Public Document Pack

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To: **All Members of the Borough Council**

You are requested to attend the meeting of the Charnwood Borough Council to be held in the Virtual Meeting - Zoom on Monday, 22nd February 2021 at 6.30 pm for the following business.

Chief Executive

Southfields
Loughborough

12th February 2021

AGENDA

1. APOLOGIES

2. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

Section 106 of the Local Government Finance Act 1992 requires that a Councillor who owes arrears of Council Tax which have been outstanding for more than two months must declare this at any Council meeting which considers the setting of a budget and the Council Tax, and that they should not vote on those matters. Failing to comply with those requirements if they apply is an offence. If this applies to any Councillors at this meeting, they are therefore advised to make the required declaration and to leave the meeting during consideration of item 6.1.

It is a requirement of the Council's Code of Conduct for Members that the existence and nature of all personal interests must be disclosed. Therefore, in the case of item 6.1 on the agenda, 2021-22 General Fund, HRA Revenue Budgets and Council Tax and Medium Financial Strategy 2021/24 , it is suggested that members of precepting authorities declare such interests. (For example, this would relate to members of Leicestershire County Council, the Combined Fire Authority and Parish and Town Councils).

3. MINUTES OF THE PREVIOUS MEETING 7 - 12

To confirm the minutes of the Council meeting held on 18th January 2021.

4. ANNOUNCEMENTS

4.1. MAYOR'S ANNOUNCEMENTS

4.2. LEADER'S ANNOUNCEMENTS

To consider significant, recent matters affecting the Council or the Borough (if any).

4.3. CHIEF EXECUTIVE'S ANNOUNCEMENTS

To receive announcements from the Chief Executive (if any).

5. PETITIONS

To allow councillors to formally submit petitions for consideration under the Council's petition scheme, as set out in Full Council Procedure 9.8.

6. BUSINESS RESERVED TO COUNCIL

To consider the following matters reserved to Council in accordance with Section 5 of the Constitution:

6.1. GENERAL FUND AND HRA REVENUE BUDGETS AND COUNCIL TAX 2021-22 AND MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2021-24

A report of the Cabinet, setting out the proposed General Fund and HRA Revenue Budgets for 2021/22 along with the proposed Council Tax Levy, the 2021/22 proposals to increase rent and service charges within the ring-fenced Housing Revenue Account and the Medium Term Financial Strategy 2021-24.

The full Council Tax recommendations, which the Council must consider in order to set a Council Tax Levy, and General Fund and HRA Revenue Budgets for 2021/22, will be circulated once the major preceptors have confirmed their precepts.

6.2. CAPITAL STRATEGY, INCLUDING TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION 13 - 80

POLICY 2021/22

A report of the Cabinet to set out a Capital Strategy, the Treasury Management Strategy Statement, the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy for 2021/22 for consideration and approval.

6.3. TREASURY MANAGEMENT - MID-YEAR REVIEW FOR THE 6 MONTHS ENDED 30TH SEPTEMBER 2020 — 81 - 101

A report of the Cabinet to consider the mid-year review of the Treasury Management Strategy and Annual Investment Strategy, plus the various Prudential Borrowing and Treasury Indicators for the first six months of 2020/21.

6.4. REPORT OF THE INDEPENDENT REMUNERATION PANEL (IRP) IN RESPECT OF ALLOWANCES PAID TO MEMBERS OF CHARNWOOD BOROUGH COUNCIL FOR 2021/22. — 102 - 115

A report of the Chief Executive to consider the findings and the recommendations of the Independent Remuneration Panel in respect of allowances paid to members of Charnwood Borough Council (attached as Appendix A) and the Scheme of Members' Allowances for 2021/22 (attached as Appendix B).

7. CALL-IN REFERENCES

There are no references to Council following the call-in of a Cabinet decision under Scrutiny Committee Procedure 11.7.

8. POSITION STATEMENTS

No requests for position statements were received.

9. MOTIONS ON NOTICE

No motions on notice have been received.

10. QUESTIONS ON NOTICE

To deal with the following questions on notice, submitted under Full Council Procedure 9.9(a):

10.1. SECTION 106 MONIES

Question submitted by Councillor Taylor.

10.2. CHARNWOOD PARALYMPICS

Question submitted by Councillor Popley.

10.3. LEGISLATION OF VIRTUAL MEETINGS

Question submitted by Councillor Draycott.

11. MINUTE REFERENCES

There are no minute references.

12. URGENT EXECUTIVE DECISIONS EXEMPTED FROM CALL-IN 116 - 135

To note a decision which was exempted from call-in in accordance with Scrutiny Committee Procedure 11.9.

13. NOMINATION OF MAYOR ELECT 2021/22

To receive nominations for the Mayor Elect for 2021/22 (subject to nomination and appointment at the Annual Council, scheduled for 17th May 2021).

14. NOMINATION OF DEPUTY MAYOR ELECT 2021/22

To receive nominations for the Deputy Mayor Elect for 2021/22 (subject to nomination and appointment at the Annual Council, scheduled for 17th May 2021).

15. APPOINTMENTS TO COMMITTEES

To consider any changes to Committee membership for the current Council year (2020/21) (if any).

FORTHCOMING SCHEDULED MEETINGS OF COUNCIL

Council Meeting Date	**Deadline Date and Time for Councillors to submit Questions on Notice (under Full Council Procedure 9.9(a)), Requests for Position Statements (under Full Council Procedure 9.10) and Motions on Notice (under Full Council Procedure 9.11(a))**
Monday, 29th March 2021	Extraordinary Meeting
Monday, 26th April 2021	Friday, 16th April 2021 at noon
Monday, 17th May 2021	Annual Council – No Questions on Notice, Position Statements or Motions on Notice
Monday, 21st June 2021	Friday, 11th June 2021 at noon
Monday, 6th September 2021	Friday, 27th August 2021 at noon

Councillors, please send your question, request for position statement or motion on notice to:

Karen Widdowson, Democratic Services Manager
Council Offices, Southfield Road, Loughborough, LE11 2TX
Email: democracy@charnwood.gov.uk

CHARNWOOD BOROUGH COUNCIL

MEETING OF THE CHARNWOOD BOROUGH COUNCIL HELD IN VIRTUAL MEETING - ZOOM ON 18TH JANUARY 2021

PRESENT
The Mayor (Councillor Snartt)
The Deputy Mayor (Councillor Baines)

Councillor Bailey
Councillor Baines
Councillor Barkley
Councillor Bokor
Councillor Boldrin
Councillor Bolton
Councillor J. Bradshaw
Councillor S. Bradshaw
Councillor Brennan
Councillor Brookes
Councillor Campsall
Councillor Capleton
Councillor Charles
Councillor Draycott
Councillor Fryer
Councillor Gerrard
Councillor Goddard
Councillor Grimley
Councillor Hadji-Nikolaou
Councillor Hamilton
Councillor Harper-Davies
Councillor C. Harris
Councillor K. Harris
Councillor Howe
Councillor Hunt
Councillor Lowe
Councillor Mercer
Councillor Miah
Councillor Morgan
Councillor Murphy
Councillor Needham
Councillor Pacey
Councillor Paling
Councillor Parsons
Councillor Parton
Councillor Poland
Councillor Popley
Councillor Radford
Councillor Ranson
Councillor Rattray
Councillor Rollings
Councillor Savage
Councillor Seaton
Councillor Shepherd
Councillor Smidowicz
Councillor Tassell
Councillor Taylor
Councillor Tillotson
Councillor Ward

Honorary Aldermen Day

71. APOLOGIES

Apologies for absence had been received from Councillor Forrest and Honorary Aldermen Bush, Stott and Tormey.

72. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

The were no disclosures of pecuniary or personal interests.

73. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting of Council held on 9th November 2020 were confirmed and signed.

74. ANNOUNCEMENTS

75. MAYOR'S ANNOUNCEMENTS

The Mayor made the following announcements.

“I had the pleasure of being involved in the Charnwood Community Hero Awards. It was humbling to meet some of the people who have contributed so much to the wellbeing of communities within Charnwood. Many were recognised for their excellent support to people in need during the coronavirus pandemic.

In my view, what makes these awards so special, they are for the people, organisations and businesses who have been nominated by local people who have seen the difference their actions and contributions have made during the year. This was a time to have the opportunity to say thank you to everyone who had been nominated, especially this year when many people have depended on kindness and support. I know they have gone the extra mile to help others in so many ways. I believe this is the reason Charnwood is a great place to live. I thank everyone who has taken the time to help others during these last few difficult months.

May I also take the opportunity to thank all the Council officers involved, making these awards such a success, recognising the valuable contribution made by so many people, organisations and businesses throughout 2020.

I would also like to mention that due to the Pandemic, the Loughborough Council of Faiths have decided it would be irresponsible to suggest people attend Loughborough’s Queens Park to lay pebbles this year, so have decided to cancel the Holocaust Memorial Day event scheduled to take place on Wednesday 27th January 2021. Please can Cllrs and Honorary Aldermen that normally attend please take this engagement out of your diaries”

76. LEADER'S ANNOUNCEMENTS

The Leader made no announcements.

77. CHIEF EXECUTIVE'S ANNOUNCEMENTS

The Chief Executive made no announcements.

78. PETITIONS

No petitions were submitted.

79. BUSINESS RESERVED TO COUNCIL

80. BOUNDARY REVIEW

A report of the Cabinet to consider a submission for the first stage of the Local Government Boundary Commission for England (LGBCE) electoral review. (item 6.1 on the agenda filed with these minutes).

It was proposed by Councillor Morgan, seconded by Councillor Miah and

RESOLVED

1. That Council approve the submission appended to the report (attached as an Annex) as the Council's submission to the LGBCE regarding Council Size, which supports the continuation of the current number of 52 councillors.

2. That Council give delegated authority to the Chief Executive and the Head of Strategic Support, in consultation with the Leader of the Council, to make minor typographical amendments and corrections to the document prior to submission if required.

Reasons

1. To agree a submission to the LGBCE as part of stage 1 of their review concerning council size.

2. To allow for any minor errors to be corrected before the document is submitted.

81. CHARNWOOD STATEMENT OF COMMUNITY INVOLVEMENT

A report of the Cabinet to seek approval for the adoption of the Statement of Community Involvement (item 6.2 on the agenda filed with these minutes).

It was proposed by Councillor Bailey, seconded by Councillor Fryer and

RESOLVED that the Statement of Community Involvement in Appendix A of Part B to the report of the Head of Planning and Regeneration (attached as an Annex) be adopted.

Reason

To meet statutory timescales to update the Statement of Community Involvement every five years and ensure that the Council has modern and engaging approaches to plan-making consultations that are sufficiently flexible to enable plan-making to progress in the context of COVID-19 restrictions. Also, to set out the Council's approach to supporting neighbourhood planning and consult on planning applications.

82. PAY POLICY STATEMENT

A report of the Personnel Committee to consider a recommendation from the Personnel Committee that the Pay Policy Statement for 2021/22 be approved and adopted (item 6.3 of the supplementary agenda filed with these minutes).

It was proposed by Councillor Morgan, seconded by Councillor Boldrin and

RESOLVED that the Pay Policy Statement for 2021/22, as set out in Appendix A to the report considered by the Personnel Committee (attached as an appendix), be approved and adopted.

Reason To ensure that the Council meets its obligations under Section 38 of the Localism Act 2011.

83. CALL-IN REFERENCES

There were no call-in references from Scrutiny.

84. POSITION STATEMENTS

No position statements had been requested.

85. MOTIONS ON NOTICE

No motions on notice had been submitted.

86. QUESTIONS ON NOTICE

The questions on notice and the responses of the Leader or his nominee were submitted (item 10 on the agenda filed with these minutes).

87. LEISURE CENTRE USAGE AND INCOME

Councillor Julie Bradshaw thanked the Lead Member for the response and asked whether the £13m received by Fusion Leisure from central government would be used towards repayments of the funds loaned by the Council?

Councillor Harper-Davies thanked Councillor Bradshaw for the question and stated that it was unclear how the £13m would be spent. She advised that officers would enquire about this and provide an answer to the question.

88. STAFF SICKNESS

Councillor Draycott thanked the Lead Member for the response and stated that she did not think there had been a reduction in staff sickness during 2020. As many staff members were working from home, she believed that this would encourage them to continue to work, whereas they may previously have taken time off due to illness. She stated that staff sickness recording should be adapted to reflect new working cultures.

Councillor Smidowicz thanked Councillor Draycott for the question, stated that it was an interesting point and agreed to look into the matter. She also advised that there were protocols in place to increase the accuracy of sickness recording.

89. OPEN SPACES

Councillor Draycott acknowledged that much of the open space enjoyed by members of the public would be used in order to fulfil the Council's pledge to plant 100,000 trees. She requested that information be circulated to Councillors on proposed sites for the 100,000 trees, or that a report outlining this information to be submitted to the Loughborough Area Committee.

Councillor Bokor thanked Councillor Draycott the question and stated that there had been consultation with residents on the potential impact of trees being planted in their locality and that residents did not see an issue. She stated that information on proposed sites could be communicated to Councillors.

90. DIGITAL HIGH STREET

Councillor Parton did not wish to ask a supplementary question.

91. ROUGH SLEEPER PROVISION

Councillor Parton did not wish to ask a supplementary question.

92. HMO BIN PROVISION

Councillor Parton did not wish to ask a supplementary question.

93. LOUGHBOROUGH TOWN DEAL BID

Councillor Miah thanked the Lead Member for the response and asked whether there were any Consultants currently working with the Council on the revised Loughborough Town Deal Town Investment Plan?

