearly defined treasury management policies and practices

Risk Identified	*Likelihood*	*Impact*	*Overall Risk*	*Risk Management Actions Planned*
Loss of council funds through failure of borrowers	Remote (1)	Serious (3)	Low (3)	Credit ratings and other information sources used to minimise risk Adherence to clearly defined treasury management policies and practices
Volatile market changes (such as interest rates or sector ratings) occur during year	Unlikely (2)	Significant (2)	Low (4)	Approved strategy in place, regular monitoring of position and use of Treasury Consultants and other sources to provide the latest advice.
Significant losses arising from investments in non-financial instruments (such as loans to third parties or property investments)	Unlikely (2)	Serious (3)	Moderate (6)	Professional advice will be sought in advance of non-standard or new investment activity outside knowledge base within the Council. Adherence to strategy which set out limits to investment in individual asset classes.

Key Decision: Yes

Background Papers: Investment Strategy 2019 - 20, Cabinet Report 19 September 2019

Treasury Management mid-year update – Cabinet Report 14 Nov 2019

Officers to contact:

Lesley Tansey
Head of Finance and Property Services
(01509) 634828
lesley.tansey@charnwood.gov.uk

Simon Jackson
Strategic Director of Corporate Services
(01509) 634699
simon.jackson@charnwood.gov.u

Part B

Background

1. The Capital Strategy is a requirement arising from the extant version of the 'Prudential Code'. This code is a statutory code of practice and was published by the Chartered Institute of Public Financial Accountants (CIPFA) taking effect from 1 April 2019. It was issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to 'have regard' to 'such guidance as the Secretary of State may issue'.

2. The Council's treasury management activities also fall within the scope of the Prudential Code.

3. The Capital Strategy forms part of the Council's integrated revenue, capital and balance sheet planning. It sets out the long-term context in which capital expenditure and investment decisions are made, considers risks and rewards and the potential impacts on Council objectives

4. The Capital Strategy is an overarching strategy that encompasses the following aspects:

    - Capital expenditure and governance
    - Capital financing and the borrowing
    - Treasury management investments (essentially financial assets) set out within the Annual Investment Strategy
    - Commercial strategy – investment in non-financial assets (including commercial properties and prospective housing development)
    - Access to knowledge and skills (enabling the strategy to be delivered)
    - Treasury Management policy statement and practices (presented as a separate appendix)

5. The Treasury Management Strategy Statement, incorporating the Annual Investment Strategy, have been prepared in accordance with the revised code and accordingly include:

    - the treasury limits in force which will limit the treasury risk and activities of the council,
    - the Prudential and Treasury Indicators
    - the current treasury position
    - the borrowing requirement

- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- the use of external fund managers and treasury advisers
- Minimum Revenue Provision (MRP) Policy

<u>Salient features of the proposed Capital Strategy for 2021/22</u>

6. The aspiration of creating a commercial investment property portfolio with a value of up to £25m set out in the previous iteration of the Capital Strategy has been achieved, and this is reflected within the capital spend of £22.7m in the 2020/21 financial year.

7. In the Chancellor's autumn statement new regulations were introduced preventing access to Public Works Loan Board (PWLB) borrowing for local authorities that included investment in property (or other assets) for yield purposes within their capital programmes (whether or not borrowing was linked to a specific investment asset). Notwithstanding the commercial property purchases it has not yet been necessary for the Council to access external borrowing (cash balances having enabled acquisitions via 'internal' borrowing). Additionally, it may be noted that there are other sources of debt finance other than the PWLB.

8. However, PWLB is typically cheaper and easier to access than alternative sources of debt finance, and given that the Council retains an ambitious capital plan in other areas (principally economic development and regeneration) that would require external borrowing no further investment in commercial investment property is planned for 2021/22 pro tem.

9. Dependending on the type and availability of other debt finance, and possible options for ringfencing future commercial property investments, this investment activity may be reconsidered in future years. Any recommencement would be need to be approved through updates to the extant Capital Strategy and Capital Plan.

10. Other than cessation of commercial property investment there are no other significant changes and matters of note within the the proposed 2021/22 Capital Strategy compared to its predecessor.

11. As stated in Part A, this report requests that the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy together with the Prudential and Treasury Indicators, be approved and recommended to Council.

Appendices

Appendix A: Capital Finance Strategy

Appendix B: Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy for 2019-20

Sub appendices contained within this document:

B (1) Economic background

B (2) Minimum Revenue Provision

B (3) Treasury Management Practice

B (4) Approved countries for investment

B (5) List of approved brokers for investment

B (6) Current investments (snapshot at 6 January 2020)

B (7) Treasury management scheme of delegation

B (8) Treasury management role of the Section 151 Officer

APPENDIX A

Charnwood Borough Council

Capital Strategy

2021 – 2022

Foreword

This is now the third Capital Strategy which develops in more detail some of our plans and aspirations in the areas of capital planning, treasury management, and new borrowing to assist the economic development of our communities as they recover from the COVID-19 outbreak.

In the previous version of the Capital Strategy we talked about our intention of developing a portfolio of commercial property to help us mitigate the financial challenges that were apparent in the extant Medium Term Financial Strategy but warned that the rules around borrowing to finance commercial property were likely to change. The rule change was confirmed within the Chancellor's autumn statement and as a result we have concluded that our investment in commercial property will cease, at least temporarily, whilst we evaluate options that remain open to us.

Whilst this new strategy reflects the halt in commercial property investment, other elements of the previous Capital Strategy which set out how we plan to support our communities as we (hopefully) emerge from the worst impacts of the COVID-19 pandemic remain, and are possibly more important than ever. These include creating the policies that support regeneration of our town centres, and enabling investment in the Enterprise Zone to support job creation in the Borough.

The Council holds significant cash balances and this is an important resource which we are planning to use more proactively. We continue to look for ways to refine our treasury operations and seek to minimise our external borrowing requirement. However, we believe the policy changes introduced with the previous Capital Plan remain appropriate and no further changes are proposed at this time.

Security and liquidity will still be key elements of the Council's approach to financial management but the challenges ahead point us towards a more proactive approach in the use of our financial assets.

Councillor Tom Barkley

Cabinet Lead Member for Finance & Property Services

January 2021

CONTEXT

The Capital Strategy, in common with other strategies produced by the Council supports the overarching Corporate Strategy; see:

https://www.charnwood.gov.uk/files/documents/charnwood_borough_council_corporate_strategy_2020_2024/Charnwood%20Borough%20Council%20Corporate%20Strategy%202020-24%20FINAL%2027.02.20.pdf

This strategy sets out the vision for the Borough as follows:

'Charnwood is a borough for innovation and growth, delivering high-quality living in urban and rural settings, with a range of jobs and services to suit all skills and abilities and meet the needs of our diverse community.'

In supporting this vision capital expenditure plans are in place for ambitious improvements in the public realm through investment in the Bedford Square area of Loughborough and £15m set aside for regeneration investment to support the Loughborough Town Deal and other opportunities across the Borough. There will also be continued investment across the Borough ensuring that our public realm and open spaces are maintained and enhanced to the standard that residents deserve.

The Council's capital expenditure plans will support and create economic prosperity for the Borough. A training and skills hub, developed in conjunction with Loughborough College will open in the near future following a £0.8m investment whilst an initial £2m investment in the Enterprise Zone has been agreed out of a total £15m fund earmarked for this purpose which, working with public-sector partners and local businesses, will bring new jobs to the area.

Enabling this vision requires the Council to be financially sustainable and the commercial investment property element within the extant capital plan (now delivered) and a more robust approach to future capital appraisals reflect this need.

The Capital Strategy shows how these expenditure plans are governed, the financing requirements they imply, the impact on revenue budgets and the method by which the Council aims to mitigate some of the risks involved in this expenditure.

CAPITAL STRATEGY (INCLUDING TREASURY MANAGEMENT)

The purpose of the Capital Strategy is to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

1. **Capital expenditure**; which includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

2. **Capital financing and borrowing**; provides a projection of the Council's capital financing requirement, how this will be funded and repaid. It therefore sets out the Council's borrowing strategy and explains how it will make prudent revenue provision for the repayment of debt should any borrowing be required.

3. **Treasury management investments**; explains the Council's approach to treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed.

4. **Commercial investments**; provides an overview of those of the Council's current and any potential commercial investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

5. **Knowledge and skills**; summarises the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite. Further details are provided in the following sections.

6. (Appendix B). **Treasury management policy statement and practices**; this is presented separately; it updates to the Council's Treasury Management Policy Statement and to its Treasury Management Practices. These set out the Council's policies, objectives and approach to risk management of its treasury management activities, and the manner in which it seeks to achieve its policies and objectives for treasury management.

1. Capital expenditure

1.1. Capitalisation policies

1.1.1. Capital expenditure involves acquiring or enhancing non-current assets with a long-term value to the Council, such as land, buildings, and major items of plant and equipment or vehicles, as well as the contribution or payments of grants to others to be used to fund capital expenditure. Capital assets shape the way services are delivered for the long term and may create financial commitments for the future in the form of financing costs and revenue running costs. Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria below are met.

1.1.2. Expenditure is classified as capital expenditure when the resulting asset:

- Will be held for use in the delivery of services, for rental to others, or for administrative purposes; and
- Is of continuing benefit to the Council for a period extending beyond one financial year.

1.1.3. There may be instances where expenditure does not meet this definition, but would nevertheless be treated as capital expenditure. This is known as 'Capitalisation' and it is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It allows exceptional revenue costs, that should be met from revenue resources to be treated as capital expenditure. Permission is given through capitalisation directions, which the Secretary of State can issue under section 16(2)(b) of the Local Government Act 2003.

1.1.4. The Council operates a de-minimis limit of £10,000 for capital expenditure. This means that items below this limit are charged to revenue rather than capital.

1.2. Governance

1.2.1. A three year Capital Plan is prepared by officers and approved by Council. Potential schemes are identified by Officers, in conjunction with Cabinet members, and supported by a Capital Application form. Following a process of review by senior officers a report is prepared for Cabinet with recommendations as to which schemes to include in the Plan, how the Plan would be funded and other elements such as risk and compliance with the Prudential Code.

1.2.2. Once adopted the three year Capital Plan is formally reviewed by Cabinet at the end of year two when Heads of Service are asked to submit proposals for the following three years. 'Year three' of the current plan would then become 'year one' of the new plan.

1.2.3. New schemes can only be added outside of this procedure where they are in substitution of existing schemes or have a separate source of funding so that the actual total level of the Plan would not increase.

1.2.4. All schemes of £50,000 in value or greater require Capital Appraisal and all procurement and contracting must adhere to the Contract Procedure Rules. The Section 151 Officer (or 's151' – essentially a local authority's Finance Director as defined by Section 151 of the Local Government Act 1972) makes recommendations to Cabinet as to whether funding should be released to allow new schemes to be included in the Capital Plan.

1.2.5. After the end of the financial year an outturn report detailing the total amount of capital expenditure incurred during the year is submitted to Cabinet by the s151 Officer.

1.2.6. Prior to the closure of the Council's accounts a report detailing the proposed method of funding the capital expenditure incurred is submitted to Cabinet by the s151 Officer as required by the Local Government & Housing Act 1989.

1.3. Current Capital Plan

1.3.1. The Council has a policy of preparing a three year Capital Plan, and then refreshing this every other year. In the light of the COVID-19 pandemic the extant plans were refreshed and merged to form a revised plan for the years 2020-2023. See:

https://charnwood.moderngov.co.uk/documents/g318/Public%20reports%20pack%2009th-Nov-2020%2018.30%20Council.pdf?T=10

1.3.2. In totality, to 31 March 2023, capital expenditure (including externally funding) was planned as follows:

General Fund	£78m
HRA	£24m

The capital expenditure for the General Fund shows a very significant increase over previous years. This includes £4.8m required for the purchase of the Environmental Services Fleet and other amounts which are designed to allow the Council to invest in the event that opportunities present themselves. The key elements here are:

- £15m - Regeneration funding to support Town Deal and other initiatives

- £15m – Forward funding of schemes enabling the development of the Enterprise Zone financed by future business rate receipts

- £25m – Creation of a commercial property portfolio

1.3.3. Of these amounts (to January 2021):

- No monies have been spent under the Regeneration heading and it is envisaged that funding will be carried forward into future years

- Forward funding for a project at the Charnwood Campus site has been agreed (Cabinet – October 2020)

  (see: https://charnwood.moderngov.co.uk/mgChooseDocPack.aspx?ID=593)

  with £2m of forward funding being made available in January 2021; it is envisaged that funding will be carried forward into future years

- A commercial property portfolio with total acquisition costs of £23m has been created; given changes in rules around borrowing to finance commercial property no additional acquisitions are currently planned

1.3.4. It should be stressed that inclusion of the above within the Capital Plan, does not imply that any of the above amounts will ultimately be expended. Further discussion of the above is set out later in this document.

1.3.5. The Capital Plan is funded by a combination of the following sources:

- Capital grants and contributions - amounts awarded to the Council in return for past or future compliance with certain stipulations.

- Capital receipts – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.

- Revenue contributions – amounts set aside from the revenue budget.

1.3.6. Prudential borrowing - In addition to the above the Council also has the ability to borrow to fund capital expenditure. At this point in time the Council has been able to finance prudential borrowing internally, taking advantage of cash flows inherent within the Council's operations (ie. cash outgoings typically lag the associated cash inflows, often by months or years). So far it has not been necessary to use external borrowing to fund General Fund capital expenditure but some level of external borrowing is likely to be required if the Council is to complete the delivery its Capital Plan within the projected timescales (and over the medium term as and when the positive cash flow position reverses).

1.3.7. The Council has taken out external borrowing to fund the purchase of its housing stock (held within the Housing Revenue Account) from the Government under the 2012 Self-Financing Regime. This totals £79m.

1.3.8. Borrowing allows the Council to defer the funding of its capital expenditure so that it does not need to fund immediately from existing reserves, but instead charges to the revenue budget over a number of years into the future.

1.3.9. The implications of financing capital expenditure from 'borrowing' are explained later on in Treasury Management Investments.

2. Capital Financing Requirement and borrowing

2.1. The Council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans. Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Council's capital expenditure plans upon the revenue budget and upon borrowing and investment levels, and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.

2.2. Following a period of consultation the Government has now restricted access to Public Works Loan Board finance for local authorities wanting to access PWLB funding where that local authority plans to purchase commercial investment property for yield – whether or not any loan is specifically attached to an individual commercial property.

2.3. Alternative sources of finance exist, such as the Muncipal Bonds Agency (owned by a local authority group) and commercial institutions, sometimes at rates that are competive with the PWLB, but at this point in time it is concluded that the Council's investment in commercial property will cease, at least temporarily whilst alternatives to PWLB finance are considered.

2.4. Any recommencement of investment in commercial property would be need to be approved through updates to the extant Capital Strategy and Capital Plan.

2.5. As referenced in the previous section, the Council's capital expenditure plans mean that it is highly likely that the Council will need to finance this expenditure using prudential borrowing. This is an important departure from historical practice and the implications of this approach are set out within

Appendix B of this document set which details (potential) prudential borrowing within the overall context of the Council's Capital Financing Requirement.

2.6. The full details of the Council's Capital Financing Requirement (CFR) position and the limits that have been set for borrowing and all the associated prudential indicators are provided In the Treasury Management Strategy Statement (Appendix B).

3. Treasury management investment

3.1. The Treasury Management Code and statutory regulations require the Council to prepare an annual strategy that explains how the Council will invest its funds, giving priority to security and liquidity, and then to yield. This Annual Investment Strategy is set out in full in the Treasury Management Strategy Statement (Appendix B).

3.2. The Council's Treasury Management Strategy Statement (TMSS) covers 'specified investments' and loans to other local authorities. The policies are designed to comply with the Statutory Guidance on Local Government Investments ('the Guidance'), effective from 1 April 2018. The Council manages treasury operations in line with its TMSS, which in turn is in accordance with the guidance. The Council is required to review the TMSS on an annual basis.

3.3. The Guidance defines in detail what criteria an investment would meet to be categorised as 'specified' One of the criteria of specified investments is that the local authority has a contractual right to repayment within 12 months. Certain loans to other local authorities made by the Council have a term of up to two years (with an intention to increase the allowed maimum to five years), so do not fall strictly within the definition. However, the Council considers that management of this type of financial instrument should fall within the ambit of the TMSS.