Councillor Morgan thanked Councillor Miah for the question. He stated that the Loughborough Town Deal Board was leading on the revised Town Investment Plan, with the support of Council officers and that there was not a need for any external Consultants to be involved. He also stated that Loughborough was just one of many towns that were resubmitting their bid for funding.

94. MINUTE REFERENCES

There were no minute references.

95. URGENT EXECUTIVE DECISIONS EXEMPTED FROM CALL-IN

A report of the Chief Executive, informing the Council of an urgent decision made by the Cabinet that was exempted from call-in in accordance with Scrutiny Committee Procedure 11.9, was submitted (item 12 on the agenda filed with these minutes).

96. APPOINTMENTS TO COMMITTEES

There were no proposals to consider.

Note:

These minutes are subject to confirmation as a correct record at the next meeting of the Council which is scheduled for Monday 22nd February 2021

COUNCIL – 22ND FEBRUARY 2021

Report of the Cabinet

ITEM 6.2 CAPITAL STRATEGY, TREASURY MANAGEMENT STRATEGY STATEMENT, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY 2021/22

Purpose of Report

To set out a Capital Strategy, the Treasury Management Strategy Statement, the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy for 2021/22 for consideration and approval.

Recommendations

1. That the Capital Strategy, as set out at Appendix A of the report (attached as an Annex), be approved.

2. That the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy, as shown at Appendix B of the report (attached as an Annex), be approved.

3. That the Prudential and Treasury Indicators, also set out in Appendix B of the report (attached as an Annex), be approved.

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

Policy justification detailed in the attached Annex.

At its meeting on 11th February 2021, the Cabinet considered a report of the Head of Financial Services setting out a Capital Strategy, the Treasury Management Strategy Statement, the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy for 2021/22, for recommendation to Council. A copy of that report is attached as an Annex.

The following minute extract details Cabinet's consideration of the matter:

"86. CAPITAL STRATEGY, TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY AND ANNUAL INVESTMENT STRATEGY 2021-22

Considered, a report of the Head of Financial Services setting out the Capital Strategy, Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy for 2021-22, for recommendation to Council (item 8 on the agenda filed with these minutes).

The Strategic Director; Environmental and Corporate Services and the Head of Financial Services assisted with consideration of the report. Reference was made to consideration of the report by the Audit Committee at its meeting on 9th February 2021, in particular that (i) a minor correction would need to be made to the Treasury Management Strategy Statement prior to submission to Council and (ii) an additional recommendation was made to this Cabinet meeting as a result of a concern expressed by the Committee as follows:

Correction:

Agenda page 124, 2nd paragraph, wording "which is subject to approval by Council 9 November 2020" be corrected to read "which was approved by Council 9 November 2020".

Additional recommendation:

4. *That the Audit Committee's concern about the removal of the measurement criteria relating to future investment in Commercial Property be noted.*

Reason

4. *To ensure Cabinet is aware of the removal of these criteria, and that if they are reinstated at any point in the future a formal approval process will be required, which should involve the Audit Committee.*

RESOLVED

1. *that the Capital Strategy, as set out at Appendix A of the 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 the report and corrected above, be approved and **recommended to Council**;*

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

4. *that the Audit Committee's concern about the removal of the measurement criteria relating to future investment in Commercial Property be noted.*

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.*

4. *To ensure Cabinet is aware of the removal of these criteria, and that if they are reinstated at any point in the future a formal approval process will be required, which should involve the Audit Committee."*

Implementation Timetable including Future Decisions and Scrutiny

As detailed in the attached Annex.

The report of the Head of Financial Services on this matter was considered by the Audit Committee at its meeting on 9th February 2021.

Report Implications

As detailed in the attached Annex.

Key Decision:	Yes
Background Papers:	No additional background papers.
Officer to Contact:	Lesley Tansey Head of Financial Services 01509 634828 lesley.tansey@charnwood.gov.uk
	Simon Jackson Strategic Director; Environmental and Corporate Services 01509 634699 simon.jackson@charnwood.gov.uk

ANNEX

CABINET – 11TH FEBRUARY 2021

Report of the Head of Finance and Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 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.

<u>Appendices</u>

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

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.

Commercial Investment properties

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.

<u>Loans to local enterprises and third parties</u>

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.

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[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

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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 was approved 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

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

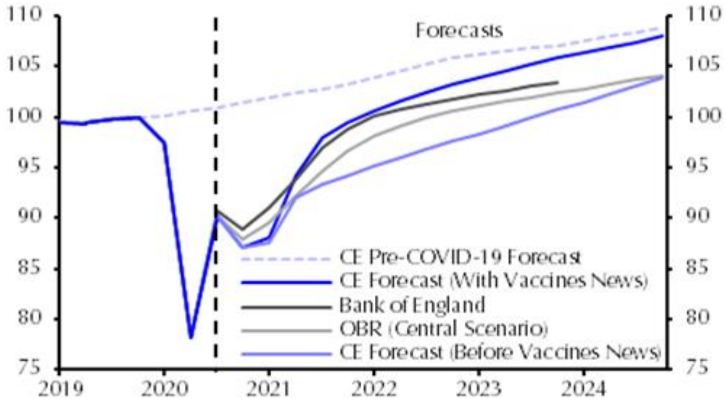
- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% 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.

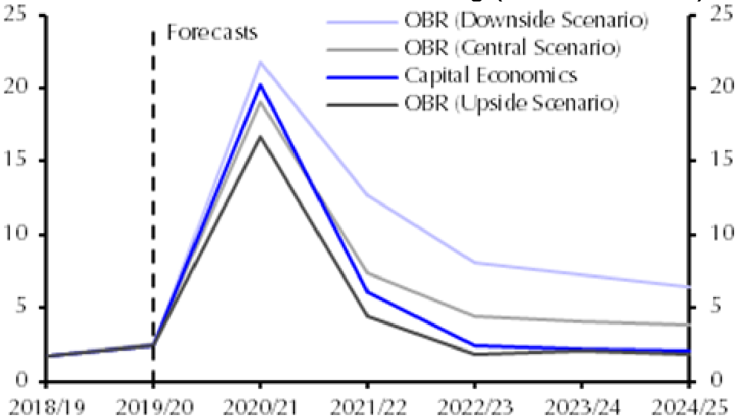
Chart: Level of real GDP (Q4 2019 = 100)



(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.)