CHANGES TO THE TREASURY MANAGEMENT STRATEGY FOR 2021/22

3.4. No changes are proposed further to those introduced by the 2020/21 Capital Strategy.

4. Commercial investments

4.1. As has now been the case for some years, the prolonged low interest rate environment has meant that treasury management investments have not generated significant returns. However, the introduction of the general power of competence has given local authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial challenges, have led many authorities to consider different and more innovative types of investment.

4.2. CIPFA has issued an update to its Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code). One of the main changes introduced by the new Code is to require authorities to incorporate all of the financial and non-financial assets held for financial return in authorities' annual capital strategies.

4.3. Separately, the Ministry of Housing, Communities and Local Government has issued Statutory Guidance on Local Government Investments under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018.

4.4. As is the case for treasury activities, commercial investment should balance:

- Security – to protect the capital sums invested from loss
- Liquidity – ensuring the funds invested are available for expenditure when needed
- Returns – ensuring that the Council's investment ability is used effectively

4.5. Commercial investments of are primarily undertaken by the Council in order to generate income to support the delivery of a balanced budget. Such investments are only entered following a full assessment of the risks and having secured expert external advice (i.e. where it is relevant to do so).

4.6. Commercial investment may be defined quite widely and could include, for example:

- Commercial property investment held solely for the purposes of generating a financial return
- Investments in wholly owned companies and joint ventures (which maybe in the form of equity or loans)
- Wider scale and more ambitious regeneration projects
- Ad-hoc complex investments

4.7. The Statutory Guidance describes non-financial investment as being in non-financial assets held primarily or partially to generate a profit. Usually it will be expected that the underlying asset could be 'realised' to recoup the capital invested.

4.8. There are important aspects of financial reporting that Council's must be aware of. In terms of reporting it is necessary to state whether:

- The fair value of non-financial investments is sufficient to provide security against losses, and that the underlying assets provide adequate security for the originating capital investment
- Where the fair value is insufficient detail of mitigating actions should be provided to protect the capital invested
- Additionally, where the fair value assessment recognises a loss in the non-financial investment the subsequent Capital Strategy will need to reflect the impact of loss of security and the associated revenue consequences

- Fair value accounting in this context is covered by International Financial Reporting Standard 9, as modified by a five-year statutory override applicable to local authorities (covering financial years from 2018/19). The implication of the override is that if a local authority recognises a loss on investment then this will not impact on the general fund, or, therefore, on an authority's ability to set its budget. However, the override is (currently) time limited and a major downturn in the value of specific assets, or the property market generally, represents a clear risk in future financial periods.

4.9. The following paragraphs outline options open to the Council and sets out the strategic approach the Council intends to adopt in this area.

<u>Commercial Investment properties</u>

The Council has now developed a commercial investment property portfolio totalling £22.5m. As noted, previously no further investments of this type are planned pro tem.

Management of existing portfolio (including risk mitigation)

The Council's commercial investment property portfolio can be summarised as follows:

Location	*Property type*	*Gross acquisition costs (£m)*	*Annual rent*	*Remaining lease term (at Jan 2021)*
Loughborough	Car showroom	2.4	165	14 years
Banbury	Offices	7.7	540	5 years
Aberdeen	Industrial	3.6	211	10 years
Scunthorpe	Industrial	8.8	550	15 years
		22.5	**1,466**	

The 2021/22 budget for commercial property income is set at £0.65m, being a net figure that allows for charges for interest and Minimum Revenue Provision, and the creation of a property reserve that allows for possible tenant non-payment (considered a very low probablilty based on tenant due diligence performed) and prospective periods of void and dilapidation costs that may arise at the end of the lease term. An allowance is also made for additional management costs arising from the acquisitions. These elements are analysed below:

(all figures £000)	*2021/22 (Budget)*	*2022/23 (Projection)*	*2023/24 (Projection)*
Gross rent	1,466	1,466	1,466
MRP charge (40-year annuity life method)	(286)	(295)	(304)
Interest charge (based on internal borrowing)	(113)	(113)	(113)
Portfolio management charges	(50)	(50)	(50)

(all figures £000)	*2021/22 (Budget)*	*2022/23 (Projection)*	*2023/24 (Projection)*
Contribution to reserve (balancing figure)	(367)	(358)	(349)
Net contribution to revenue budget	**650**	650	650

It may be noted that the above figures exclude net income from the Loughborough vaccination centre that may arise in the 2021/22 financial year; such income is likely but not contractually certain, and hence excluded from the above calculation.

The figures also exclude the Loughborough skills hub situated in Loughborough. This is owned by the Council but purchased with Government grant money, and let to Loughborough College at peppercorn rent for the initial rental period of three years. Subsequently it is anticipated that the property will either generate a capital receipt or generate rentals on a commercial basis.

It can be seen by inspection that the total property reserve should exceed £1m before the first identified lease event (expiry of lease term on the Banbury property on 12 December 2025).

Finally, it may also be noted that the commercial property portfolio will be actively managed, to minimise (inter alia) void losses and dilapidation payments.

It is planned that reporting and monitoring of the commercial property portfolio will be undertaken by the Audit Committee.

Loans to local enterprises and third parties

Loans to local enterprises or partner public sector bodies could be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Such loans could be considered as an option to generate a yield. There would need to be a set of criteria drawn up which would need to be met before any loan was given. These might include:

- Whether or not the loan has security
- The term of the loan
- The profile of capital repayments
- The credit rating of the counterparty
- That total financial exposure to this type of loan is proportionate

- An allowed 'expected credit loss' model for assessing credit risk is adopted[1]
- Appropriate credit control arrangements to cover overdue payments are in place
- The local authority has formally agreed the total level of loans by type that it is willing to make, and the total loan book is within that self-assessed limit

The Council will not proactively seek to market loans to third parties but will consider offering loans to local enterprises, local charities, on a case by case basis, as and when approached.

The Council will also consider offering a loan, on a case by case basis, to any subsidiaries that may exist at a point time; in particular, this would apply should the Council have a subsidiary Housing Development Company.

The strategy in this area is set out below.

STRATEGY FOR 2021/22 – LOANS TO THIRD PARTIES AND SUBSIDIARIES

No money will be set aside within the Capital Plan unless and until a specific proposal is available for consideration. Should an opportunity to offer a loan to a third party arise reports will be taken to Cabinet, and Council if required, to seek specific approval for that transaction. All prospective debtor organisations will be either be located, or will have substantial operations, within the Borough. Any asset created through the loan will be located within the Borough. The purpose of the loan will support local economic growth as defined within the extant Corporate Plan. The maximum total loan book the Council would manage will be £10m. The maximum single loan to an individual organisation will be: • Secured loan £5m • Unsecured loan £2m The maximum total value of unsecured loans will be £4m. Loans will be offered on a commercial basis with rates offered dependent on risk; unsecured loans will attract higher interest rates. Rates offered will be in accordance with independent professional advice Due diligence will be carried out on prospective debtor organisations. Generally, independent professional advice will be taken to ensure that the structure of loan finance offered, and the risk and return associated with that structure is appropriate.

<u>Support for Subsidiaries</u>

[1] As defined within International Financial Reporting Standard 9 – in broad terms the likelihood of a creditor defaulting in future must be considered in accounting for impairment (compared to previous Standards in which accounting was based on actually incurred losses)

The Council does not currently have any wholly owned local trading or property (housing) companies. Should the Council decide to form a subsidiary then Council could decide to provide the funding required to support these organisations. As with providing loans to local enterprises and third parties there would need to be a set of criteria drawn up which would need to be met before any loan was given. This would mitigate the risk of loss to the Council.

However, the creation of a Property Development Company (probably with a housing focus) remains a possible course of action for the Council. It may be appropriate to invest directly in the equity of a Property Development Company, rather than in the form of a loan, as described above. The basis of investment will be equivalent, as described below.

STRATEGY FOR 2021/22 - INVESTMENT IN A PROPERTY DEVELOPMENT COMPANY

No money has been allocated within the capital plan at present.

This funding *may* be in the form of an equity investment in the PDC, upon which dividends or and / or management fees will be due to the Council.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

At minimum, dividends and management fees will cover all of the Council's borrowing costs, in cases where the subsidiary company is wholly owned by the Council.

At minimum dividends and management fees will cover all of the Council's borrowing costs, plus a margin of in cases where a subsidiary company or joint venture is only partially owned by the Council.

Professional advice will be taken to ensure:

- Any loans are structured in the most advantageous way, having regard to risk, prospective returns, and tax implications
- MRP can be avoided or mitigated through the loan structure

Appropriate due diligence will be carried out on prospective partner organisations.

In total, the maximum investment in a PDC, whether by loan or equity investment, will be an amount of £10m.

Economic development and regeneration

COVID-19 has, as might be expected, had a significantly negative impact on businesses, which is reflected in both the physical environment and employment rates. In general, the Council would want to consider investment projects that benefit its communities, but it also has the opportunity to invest using the following specific arrangements:

- Town Deal: The Government has provided funding of up to £25m to support improvements to Loughborough town centre; release of some of this funding may be facilitated by providing 'match' funding from the Council[2]
- Enterprise Zone: The Council can support the development of infrastructure on its Enterprise Zone sites by taking out a loan to fund projects, repayable fro future business rates generated

The strategy as related to the these opportunities is set out below:

STRATEGY FOR 2021/22 - INVESTMENT IN THE TOWN DEAL AND REGENERATION PROJECTS

An amount of £15m to fund material investment in the Town Deal and regeneration projects will be included in the revised Capital Plan 2020-23 (subject to approval by Council).

Pro tem it was assumed that this funding is phased £5m in 2021/22 and £10m in 2022/23. This profiling will now be amended in the next Capital Plan update to reflect the slippage.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

For Town Deal investment:

- Investment for projects will be allocated based on approvals through the Town Deal governance processes and subject to overarching central government approval (based on the Town Investment Plan).

Investment in other regeneration projects (ie. where funding is to come from this £15m allocation) will be approved by Cabinet on a case by case basis. In general, it is antipated that such projects will provide a positive financial return to the Council, but that a lower return than may be achievable with pure commercial investment will be acceptable.

STRATEGY FOR 2021/22 - INVESTMENT IN THE ENTERPRISE ZONE

An amount of £15m to forward fund investment in the Enterprise Zone (EZ) will be included in the revised Capital Plan 2020-23 (subject to approval by Council).

This total amount was profiled for the 2020/21 financial year to ensure there is no impediment to investment opportunities but in practice it is likely that £2m will be allocated in this year, with the balance to be reprofiled in future years as appropriate.

The mechanism by which the investment will work is as follows:

1. The Council will take out a loan for the amount required to fund the project
2. Funds will be passed to the LLEP, who will then make a grant to the site sponsor[3] who will undertake the project delivery
3. The Council will cover the loan costs by retaining business rates generated by the project that would otherwise have been due to the LLEP (the LLEPP share of business rates generated is 85% as set out in the EZ agreement)

MRP treatment – generally, MRP will be calculated using the annuity method reflecting the life of underlying assets being long term and assumed at 40 years. However, where the loan is taken out on a repayment basis (as may be the case) then no MRP charge will be deemed necessary.

[2] Although it should be noted that the Town Deal also strongly encourages participation and investment from the private sector

[3] The site sponsors would be either Charnwood Campus (Jayplas) or Loughbourough University

Forward funding agreements will be:

- Based on business cases supported by the Council and subject to approval by the LLEP Board (where the Council has representation at present)
- Subject to Cabinet approval on a case by case basis

A condition of any forward funding agreement is that the loan will have to be underwritten by the site sponsor.

It is assumed that this forward funding be financed through Council borrowing, as and when investment is required. It is also expected that repayment of the loan via future business rates will create a small ‘margin’ versus the terms of the loan that will provide a positive contribution to the Council’s finances.

Other commercial investments

Investment in other types of asset, or in larger and more complex arrangements, is not considered within this iteration of the Commercial Investment strategy. In practice, should opportunities arise, the Commercial Investment and Capital Strategies could be amended, subject to the approval of full Council, to allow emerging opportunities to be exploited. It can also be assumed that any significant investment would be subject to the specific approval by Cabinet.

5. Knowledge and Skills

5.1. The Council recognises the importance of ensuring that all officers involved in the treasury management function (including commercial investment activities) are fully equipped to undertake the duties and responsibilities allocated to them. The Strategic Director for Corporate Services is responsible for recommending and implementing the necessary arrangements and does this by:

- Appointing individuals who are capable and experienced.
- Providing training and technical guidance to all individuals involved in the delivery of the treasury management function to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.
- Appointing a treasury management advisor and other professional advisors when required. This ensures that the individuals involved in delivery of the Council's treasury management activities have access to specialist skills and resources. In addition, professional advisors are employed as required to ensure that the Council has access to the specialist skills and resources necessary to undertake commercial investment activities.

5.2. Treasury management advisors - The Council employs Link Asset Services (Treasury Solutions) to provide it with treasury management advice. The services provided by Link Asset Services (Treasury Solutions) include advice on treasury matters and capital finance issues, economic and interest rate analysis and creditworthiness information. Notwithstanding this, the final decision on all treasury matters remains vested with the Council. The services received from Link Asset Services (Treasury Solutions) are subject to regular review, including through periodic re-tendering.

6. Treasury management Policy Statement and Treasury Management Practices

6.1 The Council's Treasury Management Policy Statement and its Treasury Management Practices have been updated to reflect the requirements of the updated Treasury Management Code. They are presented for approval in the Treasury Management Strategy (Appendix B)

APPENDIX B

Charnwood Borough Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2021/22

INDEX

Section		Page no.
1	**INTRODUCTION**	2
1.1	Background	2
1.2	Reporting requirements	3
1.3	Treasury Management Strategy for 2021/22	4
1.4	Training	4
1.5	Treasury management consultants	5
2	**THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2023/24**	5
2.1	Capital expenditure	5
2.2	The Council's borrowing need (the Capital Financing Requirement)	6
2.3	Core Funds and Expected investment balances	7
2.4	Minimum revenue position (MRP) policy statement	8
3	**BORROWING**	9
3.1	Current portfolio position	9
3.2	Treasury Indicators: limits to borrowing activity	11
3.3	Prospects for interest rates	12
3.4	Investment and borrowing rates	14
3.5	Borrowing strategy	15
3.6	Policy on borrowing in advance of need	15
3.7	Debt rescheduling	15
3.8	Municipal Bond Agency	16
4	**ANNUAL INVESTMENT STRATEGY**	16
4.1	Investment policy	16
4.2	Creditworthiness policy	18
4.3	Country limits	21
4.4	Investment strategy	21
4.5	Investment risk benchmarking	22
4.6	End of year investment report	22
	APPENDICES	
B (1)	Economic Background	
B (2)	Minimum Revenue Provision Policy	
B (3)	Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management	
B (4)	Approved countries for investments	
B (5)	List of approved brokers for investments	
B (6)	Current investments as at 8th January 2021	
B (7)	Treasury management scheme of delegation	
B (8)	The treasury management role of the section 151 officer	

1. INTRODUCTION

1.1 Background

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 the cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in generally low risk counterparties or instruments commensurate with the Council's risk appetite, ensuring the provision of adequate liquidity (cash balances) initially before considering investment return.

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 longer term cash management may involve arranging long or short term loans, or using longer term cash flow surpluses. When prudent and econcomic any debt previously drawn may be restructured to meet Council risk or cost objectives.

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.

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."*

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes requires as from 2021/22 all local authorities to prepare a capital strategy report, which provides 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.

1.2.2 Treasury Management reporting

The Council is 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 covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

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

c) **An annual treasury report** – This provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee and the reports are also available for consideration by the Scrutiny Commission.

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas:

Capital issues

- Capital expenditure plans and prudential indicators;
- Minimum revenue provision (MRP) policy.

Treasury management issues

- current treasury position;

- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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.

1.4 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 (which largely falls under the ambit of the Audit Committee). Suitable training is provided for members on a periodic basis as part of the wider Member training programme. Officers are also available to train and advise members on an ad hoc basis outside of this programme if required. The training needs of treasury management officers are reviewed annually as part of the Personal Review process.

1.5 Treasury management consultants

The Council uses Link Group Treasury Solutions as its external treasury management advisors.

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

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

2. 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.

2.1 Capital expenditure

The Council's capital expenditure plans are the key driver of Treasury Management activity. 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	***2020/21 Budget Estimate £'000***	***Actual Spend 31/12/2020 £'000***	***2021/22 Budget Estimate £'000***	***2022/23 Budget Estimate £'000***
General Fund - general	12,529	5,269	4,058	2,469
Commercial Investments	25,000	22,708	0	0
Enterprise Zone	15,000	0	0	0
Regeneration	5,000	0	10,000	0
HRA	8,941	2,389	7,381	7,724
Total	**66,470**	**30,366**	**21,439**	**10,193**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure	***2020/21 Budget Estimate £'000***	***2021/22 Budget Estimate £'000***	***2022/23 Revised Estimate £'000***
Total Capital Expenditure as per above table	**66,470**	**21,439**	**10,193**
Financed by:			
Capital receipts	6,052	3,233	1,776
Capital grants/NHS Funding	4,149	1,274	1,143
Capital reserves	662	0	0
HRA Revenue Contributions	8,207	6,932	7,274
Internal /External Borrowing	47,400	10,000	0
Total Funding	**66,470**	**21,439**	**10,193**

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

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

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

The resultant CFR projections are set out in the table below. These reflect the Revised Capital Plan (which is subject to approval by Council 9 November 2020) and the main body of the Capital Strategy report, and comprise:

- Part funding of the Environmental Services fleet in 2020/21 (£2.4m)
- Creation of a fund to purchase Commercial Property (£25m), all profiled for 2020/21.
- Creation of a Regeneration fund to take advantage of opportunities arising from the Town Deal, and others that may arise; £15m split £5m in 2020/21 and £10m in 2021/22.
- Creation of a £15m fund – all profiled in 2020/21 – to enable forward funding within the Enterprise Zone (to be repaid through business rates generated)

Capital Financing Requirement	***2020/21 Original Budget £'000***	***2021/22 Budget Estimate £'000***	***2022/23 Budget Estimate £'000***	***2023/24 Budget Estimate £'000***
CFR – (Fleet Less MRP)	2,400	2,100	1,800	1,500
CFR – (Commercial Activites Less MRP)	25,000	22,215	21,921	21,617
CFR – (Regeneration Less MRP)	5,000	15,000	14,810	14,614
CFR – (Enterprise Zone No MRP)	15,000	15,000	15,000	15,000
CFR – (HRA – No MRP)	81,820	81,820	81,820	81,820
Total CFR	**129,220**	**136,135**	**135,351**	**134,551**
Movement in CFR represented by:				
Net financing need for the year	44,900	7,500	0	0
Less MRP/VRP and other financing movements	0	(585)	(784)	(800)
Movement in CFR	**44,900**	**6,915**	**(784)**	**(800)**

2.3 Core Funds and Expected investment balances

The application of resources (Capital Plan Reserves, Capital Receipts, HRA Major Repair Reserve, HRA Financing Fund) to finance Capital expenditure will have an ongoing impact on investments unless resources are supplemented each year by new resources (assets sales, grants etc). Detailed below are estimates of the year end balances held for each resource.

Year End Resources £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Plan reserves	1,980	1,819	1,819	1,819	1,819
Capital receipts	12,007	6,655	5,222	3,946	3,946
Growth Fund	101	0	0	0	0
HRA MRR	3,364	3,111	3,111	3,111	3,111
HRA Financing Fund	8,234	6,320	6,028	5,388	5,388
Total core funds	**25,686**	**17,905**	**16,179**	**14,263**	**14,263**

The Revised Capital Plan approved of Council on 9 November 2020 runs through to 31 March 2023. Funding for this capital expenditure is as per table above in 2.1. Any additional proposals for capital expenditure will require a capital appraisal and business plan to be considered by Senior Leadership Team and Cabinet approval. The funding position is regularly reviewed and if there is a need to borrow, this will require a further appraisal and a revision to the Capital programme and the Treasury Management Strategy and will therefore require additional Council approval.

2.4 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.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

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), VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2020 the total VRP and overpayments were £0m.

The Council has for the General Fund a CFR requirement and therefore will need to make a MRP provision. As the Council is likely to fund capital expenditure from borrowing in the near future and as there is a statutory requirement to have an approved MRP Statement in place in advance for each year, an MRP policy has been included in this Treasury Management Strategy as Appendix B(2). Council is asked to adopt and approve the MRP policy statement.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the capital expenditure of the Council over the next 3 years. 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. This will involve both the management 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.

3.1 Current portfolio position

One of the key indicators is that the Council's 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 is to ensure that the Council conducts its activities within well-defined limits. Also the indicator allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes or speculative purpose.

The table below shows the forward projections for external debt against the underlying need to finance capital expenditure through borrowing or other long term liabilities, i.e. the CFR, highlighting any over or under borrowing.

	2019/20 Actual £'000	***2020/21 Estimate £'000***	***2021/22 Estimate £'000***	***2022/23 Estimate £'000***
External Debt at 1 April	81,190	81,190	126,090	133,590
Expected change in Debt	0	44,900	7,500	0
Actual debt at 31 March	**81,190**	**126,090**	**133,590**	**133,590**
Capital Financing Requirement above 2.2	81,820	129,220	136,135	135,351
Under borrowing	**630**	**3,130**	**2,545**	**1,761**

The table shows that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. Within the above figures there is some £52.4m debt that relates to the finance of the Environmental Services fleet, new commercial activities and non-financial investments.

It is worth reiterating that whilst the above projections are consistent with the Revised Capital Plan, as the covering Cabinet report notes, if investment opportunities of sufficient quality do not arise in line with the above projections then the required borrowing associated with these investments would not take place.

Within the range of prudential indicators there are a number of 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 Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

3.2 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	*2019/20 Actual £'000*	*2020/21 Estimate £'000*	*2021/22 Estimate £'000*	*2022/23 Estimate £'000*
Debt	81,190	108,090	108,090	108,090
Non-financial investments	0	18,000	28,000	28,000
Total	**81,190**	**126,090**	**136,090**	**136,090**

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 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.

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

It should be noted that the authorised limits (as shown in the table below) has been set based on the current capital expenditure and funding plans within the Capital Strategy, which is the same as lasts years limits.

The authorised limits are in line with the Capital Strategy is approved by Council) :

Authorised limit	*2019/20 Actual £'000*	*2020/21 Estimate £'000*	*2021/22 Estimate £'000*	*2022/23 Estimate £'000*
Debt	96,000	130,000	130,000	130,000
Non-financial investments	0	18,000	28,000	28,000
Total	**96,000**	**148,000**	**158,000**	**158,000**

In October 2018 the Government published the "Limit of Indebtedness (Revocation) Determination 2018". This removed the HRA debt cap which was £88,770k and therefore the HRA is able to determine its own level of borrowing in alignment with prudential guidelines. This means that it can borrow providing it can demonstrate that the interest and loan repayments are affordable, within the overall HRA.

3.3 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													
	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
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
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
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
5 yr PWLB	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
10 yr PWLB	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
25 yr PWLB	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
50 yr PWLB	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

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 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear 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 near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised

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.

3.4 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 2020/21. 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. *(Please note that Link has concerns over this approach, as the fundamental principle of local authority borrowing is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects.)* It also introduced the following rates for borrowing for different types of capital expenditure: -

    - **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)

- As a consequence 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.

3.5 Borrowing strategy

The Council is currently maintaining an under-borrowed position overall. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt. Instead 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 Council will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances both internally and externally.

The Council's investments in commercial property in the short to medium term has used internal borrowing as the Council has been able to utilise its cash balances as an alternative to external borrowing. This is considered to be an effective strategy at present as:

- It enables the Council to avoid significant external borrowing costs in the short to medium term (i.e. making it possible to avoid net interest payments); and
- It mitigates the risks associated with investing cash and the low investment rate returns.

3.6 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.

3.7 Debt rescheduling

At a point in time, short term borrowing rates may be considerably cheaper than longer term fixed interest rates. In this event there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify whether there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

However, 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.

The Council currently has one long term market debt which matures in 2024 and it carries a current interest rate of 11.625%. The cost of replacing this debt is prohibitive and this position is unlikely to change in the next three years.

The £79.19m of HRA debt is at fixed interest rates and the twenty four loans are repayable from 2024 to 2061. Their maturity dates are set to match income and expenditure levels in the HRA Business Plan and they will be reviewed in line with that plan. However, the primary objective of the plan over the next few years is to invest in the Council's housing stock and this position is not expected to change in the near future. Therefore these debts are unlikely to be rescheduled over the next three years. All rescheduling will be reported to the Cabinet at either the half year or full year report stage.

3.8 Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

4. ANNUAL INVESTMENT STRATEGY

4.1 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 above guidance from the MHCLG and CIPFA places 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 banking 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 B (3) 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.
- **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 investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments limit is £30m, (see paragraph 4.3).

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 4.4).

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. 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 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 commencing from 1 April 2018 to 31st March 2023)

    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 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria has changed from last year due to a new investment Strategy.

Investment instruments identified for use in the financial year are listed in appendix B (3) under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

4.2 Creditworthiness policy

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

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;

- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product 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*:*

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

The Link Asset Services' 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 Asset Services' 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 benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. 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, information on any external support for banks to help support its decision making process.

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.

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch, other than the UK where the Council has set no limit. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 12B (4). This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

4.4 Investment strategy

<u>In-house funds</u> - 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 (amend as appropriate), 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.

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):

The suggested budgeted investment earnings rates for investments up to about three months duration in each financial year for the next five years are as follows: -

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.

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 a number of 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 a number of 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 with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

Maximum principal sums invested > 365 days			
£m	**2020/21**	**2021/22**	**2022/23**

Principal sums invested > 365 days	£30m	£30m	£30m

4.5. Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio. For cash investments this will be the 3 month London Interbank Bid Rate (LIBID) which matches the weighted average time period of our current cash investments. Should the Council invest in Property Funds an appropriate additional benchmark will be added to measure the performance of these investments. This will be reported in the next available treasury report to Members.

4.6 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.

APPENDICES FOR APPENDIX B

B (1). Economic Background

B (2). Minimum Revenue Provision Policy

B (3). Treasury management practice 1 – credit and counterparty risk management

B (4). Approved Countries for Investment

B (5). Approved Brokers for investments

B (6). Current Investments as at 8th January 2021

B (7). Treasury management scheme of delegation

B (8). The treasury management role of the section 151 officer

APPENDIX B(1)

ECONOMIC BACKGROUND

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 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 that 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 expected there to be excess demand in the economy by Q4 2022.
  - CPI inflation was 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, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 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. **Upside risks** included the early roll out of effective vaccines.

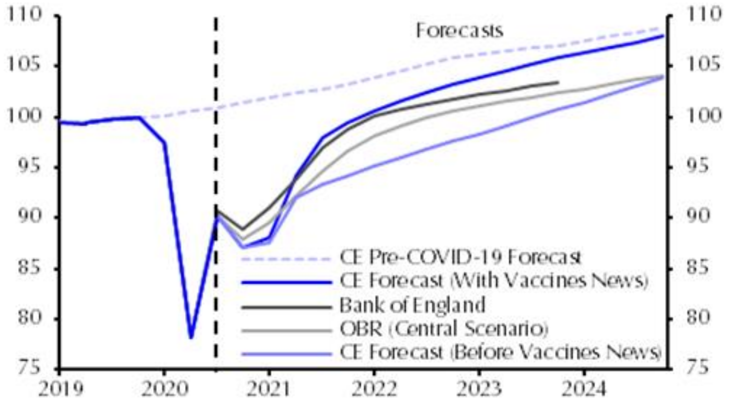
- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

- These announcements, plus expected further announcements that other vaccines could be approved soon, 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; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, 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 start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have 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% in 2021 instead of 9%.

- **Public borrowing** was forecast in November 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 after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

- **December 2020 / January 2021**. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

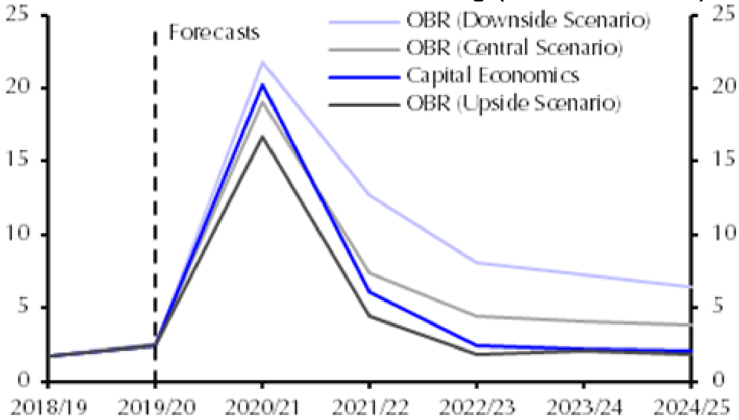
Chart: Level of real GDP (Q4 2019 = 100)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

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 around 2.5% 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 assumed 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)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

- 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.

- **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, "Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case." So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

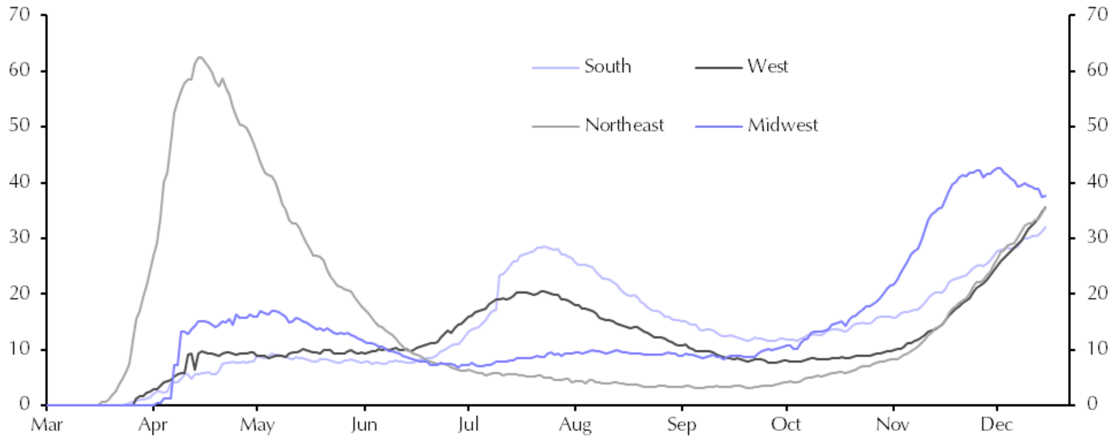
- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
    - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
    - The furlough scheme was lengthened from the end of March to the end of April.
    - The Budget on 3.3.21 will lay out the "next phase of the plan to tackle the virus and protect jobs". This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

- The **Financial Policy Committee** (FPC) report on 6.8.20 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** meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

- **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 fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. 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 hospitalisations per 100,000 population



- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, 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 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. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

- **EU.** In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by “only” 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it 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 countries most affected by the first wave.

- 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. The ECB’s December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank’s forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn 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, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **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.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That’s huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan’s relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government’s latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

- **World growth.** World growth will have been in recession in 2020. 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.

APPENDIX B(2)

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

Under Regulation 27 of the 2003 Regulations, local authorities are required to charge MRP to their revenue account in each financial year. It should cover the gap between the Capital Financing Requirement (CFR) and grant income and capital receipts.

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP). It is also allowed to undertake additional voluntary payments if desired (voluntary revenue provision - VRP). Any planned overpayments must be recorded clearly in the MRP statement.

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year; hence, the inclusion of this policy within the Capital Strategy.

The Council is required to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits (asset life). MRP cannot be negative, and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 40 years can be used, except freehold land which can be 50 years.

In calculating MRP the Council must base its calculation on methods set out within ‘guidance’ issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to ‘have regard’ to this guidance. The extant guidance distinguishes between borrowing incurred prior to 2008 and that incurred in subsequent years. The Council did not incur borrowing to finance assets prior to 2008 and hence its options on which its MRP calculation is based are restricted to Options 3. and 4. as set out in guidance, as below:

Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the useful life of the asset.