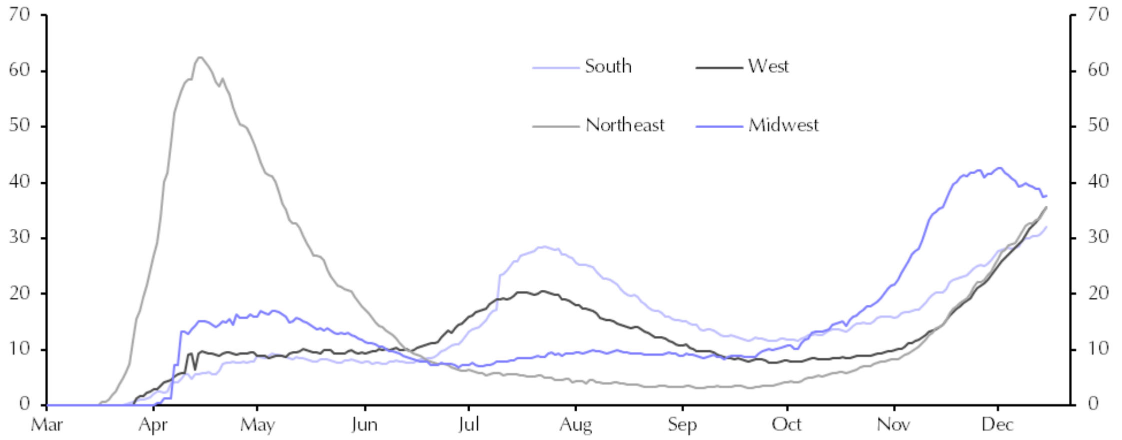
- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March 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

APPENDIX B(3)

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**			

APPENDIX B(7)

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

COUNCIL – 22ND FEBRUARY 2021

Report of the Cabinet

ITEM 6.3 TREASURY MANAGEMENT – MID-YEAR REVIEW FOR THE 6 MONTHS ENDED 30TH SEPTEMBER 2020

Purpose of Report

To consider the mid-year review of the Treasury Management Strategy and Annual Investment Strategy, plus the various Prudential Borrowing and Treasury Indicators for the first six months of 2020/21.

Recommendation

That 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 to the Cabinet, attached as an Annex, be noted.

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.

Policy Justification and Previous Decisions

The Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy must be approved by Council each year and reviewed half yearly. This review is set out in Part B of the report to the Cabinet, attached as an Annex. The Strategy for the year was approved by Council on 9th November 2020 (Council Minute 51 2020/21 refers).

At its meeting on 14th January 2021, the Cabinet considered a report of the Head of Financial Services, setting out the the mid-year review of the Treasury Management Strategy and the Annual Investment Strategy, plus the various Prudential Borrowing and Treasury Indicators. That report is attached as an Annex.

The Cabinet resolved as follows, for the reason set out:

"*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."

Implementation Timetable including Future Decisions and Scrutiny

If approved by Council, this decision will have immediate effect.

Report Implications

Financial Implications

There are no financial implications further to those set out in the report to the Cabinet, which is attached as an Annex.

Risk Management

There are no risks further to those set out in the report to the Cabinet, which is attached as an Annex.

Key Decision:	No
Background Papers:	None
Officer to Contact:	Laura Strong Democratic Services Officer (01509) 634734 laura.strong@charnwood.gov.uk

ANNEX

CABINET – 14TH JANUARY 2021

Report of the Head of Financial Services

Lead Member: Councillor Tom Barkley

Part A

ITEM TREASURY MANAGEMENT UPDATE–MID-YEAR REVIEW FOR THE 6 MONTHS ENDED 30TH SEPTEMBER 2020

Purpose of Report

This report reviews 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.

Recommendation

That it be recommended to Council to note this 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.

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.

Policy Justification and Previous Decisions

The Capital Strategy including the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy, Prudential & Treasury Indicators must be approved by Council each year and reviewed half yearly. This review is set out in the attached report as Part B. The Strategy for the year was approved by Council on 9th November 2020.

Implementation Timetable including Future Decisions and Scrutiny

This report will be presented to Cabinet on 14th January 2021 for onward recommendation to the full Council meeting of 22nd February 2021.

The report is available for scrutiny by the Scrutiny Commission at the regular meeting scheduled for 11th January 2021.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management

There are no direct risks arising from the recommendation in this report. Risks associated with the Treasury Policy, etc and in general are set out within Part B.

Key Decision:	No
Background Papers:	None
Officer to contact:	Lesley Tansey Head of Finance 01509 634828 Lesley.tansey@charnwood.gov.uk

1. Background

1.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

a high-level 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.

1.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising 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 the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined 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

1.3 Regulatory framework

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full council of an annual Treasury Management Strategy Statement

   - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Audit Committee:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2020/21 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- A review of any debt rescheduling undertaken during 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

2. Economics and Interest Rates

2.1 Economics update

As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.

- The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.

- It forecast that there would be excess demand in the economy by Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

The MPC expected the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to **downside risks,** which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.

Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

There will 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. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

One key addition to **the Bank's forward guidance** 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

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

US. The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked **its inflation target** from 2% to maintaining an average of 2% over an unspecified time period i.e.following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is 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 so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

EU. The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The 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 weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. 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. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

World growth. Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

2.2 Interest rate forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 11th August 2020 (PWLB rates are certainty rates, gilt yields plus 180bps):

Link Group Interest Rate View 11.8.20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

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 meeting on 6th August (and the subsequent September meeting), 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 within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

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 heightened expectations 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 30 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. After gilt yields spiked up during the initial phases of the health crisis in March, we have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, 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. At the close of the day on 30th September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It is now clear that HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK** - second nationwide wave of virus infections requiring a national lockdown
- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries

who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.
- **US – the Presidential election in 2020:** this could have repercussions for the US economy and SINO-US trade relations.

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

- **UK -** stronger than currently expected recovery in UK economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect

3. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2020/21 was approved by this Council on 9th November 2020. There are no changes in this report to the TMSS since 9th November Council in the light of economic and operational movements during the year.

To note the current Operational Boundary borrowing limits and the Authorised limits are part of the prudential guidelines and these remain as they were previously reported.

The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be similar 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 Limits	***2019/20 Actual £'000***	***2020/21 Estimate £'000***	***2021/22 Estimate £'000***	***2022/23 Estimate £'000***
Debt	81,190	81,190	81,190	8,190
Commercial Activities	0	47,400	57,400	57,400
Total	**81,190**	**128,590**	**138,590**	**138,590**

A further prudential indicator controls the overall level of borrowing. This is **the Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limits	***2019/20 Actual £'000***	***2020/21 Estimate £'000***	***2021/22 Estimate £'000***	***2022/23 Estimate £'000***
Debt	96,000	96,000	96,000	96,000
Commercial Activities	0	47,400	57,400	57,400
Total	**96,000**	**143,400**	**153,400**	**153,400**

4. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

The Council's capital expenditure plans;

How these plans are being financed;

The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and

Compliance with the limits in place for borrowing activity.

4.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	***2020/21 current Budget £m***	***Actual Spend 13/11/2020 £m***	***Variance underspend/ (overspend) £m***
General Fund	12,395	4,668	7,727
Commercial Investments	25,000	10,673	14,327
Enterprise Zone	15,000	0	0
Regeneration	5,000	0	0
HRA	8,941	798	8,143
Total capital expenditure	**66,336**	**16,139**	**50,197**

1. The Actual Capital spend is slow for the first half of the year primarily due to Covid. The Capital Plan update report provides details of each scheme and was presented to Cabinet at the meeting of 10th December 2020.