There are two main methods by which this can be achieved, as described below.

(a) Equal instalment method

MRP is the amount given by the following formula:

$\underline{A - B}$

C

Where:

A is the amount of capital expenditure in respect of the asset financed by borrowing or credit arrangements.

B is the total provision made before the current financial year in respect of that expenditure.

C is the inclusive number of financial years from the current year to that in which the estimated useful life of the asset expires.

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4: Depreciation method

MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

Selected Charnwood calculation methods

- For assets with a life of 10 years or less, the straight line asset life method (Option 3 (a)) will be used
- For assets with a life in excess of 10 years, the annuity asset life method (Option 3 (b)) will be used

The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Council's Chief Financial Officer (this is the Council's designated s151 Officer, a role currently held by the Strategic Director of Corporate Services), with regard to the statutory guidance and advice from professional valuers if required.

The Chief Financial Officer may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used.

Generally, the straight line asset life method is considered appropriately prudent for assets with a relatively short term life (such as most types of plant and equipment). Assets purchased with a longer life will usually be land and buildings and hence an annuity asset life method will be used reflecting that such assets will in practice have a value at the end of the designated asset life. One aspect of the annuity asset life method is that it generates MRP payments that are relatively low in early years which then increase over the asset life. This structure of MRP is well-suited to commercial properties as the increase in MRP could be expected (broadly) to mirror increasing rental income created by periodic rent reviews.

The designated asset life of land and buildings, including commercial property for investment purposes, will usually be set at 40 years, in accordance with the guidance and in common with other local authorities.

In line with the extant guidance MRP will be not be charged until the later of the year after capital expenditure is incurred or the year after the asset becomes operational

The calculation of MRP is also subject to the following details:

- An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc.). Asset life will be determined by the Chief Finance Officer. A standard schedule of asset lives will generally be used (as stated in the Statement of Accounts accounting policies).
- MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets when expenditure is being financed from borrowing the MRP will be deferred until the year after the asset becomes operational.

- Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Chief Finance Officer; this may includecertain circumstances relating to investment (forward funding) within the Enterprise Zone and where the underlying loan is taken out on a repayment basis. In this case no MRP charge will be deemed necessary assuming the loan term does not exceed the asset life

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year** with the exception of other Local Authorities which have a maximum of 2 years and investments in Property Funds which are longer-term investments. All investments will meet the minimum 'high' quality criteria where applicable.

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	N/A	Unlimited	6 months
UK Government gilts	UK sovereign rating	Unlimited	12 months
UK Government Treasury bills	UK sovereign rating	Unlimited	12 months
Bonds issued by multilateral development banks	AAA	Unlimited	6 months
Money Market Funds (CNAV, LVAV & VNAV)	AAA	£10m any one institution and £30m in total	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£7m any one institution and £18m in total	Liquid
Local authorities	N/A	£5m any one institution and £20m in total	5 Years
Property Funds	N/A	£5m in total	20 Years
Term deposits with banks and building societies	Purple	£8m any one institution and £12m in total	Up to 12 months
	Blue	£7m any one institution and £12m in total	Up to 12 months
	Orange	£8m & (£12m for HSBC only) any one institution and £25m in total	Up to 12 months
Term deposits with banks and building societies	Red	£8m any one institution and £40m in total	Up to 6 Months
	Green	£6m any one institution and £20m in total	Up to 100 days
	No Colour	Nil	Not for use

Non Specified Investments: In light of the current and forecast low interest rates on specified investments the Council included the opportunity to invest in established Property Funds run by Fund Managers in a previous Treasury Management Strategy. These funds are longer term investments (typically 2-5 years) and give potentially higher returns than more liquid investment categories. Investments totaling £5m have been made in Property Funds since 2018. These investments will form part of the £30m limit for investments of over 365 days duration.

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, a review of the accounting implications of new transactions will be carried prior to any investment decision.

APPENDIX B(4)

APPROVED COUNTRIES FOR INVESTMENTS @ 8/1/2021

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 Asset Services credit worthiness service.

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.

List of Approved Brokers for Investments

The list below represents approved brokers that the Council will use to facilitate its investment strategy when necessary;

King and Shaxson

Tradition (UK) Ltd

RP Martin

Link Asset Services Agency Treasury Service

APPENDIX B (6)

Current Investments as at 8th January 2021 (for information only).

For illustrative purposes only the Council's investments as at 8th January 2021 are set out below. Please note that these investments alter on a daily basis.

Institution	**Colour**	**Amount invested £m**	**Transaction Limit £m**	**Maturity Date**	**MaxTime Limit**
SloughCouncil	N/A	2,000	5,000	01/04/2021	5 Years
Santander	Red	8,000	8,000	180 Day Notice	6 Months
Goldman Sachs international Bank	Red	2,500	2,500	35 Day Notice	6 Months
Goldman Sachs international Bank	Red	2,500	2,500	95 Day Notice	6 Months
Standard Chartered Bank	Red	5,000	8,000	91 Day Notice	6 Months
HSBC Bank	Orange	12,000	12,000	31 day Notice	12 Months
Money Market Funds	AAA Rated	11,830	30,000 in total	1 Day	12 Months
Property Funds	N/A	5,000	5,000 in total	N/A	20 Years
TOTAL		**48,830**			

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Council

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

(ii) 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 monitoring reports and acting on recommendations;

(iii) Audit Committee/Overview Scrutiny Board

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- 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.
- 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
- 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

CABINET - 11TH FEBRUARY 2021

Report of the Strategic Director of Environment and Corporate Services
Lead Member: Councillor Smidowicz

Part A

ITEM 9 STRATEGIC RISK REGISTER

Purpose of Report

The report proposes an updated Strategic Risk Register for approval.

Recommendations

1. That the draft Strategic Risk Register for 2021/22 as set out in the Appendix to this report is adopted, and that the Audit Committee monitor progress against those risks on the register by receiving quarterly monitoring reports.

2. That the draft COVID-19 Risk Register as set out in the Appendix to this report is adopted, and that the Audit Committee monitor progress by receiving quarterly monitoring reports.

3. That authority is delegated to the Strategic Director of Environment and Corporate Services to make amendments to the risk register where required, in consultation with the relevant risk owner and Lead Member.

Reasons

1. To ensure that the most significant risks to the Council achieving its objectives are identified and actively managed.

2. To ensure that the most significant risks to the Council regarding the reponse to COVID-19 are identified and actively managed

3. To ensure that the Strategic Risk Register is kept up to date and relevant

Policy Justification and Previous Decisions

Sound risk management arrangements that are embedded and applied consistently throughout the Council will support the achievement of Corporate Strategy objectives by ensuring that resources and activity are concentrated on the areas of greatest risk.

The maintaining and monitoring of the Strategic Risk Register will support the delivery of the Council’s corporate goals in ensuring that the identified risks are appropriately managed.

Implementation Timetable including Future Decisions and Scrutiny

If approved the Strategic Risk Register will come into effect for the financial year 2021/22.

Cabinet will continue to receive an annual risk management report which will include the proposed Strategic Risk Register for the forthcoming year, and the risk register will be monitored on a quarterly basis by the Audit Committee.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no financial implications associated with these decisions.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
A significant Strategic Risk has not been identified and therefore may not be appropriately managed.	Unlikely (2)	Serious (3)	Moderate (6)	The register has been developed following consultation with Members and the Senior and Corporate Management Teams, and will be reviewed, and updated if necessary, on a quarterly basis.
Risks may have been wrongly assessed resulting in insufficient risk management actions being taken.	Unlikely (2)	Serious (3)	Moderate (6)	The risk register will be reviewed, and updated if necessary, on a quarterly basis.

Key Decision: No

Background Papers: None

Officers to contact:

Simon Jackson
Strategic Director of Environment and Corporate Services
Tel: 01509 634699
Email: simon.jackson@charnwood.gov.uk

Helen Gretton
Organisational Development Manager
Tel: 01509 634556
Email: helen.gretton@charnwood.gov.uk

Part B

Background

1. The proposed updated Strategic Risk Register for 2021/22 has been produced following consultation with the Senior and Corporate Leadership Teams, Cabinet members and Audit Committee members.

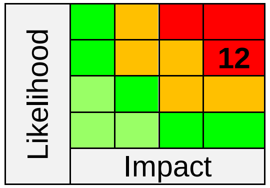
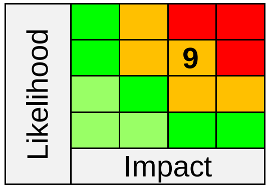
2. An additional risk has been added to the Strategic Risk Register since the Committee's last review (SR-6), which relates to the proposed Environment Bill.

3. The Council has also developed a COVID-19 Risk Register which is cross referenced to the Strategic Risk Register and outlines risks and mitigiating activity related to the pandemic.

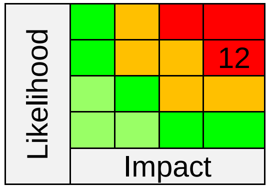
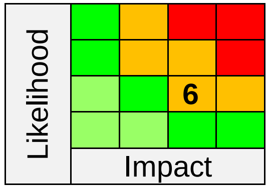
Appendices

Appendix A Updated Strategic Risk Register
Appendix B COVID-19 Risk Register

Strategic Risk Register

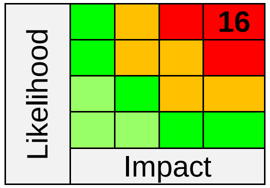
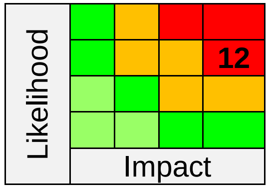
Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR1 Inadequate business continuity and recovery arrangements, resulting in major internal and/or external disruption to services in the event of an incident.	Strategic	• Inability to deliver key/critical services e.g.benefits, refuse collection, homelessness applications, emergency repairs. • Reduction in access channels available to residents / customers i.e. contact centre, customer services, telephony			MAINTAIN AS CURRENT
Current Treatments and Controls	• Business Continuity Planning • IT Disaster Recovery Plan • Website hosted externally • Off-site data back-up arrangements • Stand-by generator for ICS building • Cloud based telephony infrastructure • Contingency planning for failure of major contractor				
Risk Owner	Strategic Director of Environment and Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: September 2020 – link to work regarding concurrent incidents Link to workforce mental health		Responsible Officer: Head of Strategic Support	Target Date: Ongoing	

Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR2 Inadequate data sharing and data security arrangements.	Strategic	Ineffective processes for sharing data with other agencies / authorities leading to data breaches Major reputational damage and loss of public confidence Potentially significant fines Increased risk due to the operating processes and people possibly taking documents home			MAINTAIN AS CURRENT

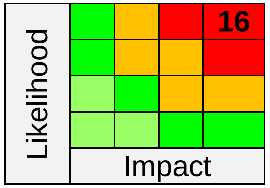
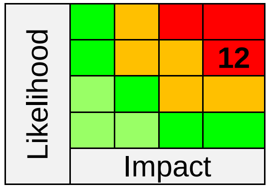
Current Treatments and Controls	• Information sharing agreements in place with key agencies and authorities • Annual IT health checks including penetration testing • Data Protection Officer in post • Data protection training and awareness for staff and councillors • IT security policies in place • Protective marking of emails • Policies are reviewed on a regular basis • Data Protection Impact Assessment form developed and circulated • Information Security Group to be established with CLT • Checking the location of data storage post Brexit – EU / UK		
Risk Owner	Strategic Director of Environment and Corporate Services		
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable	Responsible Officer: N/A	Target Date: N/A

Strategic Risk Register

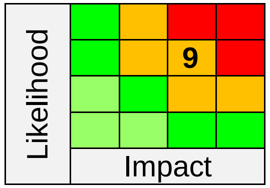
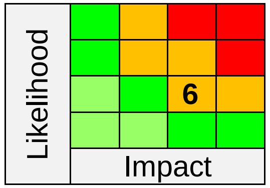
Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR3 Inadequate civil contingency arrangements resulting in failure to respond appropriately to a major incident (eg. flooding, terrorism etc).	Strategic	• Inability to respond to affected peoples' basic needs (food, shelter etc) • Adverse effect on the local economy • Major reputational damage and loss of public confidence • Extending the recovery phase longer than necessary • Dealing with the COVID pandemic will have a negative effect on the management of concurrent incidents			MAINTAIN AS CURRENT
Current Treatments and Controls	• Participation in the Local Resilience Partnership and Forum (LRP and LRF) – and awareness of guidance regarding concurrent incident with COVID • Appropriate emergency and incident planning in place • Regular Testing and exercising of emergency plans • Training and awareness for relevant staff • 24/7 call-out arrangements for senior managers (SMT / CMT) • Participation in county-wide Events Safety Group (SAG) • Reviews periodically undertaken within current Treatments and Controls				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	<u>Description</u>: Participation in LRF's 'no-deal' Brexit planning processes, including appointment of a 'Brexit Lead Officer' Internally we have established the EU/UK Transition Working Group	<u>Responsible Officer</u>: Head of Strategic Support Head of Strategic Support	<u>Target Date</u>: Ongoing Ongoing		

	September 2020 – work with LRF partners regarding Covid and the changes in infection rates and the availability of support for concurrent incidents including rest centres		

Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR4 Significant reduction in external funding and/or income generated leading to a reduction in the financial resources available for service provision and/or to fund corporate objectives.	Strategic	• Inability to meet demand for services • Inability to meet statutory duties • Ceasing or reducing some services			MAINTAIN AS CURRENT
Current Treatments and Controls	• Annual production and monitoring of Medium Term Financial Strategy (MTFS) • Treasury Management Strategy • Budget and revenue monitoring processes • Business continuity planning • Production and monitoring of efficiency plan • Maintenance of reserves at specified required levels • Monitor, consider and respond to government proposals affecting budgets and/or income • Consider commercialisation opportuntiies • Due to the implications of the COVID pandemic the financial challenge and impact is greater • Consider the effect of the Autumn Statement and settlement figure (17/12)				
Risk Owner	Strategic Director of Environment and Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable		Responsible Officer: N/A	Target Date: N/A	

Strategic Risk Register

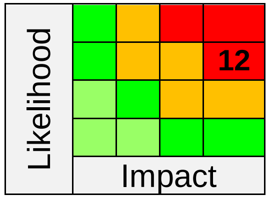
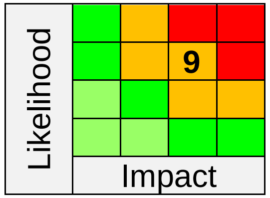
Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR5 Ineffective strategic communication arrangements	Strategic	• Reputational damage • Adverse media coverage • Damage to relationships with partners • Damage to staff morale • Competing demands due to the COVID pandemic			MAINTAIN AS CURRENT
Current Treatments and Controls	• Adequately staffed and experienced corporate communications team – including additional resources to support the ongoing COVID pandemic • Corporate Communications Plan in place • Regular monitoring of all media sources • Continue to expand on social media use and reach • 'Horizon scanning' for potential communication issues at each Corporate Leadership Team meeting				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable	Responsible Officer: N/A	Target Date: N/A		

Strategic Risk Register

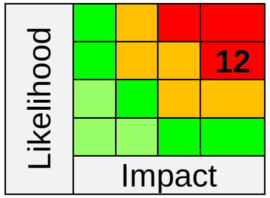
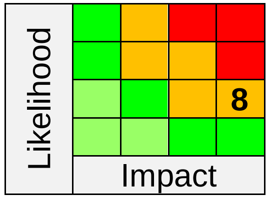
Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR6 – Risk that the proposed Environment Bill will cause financial hardship to the Council due to loss of income relating to Garden Waste and the additional cost of food waste collection and garden waste collection from every household	Strategic	• Financial damage • Reputational damage • Not complying with legislation	Likelihood 16 Impact	Likelihood 12 Impact	MAINTAIN AS CURRENT
Current Treatments and Controls	• Lobbying MP's regarding the implications of the Bill • Monitoring the Bill as it moves through Parliament • Meeting with DEFRA • Liaising with other Districts • Reviewing and understanding the financial implications (full modelling would require external assistance)				
Risk Owner	Strategic Director of Environment and Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Bill is at the Committee Stage – will monitor and update the risk accordingly	Responsible Officer: Head of Cleansing and Open Spaces	Target Date: Ongoing		