2. Current year spend on Investment in Commercial Property is £10.7m. Three properties have been purchased to date:- 14/14A Market Street, Loughborough (previously Crawshaws Butchers), Belton Road, Loughborough (Car Showroom) and 1 Brookhill Way, Banbury. The purchase of these properties will generate revenue income, support the Medium Term Financial Strategy, thereby protecting the delivery of services to Charnwood's residents.

4.2 Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Financing of capital expenditure	***2019/20 Actual £'000***	***2020/21 Revised Estimate £'000***
Total Capital Expenditure as per above table	**10,444**	**66,336**
Financed by:		
Capital receipts	1,120	5,942
Capital grants/S106	857	3,875
Capital reserves	4,595	662
Revenue Contributions	3,872	8,207
NHS Funding	0	250
Internal /External borrowing	0	47,400
Total Funding	**10,444**	**66,336**

4.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement
We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for external debt

Capital Financing Requirement	*2019/20 Actual £'000*	*2020/21 Revised Estimate £'000*
CFR - Fleet	0	2,400
CFR – Commercial Activities	0	25,000
CFR – Regeneration	0	5,000
CFR – Enterprise Zone	0	15,000
CFR – HRA	81,820	81,820
Total CFR	**81,820**	**129,220**
Movement in CFR represented by:		
Net financing need for the year	0	47,400
Less MRP/VRP and other financing movements	0	0
Movement in CFR	**0**	**47,400**

There is no MRP charged in 2020/21 as the current MRP policy is that a full years MRP will be made in the year after capital expenditure has incurred and when the assets are fully operational. MRP however will be charged from 2021/22 based on the assets purchased in 2020/21.

4.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2019/20 Actual £'000	*2020/21 Estimate £'000*	*2020/21 Actual £'000*
External Debt at 1 April	81,190	81,190	81,190
Expected change in Debt	0	47,400	0
Actual debt at 31 March	**81,190**	**128,590**	**81,190**
Capital Financing Requirement	81,820	129,220	81,820
Under/(over) borrowing	**630**	**630**	**630**

The Head of Finance & Property Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for External Debt	***2020/21 Estimate £'000***	***2020/21 Actual £'000***
External Debt Borrowing	96,000	81,190
Commercial Activities	47,400	0
Total	**143,400**	**81,190**

5. Investment Portfolio 2020/21

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in section 2.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.10% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short-term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low

The average level of funds available for investment purpose during the first half year was £50m. Internal investments as at 30th September 2020 and the investment portfolio yield for the first 6 months of the year is 0.53% against a benchmark of 3 months London interbank Bid Rate (LIBID) of 0.11 %. Although the rate of return is low, our performance can still to be reasonable as we have exceeded the target rate.

The interest & rental income earned by the Council's £5m External Property Funds' investments as at 30th September 2020 is £99k, net 1.61%. (£91k 2019/20) This is a good net rate of return in comparison to internal investments 0.53% and LIBID 0.11%.

The Head of Finance & Property Services confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2020/21.

The Council's revised budgeted annual investment return for 2020/21 is £300k, and performance for the year to date is £234k including Property Funds. The Council performed above target in both percentage and actual returns to date and should perform above the budget set 2020/21.

6. Borrowing

The Council's capital financing requirement (CFR) for 2020/21 is £129,220m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions; however, Table 4.4 shows the Council has actual borrowings of £81,190m, this is £2m of an external loan which matures in 2024 and £79,190 HRA Debt.

It is anticipated that further borrowing will not be undertaken during this financial year.

Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR), no new external borrowing has been undertaken. However, due to the increase in PWLB margins over gilt yields in October 2019, and the subsequent consultation on these margins by HM Treasury - which ended on 31st July 2020 - the Authority has refrained from undertaking new long-term PWLB borrowing for the present and has met its requirements for additional borrowing by using short-term borrowing until such time as new PWLB margins are finally determined. In addition, the effect of coronavirus on the capital programme objectives are being assessed. Therefore, our borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

7. Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

No new external borrowing was undertaken during the half year, the council however has plans to review its internal borrowing and external borrowing position in light of the updated Capital Strategy Report Strategy Cabinet Report of 15th October 2020 and the recent PWLB announcement to close PWLB borrowing for investments in Commercial Properties.

Appendices

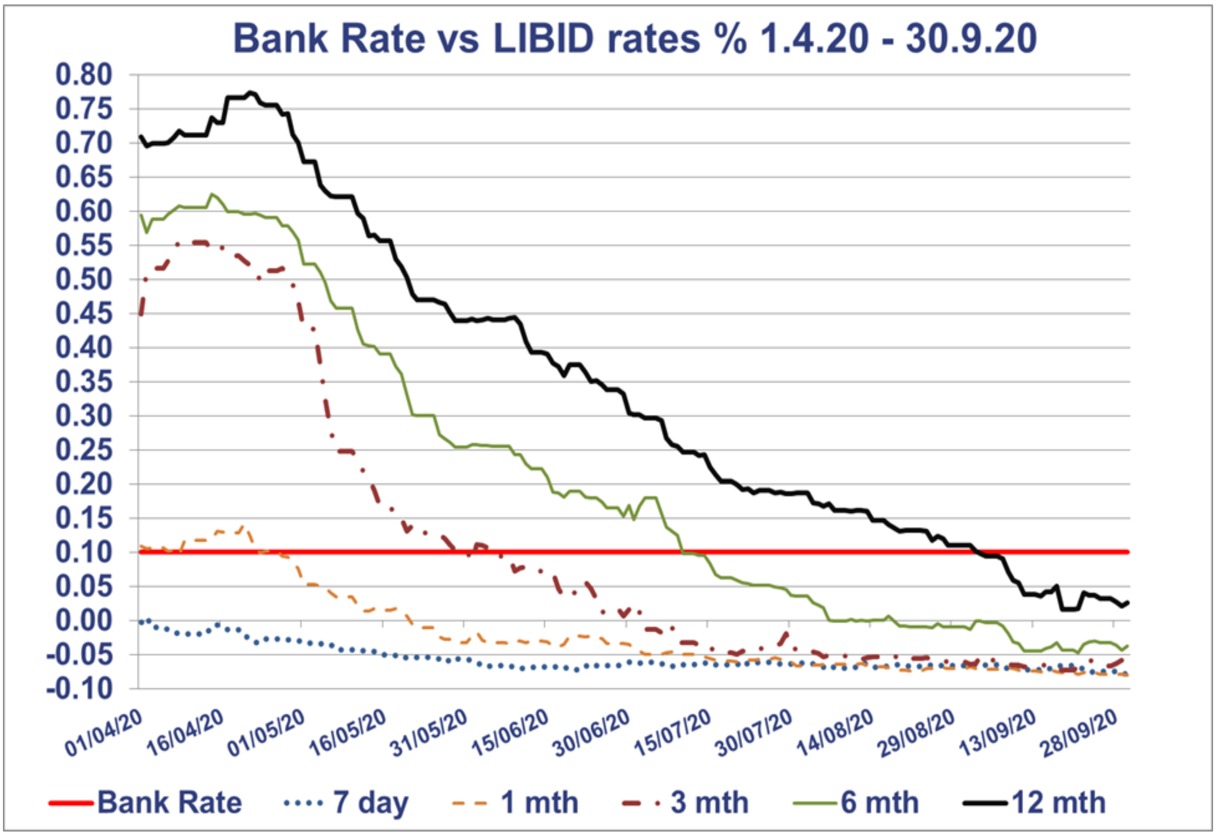
Appendix 1: Portfolio of investments as at 30th September 2020

Appendix 2: Approved countries for investments as at 30th September 2020

Appendix 3: Glossary of Terms

APPENDIX 1: Investment Portfolio
Investments held as at 30 September 2020

Institution	Maturity Date	Interest Rate %	Principal £'000
Wyre Forest District Council	09/10/2020	1.40	2,000
Liverpool City Council	14/10/2020	1.00	2,000
Slough Borough Council	01/04/2021	0.96	2,000
HSBC - Evergreen	3 Month Notice	0.91	5,000
HSBC	31 Day Notice	0.25	7,000
Santander	180 Day Notice	1.00	8,000
Goldman Sachs International Bank	95 Day Notice	0.71	2,500
Goldman Sachs International Bank	35 Day Notice	0.17	2,500
Federated Money Market Fund	1 Day Notice	0.23	8,080
Standard Chartered Bank	91 Day Notice	0.11	5,000
Aberdeen Money Market Fund	1 Day Notice	0.19	10,000
Insight Money Market Fund	1 Day Notice	0.10	1,350
Lothbury Property Fund			2,500
Hermes Property Fund			2,500
Total			**60,430**



APPENDIX 2: Approved countries for investments as at 30th September 2020

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.**

APPENDIX 3: Glossary of Terms

Capital Financing Requirement
CFR is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of expenditure above, which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

Operational Boundary
The operational boundary 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.

Authorised Limit for External Debt
A further key prudential indicator represents a control on the maximum level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Gross External Debt
This is the total amount borrowed by the Council at a point in time.

Investments
The budgeted figure is the estimated average funds available for investment during the year. The actual figure is the total amount invested as at 30th September for Internal and Property Funds .

Net Borrowing
Net borrowing is gross external debt less investments.

Loans
In this mid-year (and previously) interest receivable has exceeded interest payable for the General Fund producing a negative number for net interest payable and a somewhat odd-looking negative ratio; this can be construed as indicating that the Council has no issues servicing General Fund loans at this time.

COUNCIL – 22ND FEBRUARY 2021

Report of the Chief Executive

ITEM 6.4 REPORT OF THE INDEPENDENT REMUNERATION PANEL IN RESPECT OF ALLOWANCES PAID TO MEMBERS OF CHARNWOOD BOROUGH COUNCIL FOR 2021/22

Purpose of Report

To consider the findings and the recommendations of the Independent Remuneration Panel in respect of allowances paid to members of Charnwood Borough Council (attached as Appendix A) and the Scheme of Members' Allowances for 2021/22 (attached as Appendix B).

Recommendations

That Council considers the recommendations of the Independent Remuneration Panel, submitted in accordance with the Local Authorities (Members' Allowances) (England) Regulations 2003 as set out in Appendix A, and agrees to adopt the proposed Scheme of Members' Allowances for the 2021/22 financial year, as set out at Appendix B.

Reason

To ensure compliance with the Local Authorities (Members' Allowances) (England) Regulations 2003.

Policy Justification and Previous Decisions

In setting the level of allowances to be paid for each year, the Council is obliged to have regard to recommendations made by the Independent Remuneration Panel.

Attached at Appendix A is the report of the Independent Remuneration Panel in respect of the allowances it recommends should be paid to members of Charnwood Borough Council for the financial year 2021/22

Implementation Timetable including Future Decisions and Scrutiny

The revised Scheme of Allowances, if approved, would come into effect at the start of the 2021/22 financial year (ie. 1st April 2021).

Report Implications

The following implications have been identified for this report.

Financial Implications

The proposed allowances can be met from within existing budgets.

Risk Management

No specific risks have been identified in relation to this decision.

Background Papers:	None
Officer to Contact:	Adrian Ward Head of Strategic Support (01509) 634573 adrian.ward@charnwood.gov.uk

Appendices

Appendix A: Report of the Independent Remuneration Panel in Respect of Allowances Paid to Members of Charnwood Borough Council

Appendix B: Proposed Amended Members' Allowances Scheme

APPENDIX A

REPORT OF THE INDEPENDENT REMUNERATION PANEL IN RESPECT OF ALLOWANCES PAID TO MEMBERS OF CHARNWOOD BOROUGH COUNCIL 2021-22

THE PANEL

The Panel, which is appointed to make recommendations to the Council in respect of the allowances paid to Councillors, comprises the following members:

Patrick Cleere
Sumeet Dhul
Paul Smith

REMIT

The Local Authorities (Members' Allowances) (England) Regulations 2003 require, amongst other things, that the Council should have regard to the recommendations of an Independent Panel in agreeing allowances paid to Councillors.

Those Regulations require the Panel to produce a report making recommendations as to:

- The amount of basic allowance;
- Whether special responsibility allowances should be paid, and if so, the duties to which they should apply and the amounts of those allowances;
- Whether an allowance relating to the expense of arranging for the care of children or dependents should be available (carers' allowance) and, if so, the amount of that allowance;
- Whether travelling and subsistence allowances should be paid, and, if so, the duties for which they should be payable and the amounts of those allowances;
- Whether a basic allowance should be paid to co-opted members, and, if so, the amount of that allowance.

REPORT

This is the Independent Panel's report of its review of Members' Allowances for 2021/22. This report has been compiled and agreed by members of the Panel following meetings and consideration of the relevant issues between November 2020 and January 2021. The Head of Strategic Support attended the meetings to assist the Panel in consideration of these matters.

Link to Officer Pay Awards / Uplift for 2021/22

The link between Members Allowances and officer pay awards comes to an end on 31st March 2021.

In light of the Coucil's financial and budgetary situation, the Panel asked the Head of Strategic Support to consult all councillors on the following:

1. Linking increases in Member allowances to officer pay awards for a further 4 year period (with resultant increases in costs).
2. Pausing any increase in allowances for the year 2021/22 to save money and to allow time for the impact of the pandemic on the Council's finances to become clearer, with the Panel then reviewing the situation again for 2022/23.
3. Any other options or ideas that they may wish to suggest.