APPENDIX B

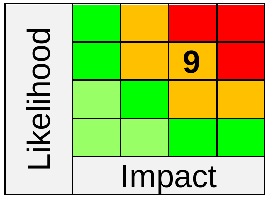
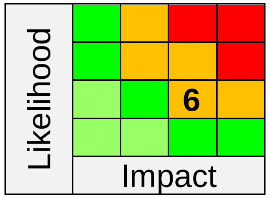
COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD- 1 Risk that Charnwood does not adequately monitor the data relating to COVID-19 and respond appropriately to the fluctuations in infection rates and the changes in tiers	Strategic	Officer time diverted from recovery and back to response. Risk of reputational impact as requirement to respond in reasonable way. Increased importance of regular data monitoring Interpretation of rules and regulations (Rule of 6)			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Many of the controls and measures are at a national level • Data reviewed at the weekly COVID Monitoring Group • PHE and PH Leicester and Leicestershire carefully reviewing the data through regular meetings • Charnwood IMT established • Increased LRF activity • Increased testing in affected locations • Increased community messages in affected locations • Review of high risk locations / businesses • Reviewing the use of Council resources • Proportionate communications in the Borough – linked with PH Leicester and Leicestershire				
Risk Owner	Strategic Director of Environment and Corporate Services				
Planned Future Actions and Responsible Officers).	Description: Ongoing assessment of data and response		Responsible Officer: Strategic Director of Environment and Corporate Services	Target Date: Ongoing	

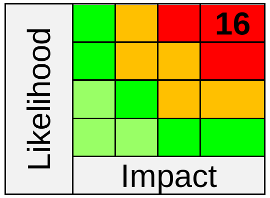
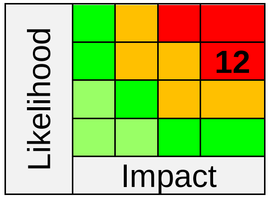
COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD-2 Risk that there are inadequate health and safety arrangements for staff, Members and volunteers, resulting in infection by the virus.	Strategic	• Sickness absence • Loss of confidence • Reputational damage • Legal action and claims for damages			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Health & Safety Group established and meeting regularly • Appropriate use and monitoring of stock levels of PPE (personal protective equipment) • Monitoring and applying relavant national guidance • Introduction of extensive home working to comply with social distancing requirements • Use of remote meeting powers for council and committee meetings • Home visit protocol developed and updated. • Generic Risk Assessments in place and communicated to HoS • Updates to CLT/SLT through BCG. • Longer term DSE assessment being developed leading to potential equipment requirements which will be addressed				
Risk Owner	Head of Regulatory Services				
Planned Future Actions and Responsible Officer(s).	• <u>Description</u>:Revision to Home Visit Protocol • Generic Staff Homeworking VDU Assessments to be updated • PPE equipment requirements on-going reviewed and inform SLT • Advice for staff regarding testing • Allocation of flu vouchers to protect against seasonal flu		<u>Responsible Officer</u>: Head of Regulatory Services (Chair of Health & Safety Group)	<u>Target Date</u>: Ongoing	

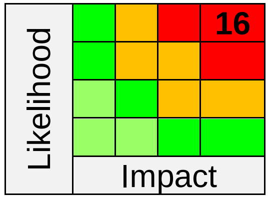
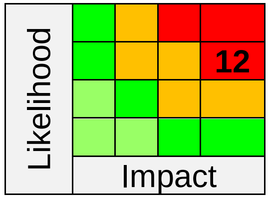
COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD-3 (linked to SR5) Risk that there are **i**nadequate communications arrangements (internal and external)	Strategic	• Major reputational damage and loss of public confidence • Members, residents and staff unaware of latest guidance and developments • Vulnerable groups unaware of potential support options • Businesses unaware of potential grant funding arrangeents • Competing demands placed on the comms team			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Communications team in place using various suitable channels (website, press releases, social media) • Participation in the LRF communications cell • Review of comms resources • Monitor of resources particularly around concurrent incidents				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable	Responsible Officer: N/A	Target Date: N/A		

COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD-4 (linked to SR3) Risk that there are inadequate civil contingency arrangements resulting in failure to respond appropriately to the COVID-19 major incident	Strategic	• Inability to respond to affected peoples' basic needs (food, shelter etc) • Adverse effect on the local economy • Major reputational damage and loss of public confidence • Extending the recovery phase longer than necessary • Consideration of concurrent events such as flooding, Brexit, terrorism, Avian Flu outbreak			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Participation in the Local Resilience Partnership and Forum (LRP and LRF) • Implementation of relevant business grants schemes • Implementation of a 'Community Hub' at John Storer House • Moved on to Recovery • Major incident plan has been updated by LRF • Consider the implications of Concurrent incidents • Establishment of Evacuation and Temporary Shelter Group which will include a review of rest centres				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Continued participation in LRF's SCG and TCG, and recovery cells Monitor LRF Rising Tide Plan		Responsible Officer: Chief Executive and Head of Strategic Support	Target Date: Ongoing	

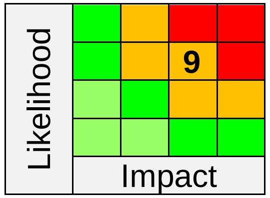
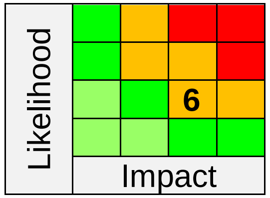
COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD- 5 (linked to SR4) Risk that there is a significant reduction in income generated leading to a decrease in the financial resources available for service provision and/or to fund corporate objectives.	Strategic	• Inability to meet demand for services • Inability to meet statutory duties • Ceasing or reducing some services			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Budget and revenue monitoring processes • Business continuity planning • Development of a revised budget during the 2020/21 financial year • Ongoing review of the funding available from Central Government (i.e 71% of income) • Respond to request from Govt through Delta returns				
Risk Owner	Strategic Director of Environment and Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Review of budget and related strategies by autumn 2020. Monitor at half year point		Responsible Officer: Strategic Director of Environment and Corporate Services	Target Date: Ongoing	

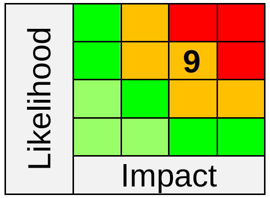
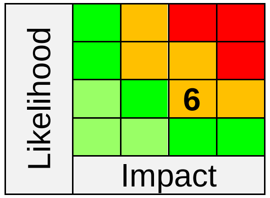
COVID-19 Risk Register

<table>
<tr><th>Risk Code and Title</th><th>Primary Risk Type</th><th>Potential Consequences</th><th>Inherent Risk Matrix</th><th>Residual (Current) Risk Matrix</th><th>Direction of Travel</th></tr>
<tr><td>CVD- 6 Risk that there is a breakdown in IT service caused by equipment, failure of internet connections, or staff shortages resulting in a reduction or lack of service delivery</td><td>Strategic</td><td>• Inability of significant numbers of staff to continue with effective home working leading to service disruption
• Individual risks regarding connectivity</td><td>Likelihood
9
Impact</td><td>Likelihood
6
Impact</td><td>KEEP UNDER CONSTANT REVIEW</td></tr>
<tr><td>Current Treatments and Controls</td><td colspan="5">• Secure and resilient IT infrastructure at Network and Server levels
• Performance and security monitoring in place by key staff and (where appropriate) by suppliers
• Automated backup schedule, in line with agreed retention policies
• Ensuring correct and updated contact numbers on emergency contact lists
• Alternative contacts and secondary responsibilities in place for key functions and tasks
• Introduction of extensive home working to comply with social distancing requirements
• Consideration of IT supporting agile working in the recovery phase
• Consideration of supporting extended working hours
• Review of individual risk regarding connectivity and solutions considered such as using own devices</td></tr>
<tr><td>Risk Owner</td><td colspan="5">Strategic Director of Environment and Corporate Services</td></tr>
<tr><td>Planned Future Actions and Responsible Officer(s).</td><td colspan="2"><u>Description</u>:
Ongoing maintainance of current infrastructure and equipment
Linking back to the IT strategy
Link to partners
Agile working</td><td><u>Responsible Officer</u>:
Strategic Director of Environment and Corporate Services</td><td colspan="2"><u>Target Date</u>:
N/A</td></tr>
</table>

COVID-19 Risk Register

<table>
<tr><th>Risk Code and Title</th><th>Primary Risk Type</th><th>Potential Consequences</th><th>Inherent Risk Matrix</th><th>Residual (Current) Risk Matrix</th><th>Direction of Travel</th></tr>
<tr><td>CVD- 7 Risk that a significant number of staff become affected by COVID-19 leading to a reduction in service delivery, specifically in services identified as critical.</td><td>Strategic</td><td>• Inability to deliver services
• Availability of tests</td><td>
</td><td>
</td><td>KEEP UNDER CONSTANT REVIEW</td></tr>
<tr><td>Current Treatments and Controls</td><td colspan="5">• Review of sickness being undertaken through the COVID Monitoring Group
• Staff skills audit undertaken
• Critical staff being reviewed regarding testing
• Redeployment processes in place</td></tr>
<tr><td>Risk Owner</td><td colspan="5">Strategic Director of Environment and Corporate Services</td></tr>
<tr><td>Planned Future Actions and Responsible Officer(s).</td><td colspan="2"><u>Description</u>:
Ongoing assessment of data and redeployment requirements</td><td><u>Responsible Officer</u>:
Strategic Director of Environment and Corporate Services</td><td colspan="2"><u>Target Date</u>:
Ongoing</td></tr>
</table>

COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD-8 Risk that because there is a greater level of homeworking due to the pandemic that staff will encounter health issues leading to increased sickness absence and staff retention.	Strategic	• Long term sickness absence – both physical and mental health • Staff retention			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Revised DSE Assessments compiled • Staff who are stuggling are able to return to the office – post lockdown 2.0 • Equipment being made available and processes being established for collection / delivery / purchase • Regular Health and Wellbeing advice made available to staff				
Risk Owner	Director of Environment and Corporate Services				
Planned Future Actions and Responsible Officer(s).	Act on the responses regarding the DSE Assessment Monitor sickness – especially muscular-skeletal and mental health issues		Responsible Officer: Head of Regulatory Services (Chair of Health & Safety Group)	Target Date: Ongoing	

CABINET – 11TH FEBRUARY 2021

Report of the Head of Strategic Support
Lead Member: Councillor Margaret Smidowicz

Part A

ITEM 10 REGULATION OF INVESTIGATORY POWERS ACT: POLICY AND REVIEW OF USE DURING 2020

Purpose of Report

To approve a Regulation of Investigatory Powers Act (also known as RIPA, or the 2000 Act) Policy, and consider a summary of the use of RIPA during 2020.

Recommendations

1. That it be noted that there has been no use of RIPA by the Council during the calendar year 2020.

2. That the Audit Committee be requested to continue its responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose.

3. That the RIPA Policy Statement 2021, attached as an appendix to this report, be approved.

Reasons

1. To ensure compliance with the requirements of the Home Office's current 'Code of Practice – Covert Surveillance and Property Interference' relating to the involvement of elected Members in approving the RIPA policy and reviewing the Council's use of RIPA on at least an annual basis.

2. To ensure compliance with the requirements of the Home Office's latest 'Code of Practice – Covert Surveillance and Property Interference' relating to elected Members considering reports on the use of RIPA on at least a quarterly basis to ensure that is it being used consistently with the policy and the policy remains fit for purpose.

3. To ensure that the Council's RIPA Policy Statement remains up to date and consistent with the relevant legislation and codes of practice.

Policy Justification and Previous Decisions

The use of RIPA to conduct covert surveillance in appropriate instances may support many of the Council's enforcement and anti-fraud policies. The Home Office Code of Practice, which relevant bodies are obliged to follow when using RIPA, requires that elected Members should set a RIPA policy on an annual basis.

Implementation Timetable including Future Decisions and Scrutiny

The Audit Committee will continue to receive regular quarterly monitoring reports on any use of RIPA by the Council.

Report Implications

The following implications have been identified for this report.

Financial Implications

None.

Risk Management

There are no identified risks associated with the decision Cabinet is asked to make.

Key Decision:	No
Background Papers:	None
Officer to contact:	Adrian Ward (01509) 634573 adrian.ward@charnwood.gov.uk

Part B

Background

1. RIPA provides for the authorisation of covert surveillance by the Council where that surveillance is likely to result in the obtaining of private information about a person.

2. Surveillance includes monitoring, observing or listening to persons, their movements, conversations or other activities and communications. Surveillance is covert if it is carried out in a manner calculated to ensure that any persons who are subject to the surveillance are unaware that it is or may be taking place.

2. The Council only has the power to authorise covert surveillance under RIPA for the purpose of preventing or detecting crime, or of preventing disorder.

3. RIPA applications are required to be approved by a Justice of the Peace (JP) at the Magistrates' Court in addition to an internal authorisation process. The Protection of Freedoms Act 2012 requires that local authority authorisations and notices under RIPA for the use of particular covert investigation techniques can only be given effect once an order approving the authorisation or notice has been granted by a Justice of the Peace (JP). This would require the Council to make a formal application to a Magistrates' Court, followed by a hearing at Court in private at which the application for a surveillance order may be granted or declined by the Magistrates.

4. A local authority can only obtain an authorisation under RIPA for the use of directed surveillance where the local authority is investigating particular types of criminal offences. These are:

   - Criminal offences which attract a custodial sentence of six months or more; or
   - Certain criminal offences under sections 146, 147 or 147A of the Licensing Act 2003 involving the sale of alcohol to children; or
   - Certain criminal offences under section 7 of the Children and Young Persons Act 1933 relating to the sale of tobacco to minors.

5. Examples of offences which would <u>not</u> meet the above conditions are:

   - Any fine-only offences, such as littering, dog fouling or a householder failing the duty of care to check that household waste taken for disposal was taken by a person authorised to transfer waste (section 34 of the Environmental Protection Act 1990).
   - Any offences attracting a penalty of less than 6 months imprisonment, for instance false representations for obtaining benefit (s. 112 of the Social Security Administration Act 1992), which has a maximum penalty of 3 months imprisonment.

6. Examples of offences which <u>would</u> meet the above conditions are any offence attracting a penalty of 6 months or more imprisonment, such as:
   - Fly tipping (section 33 of the Environmental Protection Act 1990), which has a penalty of up to 5 years imprisonment.
   - Offences given special status under RIPA (as amended), such as the selling of alcohol or tobacco to children.

7. The requirements around the RIPA authorisation process are complex, and the Home Office has responsibility for issuing a Code of Practice under the Act to specify the processes and procedures which must be followed. The Code of Practice includes a best practice requirement that:

   'Elected members of a local authority should review the authority's use of the 2000 Act and set the policy at least once a year. They should also consider internal reports on use of the 2000 Act on a regular basis to ensure that it is being used consistently with the local authority's policy and that the policy remains fit for purpose', (s3.35).

8. The Cabinet is therefore responsible for receiving an annual overall report on the use of RIPA and for approving the RIPA policy each year, and the Audit Committee are responsible for receiving quarterly reports on the use of RIPA and for reporting back to Cabinet any concerns relating to potential inconsistency with the policy, or if the policy does not appear to be fit for purpose.

9. To provide clarification following a recent Member conduct complaint at a neighbouring local authority concerning allegations about a councillor taking 'covert' photographs, the RIPA policy does not apply to Members because they will not be authorised to undertake covert surveillance on behalf of the Council in any circumstances. Members should therefore avoid actions which could result in allegations that they have undertaken covert surveillance that breaches anyone's right to privacy.

<u>Appendices</u>

Appendix: RIPA Policy Statement (February 2021)

CHARNWOOD BOROUGH COUNCIL

COVERT SURVEILLANCE

REGULATION OF INVESTIGATORY POWERS ACT 2000

POLICY STATEMENT

(February 2021)

Policy Statement
Regulation of Investigatory Powers Act 2000

Introduction

The Regulation of Investigatory Powers Act 2000 (RIPA) provides a legal framework for covert surveillance activities by public authorities (including local authorities). The Office of Surveillance Commissioners (OSC) operates as an independent inspector to monitor these activities.

The use of surveillance (both overt and covert) to provide information is a valuable resource for the protection of the public and the maintenance of law and order. To discharge their responsibilities local authorities and law enforcement agencies use unaided surveillance and surveillance devices. RIPA and codes of practice under it provide a legal framework and procedure to authorise the use of covert surveillance. Surveillance is covert if it is carried out in a manner that is calculated to ensure that people who are subject to is are unaware that it is or may be taking place.

In some circumstances, it may be necessary for Council employees, in the course of their duties, to make observations of people in a covert manner. Actions of this sort may constitute an interference with a person’s right to privacy. This may give rise to legal challenge as a potential breach of “the right to respect for private and family life” under Article 8 of the European Convention on Human Rights and the Human Rights Act 1998. RIPA provides a procedure to defend the Council against such challenges.

Purpose

This policy statement is designed to ensure that Charnwood Borough Council meets the legal requirements in relation to the use of covert surveillance. It also promotes a professional approach in undertaking surveillance so that those affected may have confidence that the Council will act effectively and in a fair and lawful manner. It should be read in conjunction with the Regulation of Investigatory Powers Act 2000 and the current versions of the Code of Practice on the use of Covert Human Intelligence sources and the Code of Practice on Covert Surveillance.

STATEMENT OF INTENT

This policy statement applies only to the use of covert surveillance, although it is expected that usually any surveillance activity undertaken by or on behalf of the Council will be overt.

The Council will fulfil its lawful obligations and use directed surveillance within the terms of the Regulation of Investigatory Powers Act 2000 and the directions of the Office of Surveillance Commissioners.

The Council will keep its policy and procedures under review and update them as necessary and in accordance with any changes in the law.

The Council will take necessary steps to ensure that all employees and councillors are aware of all relevant policy standards, procedures, legislation and best practice. Employees have a duty to follow this policy and its procedures and any employee acting outside this policy will be subject to the Council's disciplinary procedures.

Evidence gathered by surveillance will be treated as confidential and will only be disclosed to persons (internal and external) whose authority has been explicitly established. Such evidence may only be removed by employees from a Council office with the authority of their Head of Service of another senior officer formally designated by the Head of Service. Employees will be responsible for any misuse, security breach of unauthorised disclosure while such evidence is in their control.

Evidence gathered by covert surveillance will be held for as long as the law requires (a minimum of 5 years) after which it may be destroyed in a secure manner.

The Council will keep in place appropriate security measures as required.

Appropriate physical security will be provided for visitors being received and supervised at all times within the Council offices where evidence gathered by surveillance is stored.

Each service will be responsible for the security of evidence collected by it. Security arrangements will be reviewed regularly. All reported breaches or potential weaknesses will be investigated by the Head of Service concerned and where necessary further or alternative measures introduced.

A reporting structure will be established headed by the RIPA Monitoring Officer with a liaison officer in each service so that authorisation, review, renewal and cancellation forms and procedures are:

- co-ordinated and consistent, and
- available for inspection by the OSC;

and so that any problems can be identified and investigated.

The intention is that subjects of covert surveillance carried out by or on behalf of the Council can be assured that evidence collected (including personal data) will be processed with care and in accordance with the law.

Council employees will not carry out intrusive surveillance within the meaning of the Regulation of Investigatory Powers Act 2000. This is covert surveillance carried out in relation to anything taking place on any residential premises or in any private vehicle; and involves the presence of an individual or a device on the premises or in the vehicle, or by means of a surveillance device capable of providing information of the same quality and detail as might be expected to be obtained from a device actually present on the premises or in the vehicle.

Although the law does not impose a requirement on the Council to seek or obtain authorisations, it will seek to adhere to the authorisation, review, renewal and cancellation procedure provided for by RIPA and the codes of practice before conducting any covert surveillance. The Council will not gather evidence by covert surveillance of individuals where it is disproportionate or unnecessary in relation to the purposes of the investigation.

Surveillance carried our by a third party on behalf of the Council shall be subject to a contract which stipulates compliance with the law and this policy.

PRINCIPLES OF SURVEILLANCE

In planning and carrying out covert surveillance Council employees shall comply with the following principles:

Lawful Purposes

Directed surveillance shall only be carried out where necessary to achieve one or more of the permitted purposes (see section 28(3) of RIPA) available to local authorities, namely;

a) for the purposes of preventing or detecting crime or the prevention of disorder.

Employees carrying out surveillance shall not interfere with any property or harass any person.

Confidential Material

Applications where a significant risk of acquiring confidential material has been identified shall always require the authorisation of the Chief Executive (or in his absence a Director) after consulting with the RIPA Monitoring Officer.

Confidential material consists of;

- matters subject to legal privilege (eg. between a professional advisor and client)
- confidential personal information (eg. relating to a person's spiritual, physical or mental health), or
- confidential journalistic material.

DEFINITIONS

Unless the context otherwise requires, in this document the expressions in the first column shall have the meaning in the second column and any reference to a statute or statutory instrument or code of practice within the document shall include amendments to it.

Authorising Officer	means a person entitled to give an authorisation for directed surveillance or for the use of a covert human intelligence source in accordance with section 30 of RIPA and the Regulation of Investigatory Powers (Prescription of Offices, Ranks and Positions) Order SI. No. 2417, as adapted to the organisational structure of the Council and who is

	included in the list of officers designated as such by the Council within the Delegations to Officers section of the Council's Constitution.
Council	means Charnwood Borough Council
Covert Human Intelligence Source (CHIS)	means a person who establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything falling within sections 26(8)(b) or (c) of RIPA, namely: (b) to covertly use such a relationship to obtain information or to provide access to any information to another person; or (c) to covertly disclose information obtained by the use of such a relationship, or as a consequence of the existence or such a relationship
Covert Surveillance	means surveillance carried out in a manner that is calculated to ensure that persons who are subject to this surveillance are unaware that it is or may be taking place
Directed Surveillance	means covert surveillance which is not intrusive and is undertaken; (a) for the purpose of a specific investigation or a specific operation, (b) in such a manner as is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation), and (c) otherwise than by way of an immediate response to events or circumstances, the nature of which is such that it would not be reasonably practicable for an authorisation under Part II of RIPA to be sought for carrying out the surveillance

Private Information	means information about a person relating to his or her private or family life
Private Vehicle	means any vehicle that is used primarily for the private purposes of the person who owns it or of a person otherwise having the right to use it
Residential Premises	means so much of any premises as is for the time being occupied or used by any person, however temporarily, as living accommodation (including hotels or prison accommodation that is being so occupied or used)
Social Media	means websites and applications that enable users to create and share content or to participate in social networking (eg. Twitter and Facebook)
Surveillance Device	means any apparatus designed or adapted for use in surveillance
Surveillance *	is defined in section 48 of RIPA, and includes: (a) monitoring, observing or listening to persons, their movements, their conversations or their activities or communications, (b) recording anything monitored, observed or listened to in the course of the surveillance, and (c) surveillance by or with the assistance of s surveillance device * surveillance does not include references to: (a) any conduct of a covert human intelligence source for obtaining or recording (whether or not using a surveillance device) any information which is disclosed in the presence of the source, (b) the use of a covert human intelligence sources for so obtaining or recording information, or (c) any such entry on or

	interference with property or with wireless telegraphy as would be unlawful unless authorised under section 5 of the Intelligence Services Act 1994 (warrants for the intelligence services, or Part III of the Police Act 1997 (powers of the police and of customs officers)
Necessity	means that the use of covert surveillance is considered to be necessary, and that there are no other suitable means or processes which can be applied to obtain the information required
Proportionality	means that the following considerations must have been applied: (a) balancing the size and scope of the proposed activity against the gravity and extent of the perceived crime or offence (b) explaining how and why the methods to be adopted will cause the least possible intrusion on the subject and others (c) considering whether the activity is an appropriate use of the legislation and a reasonable way, having considered all reasonable alternatives, of obtaining the necessary result (d) evidencing, as far as reasonably practicable, what other methods have been considered and why they were not implemented.

SCOPE OF PROCEDURE

The procedure does not apply to:

- Observations that are not carried out covertly, or
- Ad-hoc covert observations that do not involve the systematic surveillance of a specific person(s)
- Unplanned observations made as an immediate response to events.

In cases of doubt, the authorisation procedure described below should be followed.

AUTHORISATION PROCEDURE

General

All directed surveillance and the use of covert human intelligence sources must be for a purpose that is necessary and proportionate to enable the Council to perform its duties and services and is subject to the inspection of the OSC.

Authorisation will be obtained using the forms based on the current Home Office Model and approved by the Council's RIPA Monitoring Officer.

Forms, codes of practice and supplementary material will be available on the Council's intranet and will be maintained by the RIPA Monitoring Officer.

Applications for directed surveillance will only be made to an Authorising Officer. Officers responsible for management of an investigation will normally be no lower than a Team Leader and will not be graded below Senior Officer grade.

Authorising Officers will be at least Head of Service level, and will be trained to properly understand the requirements of RIPA. Authorising Officers should avoid authorising their own activities wherever possible and only do so in exceptional circumstances. An alternative Authorising Officer will otherwise be the Authorising Officer for such activities.

Authorising Officers shall ensure they are fully aware of their responsibilities and comply with the requirements of the law including the requirement to obtain magistrate's approval, the relevant codes of practice and the Council's policies and procedures in respect of the authorisation, review, renewal and cancellation of authorisations for covert surveillance.

Where an application for authorisation is refused, the Authorising Officer shall record the refusal on the application and the reasons for it on the case file and supply a copy of it to the RIPA Monitoring Officer as with other authorisations as quickly as possible and in any event within 7 days. The Authorising Officer shall also ensure that any supplementary information and supporting documents submitted with any application for authorisation, review, renewal or cancellation are recorded and retained on the case file as required by the codes of practice or other legal requirement.

Consideration needs to be given at the start of the investigation as to whether or not the criminal offence that is being investigated meets the threshold criteria for RIPA authorisations:

- Criminal offences which attract a custodial sentence of six months or more; or
- Certain criminal offences under sections 146, 147 or 147A of the Licensing Act 2003 involving the sale of alcohol to children; or

- Certain criminal offences under section 7 of the Children and Young Persons Act 1933 relating to the sale of tobacco to minors.

If the Authorising Officer is satisfied that these criteria have been met then a further form requesting authorisation by the Magistrates' Court must be completed and sent to the Court together with a completed copy of the internal RIPA authorisation and any other appropriate evidence to support the application. Prior to this a hearing date must be listed with the Leicester Magistrates' Court for hearing the application by a Justice of the Peace.

Guidance on the process for obtaining Magistrate's authorisation can be obtained from the RIPA Monitoring Officer, and is available on the relevant section of the Council's intranet.

The effective authorisation period only commences once magisterial concurrence is given.

Directed Surveillance

All applications for directed surveillance authorisation will be made on **Form 1** (reference *RIPA 1 DS authorising* form). The applicant in all cases should complete this, and approval must be obtained from an Authorising Officer and from a magistrate. In urgent cases there are arrangements in place for out of hours approval to be obtained from a magistrate.

All applications for review of directed surveillance authorisation will be made on **Form 2** (reference *RIPA 2 DS review* form). The applicant in all cases should complete this where the investigation/operation is to be continued or cancelled.

All applications for directed surveillance renewals will be made on **Form 3** (reference *RIPA 3 DS renewal* form). The applicant in all cases should complete this where surveillance requires to continue beyond the previously authorised period (including previous renewal). As well as approval from an Authorising Officer, Magistrates approval is required for all renewals.

Where authorisation ceases to be either necessary or appropriate the Authorising Officer will cancel an authorisation using **Form 4** (reference *RIPA 4 DS cancellation* form).

Any person giving an authorisation for the use of directed surveillance must record on the appropriate form the matters they took into account in reaching their decision and they must be satisfied that:

- no overt means are suitable for the purpose
- the authorisation is for a prescribed lawful purpose
- account has been taken of the likely degree of intrusion into the privacy of persons other than those directly implicated/targeted in the operation or investigation (collateral intrusion)
- measures are being taken, wherever practicable, to avoid unnecessary intrusion into the lives of those affected by collateral intrusion
- the authorisation is necessary
- the proposed surveillance is proportionate and any equipment to be used is specified.

Necessity
Surveillance operations shall only be undertaken where there is no reasonable and effective alternative way of achieving the desired objective(s).

Effectiveness
Surveillance operations shall be undertaken only by suitably trained employees (or under their direct supervision). The Authorising Officer will determine which employees are to be involved in an operation and ensure that they are suitably trained.

Proportionality
The use of surveillance shall not be excessive but shall be in proportion to the significance/harm of the matter being investigated. Consideration of proportionality will be based on the factors set out in the Definitions section of this policy.

Authorisation
All directed surveillance shall be authorised in accordance with this procedure. Care must be taken by Authorising Officers to ensure that each authorisation is completed in its entirety by them, and in handwriting.

Use of a Covert Human Intelligence Source (CHIS)

Proper records must be kept of the authorisation and use of a source as required by Regulation 3 of Regulation of Investigatory Powers (Source Records) Regulations 2000, namely:

(a) the identity of the source
(b) the identity, where known, used by the source
(c) any relevant investigating authority other than the authority maintaining the records
(d) the means by which the source is referred to within each relevant investigating authority
(e) any other significant information connected with the security and welfare of the source
(f) any confirmation made by a person granting or renewing an authorisation for the conduct or use of a source that the information in (e) above has been considered and that any identified risks to the security and welfare of the source have, where appropriate, been properly explained to and understood by the source
(g) the date when, and the circumstances in which, the source was recruited
(h) the identities of the persons who, in relation to the source, are discharging or have discharged the functions mentioned in section 29(5)(a) to (c) of RIPA or in any order made by the Secretary of State under section 29(2)(c)
(i) the periods during which those persons have discharged those responsibilities
(j) the tasks given to the source and the demands made of him or her in relation to the activities as a source
(k) all contacts or communications between the source and a person acting on behalf of any relevant investigating authority

(l) the information obtained by each relevant investigating authority by the conduct or use of the source
(m) any dissemination by that authority of information obtained in that way, and
(n) in the case of a source who is not an undercover operative, every payment, benefit or reward and every offer of a payment, benefit or reward that is made of provided by or on behalf of any relevant investigating authority in respect of the source's activities for the benefit of that or any other relevant investigating authority.

In addition, the Code of Practice requires records to be kept of:

- a copy of the authorisation together with the supporting documentation and notification of the approval given by the Authorising Officer
- a copy of any renewal of an authorisation, together with the supporting documentation submitted when the renewal was requested
- the reason why the person renewing the authorisation considered it necessary to do so
- any risk assessment made in relation to the source
- the circumstances in which tasks were given to the source
- the value of the source to the investigating authority
- a record of the results of any reviews of the authorisation
- the reasons why, if any, for not renewing an authorisation
- the reasons for cancelling an authorisation
- the date and time when any permission was given by the Authorising Officer to cease using a source.

Authorising Officers must not grant an authorisation for a CHIS unless they believe that there are arrangements in place to ensure at all times there is a person responsible for maintaining a record of the use of that source, and that the person responsible is fully aware of their duty of care towards, and the safeguarding of, the CHIS.

Only the Chief Executive, or in his absence a Strategic Director, may authorise the use of a juvenile or vulnerable CHIS.

All applications for authorisation for the use or conduct of a CHIS will be made on **Form 5** (reference *RIPA 5 CHIS authorising* form). The applicant in all cases should complete this. All applications need to be approved by a Magistrate as well as by an Authorising Officer.

All applications for review of authorisation for the use or conduct of a CHIS will be made on **Form 6** (reference *RIPA 6 CHIS review* form). The applicant in all cases should complete this where the investigation/ operation is to be continued or cancelled.

All applications for authorisation for the use or conduct of a CHIS renewals will be made on **Form 7** (reference *RIPA 7 CHIS renewal* form). The applicant in all cases should complete this where the surveillance requires to continue beyond the previously authorised period (including a previous renewal). As well as approval from an Authorising Officer, Magistrates approval is required for all renewals.

Where authorisation ceases to be either necessary of appropriate the Authorising Officer will cancel an authorisation using **Form 8** (reference *RIPA 8 CHIS cancellation* form).