Fourteen councillors responded, and of those thirteen supported Option 2 (ie. that increases in allowances should be paused for 2021/22), and one supported Option 1 (ie. that a link to officer pay awards should be put in place for a further 4 years).

During the consultation period, the Chancellor of the Exchequer announced that there would be a pay freeze for public sector workers for 2021/22. Although this does not apply to the local government pay award, it is likely that it will have a significant impact on any local government pay negotiations for 2021/22.

The Panel also met with the Leaders of the Conservative and Labour groups.

Having considered the relevant factors and the responses from councillors, the Panel's recommendation is that there should be no uplift in Members Allowances for 2021/22 and that the Panel will reconsider the situation again next year, including the possibility of re-establishing a link to officer pay awards.

THE COUNCIL'S SCHEME OF MEMBERS' ALLOWANCES FOR 2021/22

The Panel has reviewed the Council's Scheme of Members' Allowances and have incorporated the recommendations contained within this report.

A copy is attached to this report for approval.

APPENDIX B

CHARNWOOD BOROUGH COUNCIL

SCHEME OF MEMBERS' ALLOWANCES

In accordance with the Local Authorities (Members' Allowances) (England) Regulations 2003, Charnwood Borough Council has agreed the following scheme for members' allowances. In the scheme the term year means the financial year commencing on 1st April 2021.

1. BASIC ALLOWANCE

Subject to paragraph 8, for each year a basic allowance as specified in schedule 1 to this scheme shall be payable to each councillor.

2. SPECIAL RESPONSIBILITY ALLOWANCE

(1) Subject to paragraph 8, for each year a special responsibility allowance shall be payable to those councillors and co-opted members who have the special responsibilities that are specified in schedule 2 to this scheme. For those councillors who have more than one special responsibility allowance, the highest will be paid at 100% and the second or subsequent allowances will be paid at 50%.

(2) Where a majority of councillors belong to the same political group (the controlling group), a special responsibility allowance shall be paid to at least one person who is not a member of the controlling group and has special responsibilities specified in schedule 2 to this scheme.

3. BASIC ALLOWANCE – CO-OPTED MEMBERS

Subject to paragraph 8, for each year, a basic allowance as specified in schedule 1 to this scheme shall be payable to co-opted members and Parish Members of the Member Conduct Committee.

4. CARERS' ALLOWANCE

Expenditure incurred by councillors in providing childcare or in providing care for an elderly, sick or disabled dependent relative to facilitate their attendance at duties specified in the Regulations and approved by the

Council shall be reimbursed in accordance with schedule 3 to this scheme.

5. TRAVEL AND SUBSISTENCE ALLOWANCES

Expenditure incurred by councillors in respect of travel and subsistence to facilitate their attendance at duties specified in the Regulations and approved by the Council shall be payable in accordance with schedule 4 to this scheme.

The travel and subsistence allowances set out in this scheme are available to the Co-opted and Parish Members of Council committees described in paragraph 3.

6. APPROVED DUTIES

Duties specified in the Regulations, together with specific duties approved by the Charnwood Borough Council in respect of which travel, subsistence and carers' allowances are payable are listed in schedule 5 to this scheme.

7. RENUNCIATION

A councillor may by notice in writing given to the Head of Financial & Property Services elect to forego any part of his or her entitlement to an allowance under this scheme.

8. PART-YEAR ENTITLEMENTS AND CEASING OF PAYMENTS

Councillors who are elected, or cease to be elected, part way through the Municipal Year shall receive their basic allowance pro-rata. The same provisions exist for those councillors who are appointed to a position attracting a Special Responsibility Allowance or who cease to hold a position attracting a Special Responsibility Allowance.

9. PENSIONS

Members of the Council are not entitled to be eligible for membership of the Local Government Pension Scheme.

10. CLAIMS AND PAYMENTS

(1) Payment of basic and special responsibility allowances shall be made in monthly instalments of one-twelfth of the amounts specified in this scheme.

(2) Claims for carers' allowance shall be in accordance with the conditions as specified in Schedule 3 to this scheme.

(3) Claims for travel and subsistence allowances shall be in accordance with the conditions as specified in Schedule 4 to this scheme.

11. IT FOR COUNCILLORS

In addition to the allowances specified in the Local Authorities (Members Allowances)(England) Regulations 2003, Charnwood Borough Council has authorised the IT support to councillors set out in Schedule 6.

SCHEDULES

All amounts in the following schedules are paid from 1st April 2021 to 31st March 2022.

SCHEDULE 1

BASIC ALLOWANCES

	Allowance
Councillor	£5,318
Parish Member of the Member Conduct Committee	£265

SCHEDULE 2

SPECIAL RESPONSIBILITY ALLOWANCES

	Allowance
Leader	£12,883
Deputy Leader	£9,017
Cabinet Lead Members *	£5,153
Cabinet Deputy Lead Members *	£2,209
Mayor	£7,214
Deputy Mayor	£1,803
Independent Chair of Audit Committee	£3,608
Chair of Plans Committee	£3,864
Leader of the Opposition	£4,319
Chair of the Member Conduct Committee	£1,547
Chair of Licensing Committee	£2,576
Vice-chair of Plans Committee	£1,547
Vice-chair of Licensing Committee (2)	£773
Chair of Scrutiny Commission	£3,864
Vice-chair of Scrutiny Commission	£1,547
Chair of Directorate-based Scrutiny Committees (3)	£3,608
Vice-chair of Directorate-based Scrutiny Committees (3)	£1,443

* There shall be no more than 10 members of the Cabinet in total, including the Leader and Deputy Leader.

SCHEDULE 3

CARERS' ALLOWANCE

A Carers' Allowance shall be payable for duties specified in the Local Authorities (Members' Allowances) (England) Regulations 2003 and approved by the Council subject to the following conditions:

(i) The maximum hourly rate reimbursed for independent care of a child under the age of 14 shall be equal to the minimum wage.

(ii) The maximum hourly rate reimbursed for the professional care of a dependent relative shall be equal to the Leicestershire County Council's hourly rate for a Home Care Assistant.

(iii) Councillors must certify that the costs have been actually and necessarily incurred and the allowance shall be paid as a reimbursement of incurred expenditure against receipts.

(iv) The allowance shall not be payable to a member of the claimant's own household.

(v) The Head of Strategic Support shall be able to exercise discretion in respect of the above conditions in exceptional and justified circumstances.

(vi) Claims shall be made within four months of the duty to which it relates.

SCHEDULE 4

TRAVEL AND SUBSISTENCE ALLOWANCES

Travel and Subsistence Allowance shall be payable in respect of duties specified in the Regulations and approved by the Council (see Schedule 5). Claims shall be made within four months of the approved duties to which they relate.