Forms and other relevant material will be available on the Council's intranet and will be maintained by the RIPA Monitoring Officer.

Any person giving an authorisation for the use of CHIS must record on the appropriate form matters taken into account in reaching their decision and must be satisfied that:

- no overt means are suitable for the purpose
- the authorisation is for a prescribed lawful purpose
- account has been taken of the likely degree of intrusion into the privacy of persons other than those directly implicated/targeted in the operation or investigation (collateral intrusion)
- measures are being taken, wherever practicable, to avoid unnecessary intrusion into the lives of those affected by collateral intrusion
- the authorisation is necessary
- the proposed surveillance is proportionate and any equipment to be used is specified.

<u>Necessity</u>
Surveillance operations shall only be undertaken where there is no reasonable and effective alternative way of achieving the desired objective(s).

<u>Effectiveness</u>
Surveillance operations shall be undertaken only by suitably trained or experienced employees (or under their direct supervision). The Authorising Officer will determine which employees are to be involved in an operation and ensure that they are suitably trained.

<u>Proportionality</u>
The use of surveillance shall not be in excess but shall be in proportion to the significance/harm of the matter being investigated. Consideration of proportionality will be based on the factors set out in the Definitions section of this policy.

<u>Authorisation</u>
All directed surveillance shall be authorised in accordance with this procedure. Care must be taken by Authorising Officers to ensure that each authorisation is completed in its entirety by them, and in handwriting.

DURATION TIME OF AUTHORISATIONS

<u>Authorisations</u>

Written authorisations for directed surveillance expire after 3 months, starting on the day from which they took effect.

Written authorisations for the use of a CHIS expire after 12 months beginning on the day on which they took effect.

Renewals

If at any time before an authorisation expires, an Authorising Officer considers it necessary for the authorisation to continue for the purpose for which it was given, it may be renewed in writing for a further period of 3 months for directed surveillance of 12 months for a CHIS, in each case starting on the day on which the previous authorisation ceases to have effect. Applications should only be made approximately two weeks before the authorisation is due to expire, as this will allow time for a magistrate's approval to be sought. In the case of a CHIS, a review must be carried out immediately beforehand.

Authorising Officers may renew authorisations more than once, provided they continue to meet the criteria for authorisation.

Renewals must be approved by a magistrate.

Review

Authorising Officers shall review all authorisations at regular intervals or not more than one month. In the case of a CHIS the review shall be as frequently as considered necessary and practicable and include: the use made of the source during the period authorised, the tasks given to the source and the information obtained. Details of the review and the decision reached shall be noted on the original application.

Cancellation

Authorising Officers must cancel an authorisation if they are satisfied that the need for it no longer satisfies the criteria for authorisation or, additionally in the case of a CHIS, that satisfactory arrangements for the source's case no longer exist. Where necessary, the safety and welfare of the CHIS shall continue to be taken into account after the authorisation has been cancelled.

SOCIAL MEDIA

RIPA implications must be considered in relation to the use of social media sites (such as Twitter and Facebook) for gathering evidence to assist in enforcement activities, as set out below:

- officers must not create a false identity in order to 'befriend' individuals on social media networks without authorisation under RIPA
- officers viewing an individual's public profile on a social media network should do so only to the minimum degree necessary and proportionate in order to obtain evidence to support or refute the suspicions or allegations under investigation
- repeated viewing of open profiles on social media networks to gather evidence or to monitor an individual's status, must only take place once RIPA authorisation has been obtained

- officers should be aware that it may not be possible to verify the accuracy of information on social media networks and, if such information is to be used as evidence, take reasonable steps to ensure its validity.

RECORD KEEPING, TRAINING AND MONITORING

Security and Retention of Records

Each service or discrete location within a service which makes use of RIPA must maintain a record of all applications for authorisations (including refusals), renewals, reviews and cancellations on the appropriate forms. Each individual form will be given a unique central reference number by the RIPA Monitoring Officer, although services may also allocate their own investigation or operation numbers as well. The unique central reference number should follow on in sequential order from the used for previous forms. The lead officer in each service responsible for the investigation or operation will maintain progress record sheets for directed surveillance and CHISs.

Documents created under this procedure are confidential and shall be treated as such. Services shall make appropriate arrangements for their retention, security and destruction in accordance with RIPA and the codes of practice. In the case of a CHIS, special care will be taken to preserve the confidentiality of any source and information provided by them.

The Authorising Officer shall retain, together, the original authorisation, review and renewal forms until cancelled. On cancellation, the original forms and any associated documents shall be retained in a secure place for at least 5 years after cancellation.

All completed RIPA forms must be submitted to the RIPA Monitoring Officer as soon as possible, and in any event, within 7 days of their completion. This will include forms which have resulted in an authorisation being refused.

Training

The RIPA Monitoring Officer will be responsible for ensuring that RIPA training for the Senior Responsible Officer and Authorising Officer takes place and must retain a record of all training undertaken. Refresher training will be provided at intervals of no more than 2 years.

Central Register

The RIPA Monitoring Officer will maintain the central register of authorisations. Authorising Officers shall notify the RIPA Monitoring Officer as soon as reasonably practicable of the grant, renewal and cancellation of any authorisation and the name of the applicant officer to ensure the accuracy of the central register. They shall send on a regular monthly basis a signed and dated photocopy of any authorisation (including refusals), renewals, reviews and cancellation forms for directed surveillance and similarly for those for the use of a CHIS.

The RIPA Monitoring Officer

The Council has designated an officer to act as the RIPA Monitoring Officer (currently the Head of Strategic Support). The RIPA Monitoring Officer will have responsibility for keeping an oversight of the Council's RIPA administration arrangements, and in particular:

- for organising RIPA training within the Council,
- raising awareness of RIPA and its regulatory framework amongst officers and Members, for example by maintaining appropriate guidance on the Intranet and by publishing articles about RIPA in internal publications,
- maintaining the Central Record of Authorisations, and
- Examining submitted RIPA documents to ensure they are of the required standard.

The Senior Responsible Officer

The Council has designated the Strategic Director of Corporate Services to act as the Senior Responsible Officer, who is responsible for:

- the integrity of the process in place within the Council for the management of CHIS and Directed Surveillance;
- compliance with Part 2 of the Act and with the Codes;
- engagement with the IPCO inspectors when they conduct their inspections, where applicable; and
- where necessary, oversight of the implementation of post-inspection action plans approved by the relevant oversight Commissioner.

The Authorising Officers

The Council's designated authorising officers are:

- Chief Executive
- Strategic Director of Corporate Services
- Head of Customer Experience, and
- Head of Neighbourhoods and Communities.

Elected Members

Elected Members:

- should review the Authority's use of the RIPA and set the policy at least once a year,
- should also consider reports on the use of RIPA Act on at least a quarterly basis to ensure that is it being used consistently with the policy and the policy remains fit for purpose,
- they should not however be involved in making decisions on specific authorisations.

The Investigatory Powers Commissioner's Office (IPCO)

The IPCO provides an independent overview of RIPA powers. This scrutiny includes inspection visits to local authorities by inspectors appointed by the IPCO.

RIPA established an independent tribunal. This tribunal has full powers to investigate and decide any cases within its jurisdiction.

The Council will ensure that copies of the Tribunal's information sheet, their complaint form and their Human Rights Act claim form will be made available at the Council's main offices. These and the relevant codes of practice produced by the Home Office will be made available on the Council's intranet.

ADVICE

Further advice about covert surveillance will be provided by the RIPA Monitoring Officer. In particular, advice should be sought before considering the use of a CHIS where the considerations of risk assessment, duty of care and safeguarding responsibilities, insurance, managing the source and ensuring confidentiality require specific consideration.

FURTHER INFORMATION AND ENQUIRIES

The RIPA Monitoring Officer is the first point of contact on any of the matters raised in this policy statement. Enquiries should be addressed to:

The RIPA Monitoring Officer
Head of Strategic Support
Charnwood Borough Council
Southfields Road
Loughborough
LE11 2TX

Tel: (01509) 634573

The RIPA Monitoring Officer will be responsible for dealing with all internal and external enquiries.

HOME OFFICE CODES OF PRACTICE

The Home Office have produced Codes of Practice which give guidance on the use of covert surveillance and covert human intelligence sources by public authorities under part 2 of RIPA 2000. They are available via the following link:

https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice

COMPLAINTS

Any complaints relating to the Council's use of RIPA or the application of this policy statement should be in writing, dated and include details of the complaint and also an account of the nature of the problem, and should be sent to:

The Chief Executive
Charnwood Borough Council
Southfields Road
Loughborough
LE11 2TX

The Council will attempt to complete internal investigations within 20 working days. An acknowledgement of the complaint will be sent as soon as possible after its receipt.

CABINET – 11TH FEBRUARY 2021

Report of the Chief Executive

ITEM 11 URGENT DECISION TAKEN

Purpose of Report

To report an action taken by the Chief Executive and/or Strategic Directors and Heads of Service under urgency provisions.

Recommendation

That Cabinet notes the action taken by the Chief Executive and/or Strategic Directors and Heads of Service under urgency provisions as set out in this report.

Reason

To ensure that the action has been reported to the Cabinet in accordance with the requirements of the Council's Constitution.

Policy Justification and Previous Decisions

Under Section 8.3 of the Constitution which relates to the delegation of Executive functions, there is provision for the Chief Executive, Strategic Directors and Heads of Service to take such action as is required in the case of an emergency or urgency subject to:

(i) consultation with the Leader (or, in the Leader's absence, the Deputy Leaders);
(ii) consultation with the Chief Executive and relevant Strategic Directors in each case; and
(iii) a report on the action taken being made to the next meeting of the Cabinet.

The decision taken by the Chief Executive and/or Strategic Directors and Heads of Service now being reported is:

- DD011 2021 – Charnwood Business Grant Support Schemes.

A copy of the decision can be found in the Annex to this report.

Implementation Timetable including Future Decisions

As detailed in the decision, attached as an Annex.

Report Implications

As detailed in the decision, attached as an Annex.

Background Papers: None

Officer to Contact: Karen Widdowson
Democratic Services Manager
(01509) 634785
karen.widdowson@charnwood.gov.uk

Annex

Copy of: DD011 2021 – Charnwood Business Grant Support Schemes.

Decision under Delegated Powers

Officer Making the Decision

Strategic Director of Environmental and Corporate Services

Recommendation

That the policy for the operation of the Charnwood Business Grant Support schemes with effect from 20 January 2021 be approved as set out at Appendix A

Reason

To take action in relation to a matter which would otherwise have been submitted to Cabinet.

Authority for Decision

<u>Delegation of Executive functions</u> - (Section 8.3 of the Constitution states that the Chief Executive, Strategic Directors and Heads of Service can take such action as is required in the case of an emergency or urgency subject to:

(i) consultation with the Leader (or, in the Leader's absence, the Deputy Leaders);

(ii) consultation with the Chief Executive and relevant Strategic Directors in each case; and

(iii) a report on the action taken being made to the next meeting of the Cabinet.

Decision and Date

19th January 2021

Background

In response to the Coronavirus, the Government has announced a series of grants to support businesses affected by the pandemic. Charnwood has had in place policies to support the administration of schemes but an update is considered necessary due to additional funding being made available in January 2021 to support the Additional Restrictions Grant Fund.

Additional Restrictions Grant Fund

The Government initially allocated £3.71m towards this scheme, with a further announcement on 5th January of a top up to this fund of £1.65m. This funding eligible to be used until March 2022 however the Secretary of State for Business has advised they expect to see these funds distributed to businesses as soon as possible.

Due to this it is expected that a proportion of funding will be set aside to support businesses through any future lockdowns or tiered restrictions should they be put into place. It is expected this will be around 25% of the total allocation.

The policy set out at Appendix A (together with the associated scoring matrix at Appendix B has therefore been modified to reflect this additional funding.

Financial Implications

The cost of this grant scheme is fully funded by government; the Council has been allocated a fixed amount of £5.36m.

The government note that the Council has received new burdens funding to cover the costs of administering this and other grant schemes; however, in general, grants administration will be covered out of existing budgets.

Consultation with Leader and Deputy Leader

Following an informal briefing, a fair draft of this policy was used to consult with the Leader and Deputy Leader who both confirmed that this could be used as the basis for the final policy. (There are no material differences between the consultation draft and final version as set out at Appendix A.)

Consultation with Chief Executive and relevant Strategic Directors

Consultation has been effectively concluded via the Council's COVID-19 organisational response to the pandemic. The Chief Executive and all Directors have concluded that the recommendations of this report are both necessary and urgent.

Risk Management

There are unavoidable inherent risks within the grants scheme around the prioritisation of different business sectors and the rationing of grant payments (hence it is inevitable that there will be disappointed applicants) but there are no specific risks associated with this decision.

Key Decision:	Yes
Date included on Forward Plan	*Special Urgency Notice published 19th January 2021*
Background Papers:	None
Appendix A	Charnwood Business Grants Support policy
Appendix B	Grant scoring matrix

APPENDIX A

CHARNWOOD BOROUGH COUNCIL
BUSINESS GRANT SUPPORT POLICY

1. Background to Business Grants

1.1 The Covid-19 pandemic is unprecedented and has had an immediate and significant impact on the borough of Charnwood. The government contunet to develop of range of differtn grant packsgaes to support businesses affected by the ongoing retrictions

1.3 As a result, the Government has now provided guidance and funding for several grants, which the Council is administering, covering different time periods and different business sectors as follows:

Grant Type	Eligibility	Eligible periods
Local Restriction Support Grant (OPEN)	This grant is for those businesses whilst not forced to close have been severely impacted by the COVID restrictions. This grant prioritises businesses in the hospitality, hotel, bed and breakfast and leisure sectors. **Applicants must have a valid business rates account.**	31/10/20 – 4/11/20 2/12/20 – 30/12/20
Local Restriction Support Grant (CLOSED) ADDENDUM	This grant is for those businesses forced to close during national lockdown periods. **Applicants must have a valid business rates account.**	5/11/20 – 2/12/20 5/1/21 – 16/2/21
Local Restriction Support Grant (CLOSED) TIER 3	This grant is for those businesses forced to close during Tier 3 restriction periods. **Applicants must have a valid business rates account.**	3/12/20 – 30/12/20
Local Restriction Support Grant (CLOSED) TIER 4 ADDENDUM	This grant is for those businesses forced to close during Tier 4 restrictions. **Applicants must have a valid business rates account.**	31/12/20 – 4/1/21
Additional Restrictions Grant	This is a discretionary grant scheme for businesses who have been severely financially impacted by the restrictions caused by COVID. Businesses do **NOT** need to have a business rates account or have been forced to close to be eligible for this grant.	Applications for this grant were open between 18/11/20-3/12/20
Christmas Support Payment Wet Led Pubs	This grant is for pubs where less than 50% of their income is derived from food sales. **Applicants must have a valid business rates account**	2/12/20 – 29/12/20
Local Restrictions Support Grant (SECTOR)	This grant applies to those businesses that have been mandated to close since the 23rd March, e.g. nightclubs, dance halls, discotheques, sexual entertainment venues and hostess bars. **Applicants must have a valid business rates account**	1/11/20 – 4/11/20 2/12/20 – 30/12/20
Closed Business Lockdown Payment	This grant provides payments of £4,000, £6,000 or £9,000 depending on your rateable value to businesses forced to close which have a business rate account. This is in addition to the LRSG (Closed) Addendum. **Applicants must have a valid business rates account.**	To be confirmed

1.4 Details are of the grants are set out below:

1.5 **Local Restrictions Support Grant (Open)** - for hospitality, accommodation, leisure and their respective supply chain businesses that could remain open under Tier 2 and Tier 3 restrictions but are significantly affected

An eligible business may receive a payment for each 14-day period for as long as Tier 2 or Tier 3 restriction are in place.

If the eligible business occupies a property with a rateable value (RV) as follows:

- RV less than £15,000 – Grant of up to £467 per 14-day period
- RV is between £15,000 and less than £51,000 – Grant of up to £700 per 14-day period
- RV is over £51,000 - Grant of up to £1050 per 14-day period

If the applicable period for the grant is less than 14 days, the Council reserves the right to pro-rata the grant accordingly

1.6 **Local Restrictions Support Grant (Closed businesses) Addendum – Tier 4 Restrictions and National Lockdown**

The Local Restrictions Support Grant (Closed) Addendum is a scheme to support businesses that that have been legally required to close as a result of either Tier 4 or national lockdown restrictions

If the eligible business occupies a property with a rateable value as follows:

RV of exactly £15,000 or under will receive a payment of £667 per 14-day

RV over £15,000 and less than £51,000 will receive a payment of £1,000 per 14-day qualifying restriction period.

RV of exactly £51,000 or above will receive £1,500 per 14-day qualifying restriction period.

Where the period in Tier 4 restrictions is less than 14 days, the payment will be pro rata.

1.7 **Local Restrictions Support Grant (Closed)** - for businesses forced to close due to COVID restrictions under Tier 3

If the eligible business occupies a property with a rateable value as follows:

- RV of less than £15,000 - Grant of £667 for each 14-day period the business is closed in the qualifying restriction period.
- RV of between £15,000 and less than £51,000, Grant of £1000 for each 14-day period the business is closed in the qualifying restriction period
- RV of £51,000 or above - Grant of £1,500 for each 14-day period the business is closed in the qualifying restriction period

Grants will be based on the rateable value of the property on the first full day of local lockdown restrictions.

Grants will be paid every 28 days under the conditions of a national lockdown, and every 14 days under localised tier 3 conditions. If the applicable period for the grant is different the value of the award will be pro-rata'd accordingly.

1.8 **Local Restrictions Support Grant (Sector)** - businesses that were required to close in March 2020, and which have never been able to re-open (for example nightclubs)

If the eligible business occupies a property with a rateable value as follows:

- RV of less than £15,000 - Grant of £667 for each 14-day period the business is closed in the qualifying restriction period.
- RV of between £15,000 and less than £51,000, Grant of £1000 for each 14-day period the business is closed in the qualifying restriction period

- RV of £51,000 or above - Grant of £1,500 for each 14-day period the business is closed in the qualifying restriction period

Grants will be based on the rateable value of the property on the first full day of local lockdown restrictions.

Grants will be paid every 28 days under the conditions of a national lockdown, and every 14 days under localised tier 3 conditions. If the applicable period for the grant is different the value of the award will be pro-rata'd accordingly.

There is no back-dating of the scheme, with payments applicable from 1 November 2020. Businesses will be contacted directly by the Council if they meet the criteria for this scheme.

The Local Restrictions Support Grants (both Open and Closed) apply from when the Council is informed of its 'tier status' as a result of Covid. All grants are subject to sufficient government funding being made available and are capped at the respective funding levels.

1.9 Christmas Support Payment – Wet Led Payments

On 1 December 2020, the Government announced the introduction of additional support over the festive period for wet-led pubs in areas under Tier 2 or 3 restrictions.

Under the CSP scheme, Local Authorities will provide a one-off payment amounting to £1,000 per wet-led pub in each eligible Local Authority where Tier 2 or Tier 3 restrictions are imposed

1.10 **Closed Business Lock down payment**

On 5th January 2021, the Chancellor has announced that businesses in the retail, hospitality and leisure sectors are to receive a one-off grant worth up to £9,000. The one-off top-ups will be granted to closed businesses as follows:

If the eligible business occupies a property with a rateable value as follows:

- RV of £15,000 or under - £4,000
- RV of between £15,000 and £51,000 - £6,000
- RV of over £51,000 - £9,000

We are currently waiting for the full details of this scheme and once received we will update this page with further information

2.0 The Additional Restrictions Grant Fund - Support for businesses affected by reduced trading conditions experienced during national lockdowns and Tier 2 and Tier 3 restrictions. It will be up to Local authorities to develop discretionary grant schemes to help those businesses which – while not legally forced to close – are nonetheless severely impacted by the restrictions put in place to control the spread of Covid-19. This could include – for example – businesses which supply the retail, hospitality, and leisure sectors, or businesses in the events sector and those outside the business rates system, which are effectively forced to close – for example market traders.

2.1 **Local Discretionary Support Grant** (also known as Additional Restrictions Grant)

2.2 The grant fund for the Charnwood Borough area is being managed by Charnwood Borough Council, which is responsible for delivering grants to eligible businesses and charities. The Council must follow the guidance set by the Government. The Council has authority to make these payments under Section 1 of the Localism Act 2011.

2.3 The Council has decided to set out the scope of the LDSG scheme on their website, providing clear guidance on which types of business are being prioritised, as well as the rationale for the level of grant to be provided.

2.4 The Government intends that this grant scheme widens access to support to businesses that are struggling to survive due to the latest shutdown or tier restrictions. Local authorities are asked to make payments as quickly as possible to support struggling businesses. Once applications have been received. Charnwood Borough Council will progress these payments as a matter of urgency but recognise the need to undertake a thorough assessment and appropriate due diligence before grants are paid.

2.5 Due to the very compressed timescales to meet these expectations of the Government and businesses, the Council has only been able to complete limited consultation with external partners on the development of this policy but has liaised fully with neighbouring local authorities to inform it. The Council has taken full account of the requirements of Government (as set out in the guidance received on the 3rd Nov 2020) and the issues and questions that have arisen locally and nationally through the delivery of previous grant schemes.

Potential applicants will be/are asked to note that:

1. Businesses that have already received grant payments that equal the maximum levels of State aid permitted under the de minimis and the Covid-19 Temporary State Aid Framework will not be eligible for this grant scheme (as identified in para 29 of the guidance). The Council does not have the discretion to vary this position

2. Grants under this scheme will be subject to tax in line with the applicant's tax arrangements. For businesses, the Government advises this is only where there is an overall profit for the tax year once this award is included.

3. Grants awarded under this scheme will not generally affect the Council's business ratings list or any rates charges payable by the recipient.

4. Notwithstanding this, any applicant who should in fact be added to the rates list will be, which may result in a rates bill.

3.0 Total funding available

3.1 The Government initially allocated £3.71m towards this funding, with a further announcement on 5th January of a top up to this fund of £1.65m. This funding eligible to be used until March 2022 however the Secretary of State for Business has advised they expect to see these funds distributed to businesses as soon as possible.. Due to this it is expected that a proportion of funding will be set aside to support businesses through any future lockdowns or tiered restrictions should they be put into place. It is expected this will be around 25% of the total allocation.

3.2 As per para 13 of the guidance Local Authorities can use this funding for business support activities. The Council envisages that this will primarily take the form of discretionary grants. However, the Council reserves the right to commit a proportion of this funding for wider business support activities should it be viewed that this would be of more benefit.

3.3 As is likely to be the case in the Charnwood area, over subscription to the funding available for this scheme will require local authorities to prioritise which types of businesses will receive funding, the Government states it will be at the local authority's discretion as to which types of business are most relevant to their local economy. There will be no penalty for local authorities because of their use of discretion to prioritise some business types.

4.0 Who may benefit from Charnwood's Local Discretionary Support Grant?

4.1 The Government suggests that local authorities may wish to consider collaborating as they design their discretionary schemes to ensure consistency where they are working across a functional economic area, notably here the Leicester and Leicestershire Local Enterprise Partnership (LLEP) area; and to ensure alignment and reduce duplication with any other local discretionary business grants that may have been established. The councils within the LLEP area are mindful of this suggestion, however the extent to which this can be achieved in practice will be limited by the significant time constraints and by local priorities.

4.2 As set out by the Government, the LDSG is to be primarily and predominantly allocated taking into consideration the following points.

- Ongoing fixed costs
- The amount of staff they employ
- Loses incurred as a result of lockdown
- Ability to trade online during the lockdown period

4.3 National priorities - Nationally the Government's guidance has encouraged that this fund is used to help businesses that were not forced to close but severely impacted (e.g. suppliers to the retail, hospitality, leisure or events industry).

The LDSG is available both to eligible businesses that plan to continue operating and, in a different way, to those that are required to close for the period of these restrictions (at least four weeks).

4.4 Other eligibility criteria that must be met to be able to access this grant are that the business:

- Can't be insolvent
- Can't be in administration
- Can't have a striking off notice
- Must adhere to state aid requirements by receiving the funding

4.5 Charnwood Borough Council (CBC) wishes to support those businesses that adhere to the priorities as set out in section 4 and can demonstrate significant hardship is being experienced as a result of the recent lockdown. In order to assess against this CBC has set up an application process that applicants will be required to fill in. This will be explored further in section 5.

5. Application Process and Timescale

5.1 The Government recognises that local authorities will need to run some form of application process as the potential beneficiaries are highly unlikely to be known directly by the local authorities. Also, the Council must manage the process in a fair and equitable manner within the funding available.

5.2 In order to make this process as easy as possible for businesses the Council intends to run 1 application form for LDSG. Once received the Council will then assess which grant businesses are eligible and allocate the funding this way. For future rounds of discretionary grants, there maybe need for a further application process or where relevant information is held automatic payments may be made

The Council invites applications via its website www.charnwood.gov.uk

Any applicant who is unable to apply via the website should contact DGF@charnwood.gov.uk to request support in completing an application

5.3 Applications will be usually be accepted for a 2 week period after which the scheme will close. Potential applicants should assume that this window will not be extended, although the Council reserves the right to do so.

5.4 The Council's website will set out the information required from applicants, which will be the minimum reasonably required to establish eligibility and enable a fair and equitable assessment of grant entitlement. Applicants will be asked to evidence or demonstrate the following:

- Compliance with the scheme eligibility requirements
- Ongoing fixed business-related costs
- Identification of the business and the person making the application
- Evidence of trading for the required period
- Evidence that the bank account into which any grant will be paid properly relates to the business, charity, etc.

Depending on the status of the applicant, applicants may also be asked to demonstrate:

- A significant fall in income due to the COVID-19 crisis
- Number of jobs directly supported by the business or charity

- Whether any other grants or financial support has been received previously
- If they are in receipt of ongoing grant payments e.g LRSG (Closed)

5.5 The Council will individually assess and validate applications as they are received and may request further information should it be required. The pre-payment checks will include confirming eligibility, checks against Companies House and other government websites.

5.6 Applicants would also be asked to confirm that by accepting payments they are in compliance with State Aid rules, that to the best of their knowledge they are eligible for the scheme, and acknowledge that the council reserves the right to recover any funding made in error or as the result of misleading information being submitted and that they are happy for their information to be stored in adherence to the relevant GDPR regulations. The Council's website will require applicants to confirm acceptance of various compliance statements through tick boxes.

5.7 The Council will undertake written post payment assurance around compliance, in particular State Aid as per the request set out in the guidance provided by national government for post payment monitoring and reporting

5.8 There is no right to appeal, and the decision of the Council is final. The Council's interpretation of this document is at its own discretion and it will be the final arbiter of the definitions contained within this policy.

5.9 The Local Discretionary Support Grant Scheme applies initially for a 28-day period. If the lockdown arrangements are extended or tiered restrictions are imposed, and additional Government funding is made available, further consideration will be given as to how the funds will be distributed for example further tranches of the scheme.

6.0 How will the value of grants be calculated?

6.1 The Government guidance states that in taking decisions on the appropriate level of grant, local authorities may want to consider the level of:

- Fixed costs faced by the business in question,
- The number of employees, Whether businesses have had to cease trading and are unable to trade online
- The consequent scale of impact of this lockdown on income

6.2 The Council has considered this statement and has developed an application process and assessment criteria that take these considerations into account.

In addition, Charnwood Borough Council will also consider:

- Independent locally owned businesses with a longstanding commitment to Charnwood
- Any previous grant or financial support businesses may have already received during the pandemic
- Any ongoing grants being received e.g LRSG (Closed)

6.3 Charnwood Borough Council has determined that the value of any grants awarded will be in the following bandings:

- £1,000
- £2,500
- £5,000
- £10,000
- £20,000

The value of the grant awarded will be dependent on the outcome of the scoring of the application against the criteria as set out in 6.1 and6.2. The value of the grant awards may be pro rata'd should the qualifying number of applications exceed the funding pot available.

6.4 As allowed within the guidance, the Council reserves the right to award a higher level of funding to support larger businesses that are important to our local economy. This allocation will be determined on a case by case basis.

6.5 The emphasis of this fund will be on making meaningful payments to those in significant need, rather than paying as many businesses as possible small amounts. Due to this, grants will be determined on a case by case basis following careful consideration of the information provided. Therefore, an application to this grant scheme does not guarantee that a grant will be received.

6.6 We reserve the right to modify and/or withdraw each grant award and its associated conditions, particularly to ensure that public money is spent well. This may be in response to changes in national legislation, local economic and health conditions and changes in funding circumstances. Any payments made outside of the payment cycles will be pro-rata'd accordingly.

7.0 Managing the Risk of Fraud

7.1 The Council and the Government will not accept deliberate manipulation and fraud. Any business or person caught falsifying their records or the information submitted to gain a grant award will face prosecution and any funding issued will be subject to clawback, as may any grants paid in error.

7.2 The Government's grants management and counter fraud functions will provide local authorities with access to 'Spotlight', a digital assurance tool. This tool will also assist the Council with pre and post payments assurance, including identification of high-risk payments. There will also be joint working across councils and government departments in preventing fraud.

7.3 The Council also reserves the right to use any details submitted by businesses to check against national records and databases to highlight any potentially fraudulent activity.

8. Policy Review

8.1 This policy has been written in line with Government guidance. It will be subject to dynamic review as circumstances dictate and in line with future clarifications and changes that may be announced by the Government.

Strategic Director of Environmental & Corporate Services

Charnwood Borough Council

January 2021

APPENDIX B

CHARNWOOD ADDITIONAL RESTRICTIONS GRANT: SCORING MATRICES & GRANT ALLOCATIONS v.1.0.

Grants in the following categories are awarded based on eligibility, and then calculated according to algorithm set out within the policy, as follows:

Score	0	1	2	3	4
Maintain and support employment in Charnwood Each owner / director and full-time jobs counts as ONE; each part-time job counts as HALF		Jobs supported: 2 or fewer jobs	Jobs supported: 2.5 – 10 jobs	Jobs supported: 10.5 – 20 jobs	Jobs supported: Above 20 jobs
Have relatively high on-going fixed costs Include things such as overheads, insurance etc..	Ongoing fixed business costs £0 - £999	Ongoing fixed business costs £1,000 - £10,000	Ongoing Fixed business costs £10,001 - £25,000	Ongoing Fixed business costs £25,001 - £51,000	Ongoing Fixed business costs £51,000+

Score	0	1	2	3	4
Can demonstrate that they have suffered a significant fall in income due to the COVID-19 crisis Assess based on self-certification and understanding of the business Consider whether business could mitigate CV19 losses via – e.g – home working (Examples where we would not generally expect significant impact include professional services such as accountants, lawyers, etc, or where we think businesses could / should have operated effectively on-line)	No income loss to business	Some loss of income due to CV19 appears likely: 0-25% loss	Significant loss of income due to CV19 appears likely: 26 - 50% loss	Major loss of income due to CV19 appears likely 51-75% loss	Total loss of income due to CV19 appears likely 76 -100% loss
Independent locally owned businesses/charities with a commitment to Charnwood Actual base of operations is deciding factor; registered offices may be ignored if essentially just a post box for statutory services	Not an independent locally owned business/charity	Independent, locally owned business/charity based within Charnwood			
Online Trading Does the business solely trade online, have a mixed model or only offer in person services		Online business model	Standard mixed business model (online and face to face)	Business only offers in person services	

Score	0	1	2	3	4
Has the business received any previous business grants or financial support? May have received previous business grants or loans – furlough or SEISS are disregarded for this purpose	Yes, previous grant or financial support received	No previous support received			
Does the business receive ongoing LRSG grants?	Yes		No		

Grant Allocations	Amount	Notes
Score 18 - 19	£20,000	Restrict pro rata if number qualifying result in funding pot being exceeded
Score 16 - 17	£10,000	Restrict pro rata if number qualifying result in funding pot being exceeded
Score 13 -15	£5,000	Restrict pro rata if number qualifying result in funding pot being exceeded
Score 10 - 12	£2,500	Restrict pro rata if number qualifying result in funding pot being exceeded
Score 7- 9	£1,000	Restrict pro rata if number qualifying result in funding pot being exceeded
Score 0 - 6	Nil	