In respect of travel the following may be claimed:

(a) The actual cost of travel by public service must not exceed the ordinary or any available cheap fare. Standard class rail fare may be claimed. In the case of travel by ship, first class fare is applicable.

(b) Deposit or porterage of luggage and sleeping car accommodation subject to reduction by one-third of the subsistence allowance for that night.

(c) Taxi-cab fares in cases of urgency or where no public service is reasonably available. The amount claimed shall not exceed the actual fare and any reasonable gratuity.

(d) The cost of hiring a car which must not exceed the rate applicable to the members' own car.

(e) Where a councillor uses his or her own motor car or motor cycle, the mileage rate claimed shall be as the rates available to staff (casual users) and agreed by the National Joint Council for Local Government Services (JNC) on an annual basis.

Current rates per mile are:

	Up to 10,000 miles	Over 10,000 miles
Car	45p per mile	25p per mile
Motorcycle	24p per mile	24 per mile
Bicycle	20p per mile	20p per mile

For journeys out of the county, councillors are encouraged to use rail travel. However, if they use their car, the cost claimed shall be the mileage rate above or the cost of standard return rail fare, whichever is the lower.

(f) Where a councillor carries an official passenger, the additional mileage allowance of 5p per mile per passenger set by HMRC applies.

In respect of subsistence:

Subsistence allowance for councillors shall be the same as for staff and in accordance with guidance from the Inland Revenue such that the Council will refund actual amounts spent in respect of subsistence where supported by receipts and provided that the amounts are reasonable. The following rates are considered by the Inland Revenue to be acceptable as a guideline as to whether actual expenditure is reasonable and also for payment as "flat rates" where receipts are not available:

In the case of absence not involving overnight stay, but not at the normal place of residence:

(i) for more than four hours before 11am – Breakfast allowance - £4
(ii) for more than five hours after this time, ending before 8.30pm – Lunch/Tea allowance - £5
(iii) for more than five hours ending after 8.30pm – Dinner allowance - £8

Use will not be made of a "flat rate" in respect of overnight absence as all expenditure in that respect should be claimed based on actual expenditure only, supported by receipts. However, a flat rate (without the need for receipts) of up to £5 for incidental expenses resulting from overnight absence is claimable. Where possible, overnight accommodation should be booked by the Council so that the VAT element can be reclaimed.

Subsistence allowances may not be claimed where adequate refreshments are provided.

SCHEDULE 5

APPROVED DUTIES OF THE COUNCIL

The Council has agreed that an approved duty, for the purpose of the payment of travel, subsistence and carers' allowances, is attendance at meetings of the following, where the councillor attending is a member of the relevant body or is acting as a substitute for such, or has been requested to attend to assist with the business being considered by the body:

Council
Cabinet
Scrutiny Bodies
Plans Committee and its site inspections
Licensing Committee and its Sub-committees
Member Conduct Committee and its Panels
Audit Committee
Personnel Committee and its Panels
Appeals and Reviews Committee and its Panels
Joint Consultative Committee
Housing Management Advisory Board

Meetings of all outside bodies to which the Council makes appointments and upon which the councillor serves as a representative of the Council or substitute representative.

Conferences authorised by committees or in accordance with the scheme of delegation.

Interviews for the appointment of staff.

The opening of tenders in accordance with the requirements of the Council's Constitution.

Attendance by Cabinet Members at meetings within the Borough that relate directly to their lead member role.

Attendance by the Mayor and Deputy Mayor at meetings and events, both inside and outside the Borough, that relate directly to their roles.

Such other meetings at which individual members have been appointed to represent the Borough Council other than as members of outside bodies, either by virtue of a specific resolution or in the capacity of Leader or Deputy Leader or as Chair or Vice-chair of a Committee.

Training sessions, briefings and other meetings certified by the Head of Strategic Support.

Further to the above, the Council has agreed the following:

(i) That travel allowance and carers' allowance, but not subsistence allowance be payable to a borough councillor in respect of attendance by invitation at a Parish Council or Parish Meeting to participate in the discussion of a Borough Council function.

(ii) That travel and subsistence allowance and carers' allowance be payable to a borough councillor in respect of attendance at Borough Council premises or other establishments within the Borough on such occasions as they consider necessary in connection with the discharge of the Council's functions up to a limit of 15 occasions in each Council year. These are known as "duty days". This provision is an authorisation to carry out an approved duty of a councillor's own choice on 15 occasions of whatever duration and not 15 duty days which might be interpreted, for example, as 30 half days. Visits to the Council offices for IT support purposes, or for attending Cabinet and Committee meetings which a councillor is attending purely as an observer, should be classed as duty days if travel and subsistence or carers' allowances are to be claimed.

(iii) That travel and subsistence allowance and carers' allowance be payable to a borough councillor in respect of full meetings of political groups held at Borough Council premises and specifically related to the business of the Borough Council on not more than 15 occasions in the period commencing with the day of the Annual Meeting of the Council in any year and terminating on the day preceding the Annual Meeting in the following year."

SCHEDULE 6

IT FOR COUNCILLORS

On request, the Council provides all Councillors with a computer or a tablet device, a printer and appropriate software and support.

If a Councillor choses to use their own device no payment is made for this.

No payments are made towards home broadband or other connectivity costs.

COUNCIL – 22ND FEBRUARY 2021

Report of the Chief Executive

ITEM 12 URGENT EXECUTIVE DECISION EXEMPTED FROM CALL-IN

Purpose of Report

To note a decision which were exempted from call-in in accordance with Scrutiny Committee Procedure 11.9.

Action Requested

In accordance with Full Council Procedure 9.11(d) questions may be asked of the Leader in relation to the decision that was taken. The Leader may ask the relevant Lead Member to respond.

Policy Justification and Previous Decisions

The call-in procedure provides for a period of five clear working days during which councillors can ask for decisions taken by the Cabinet and individual Cabinet members, and key decisions taken by officers to be reviewed. With the agreement of the Chair of the Scrutiny Commission or in his/her absence the Mayor or Deputy Mayor) a decision can be exempted from call-in if the decision to be taken is both urgent and reasonable and the delay caused by the call-in process would not be in the interests of the Council or the public. Scrutiny Committee Procedure 11.9 requires that decisions that are exempted from call-in are reported to Council.

Charnwood Business Grant Funds Policy

The Strategic Director of Corporate and Environmental Services made a decision on 19th January 2021 to update the Business Grants Policy to reflect the governments announcement that a series of new grants to support business affected by the Covid-19 Pandemic would be made available shortly.

The Chair of the Scrutiny Commission was consulted and agreed that the decision be exempted from call-in, due to the Covid-19 Pandemic and to enable payments to be made to the businesses affected by the Pandemic as soon as possible and meet Government expectations in respect of the payments timetable

The report considered can be found in the Annex to this report.

Implementation Timetable including Future Decisions

As detailed within the Annex to this report.

Report Implications

As detailed within the Annex to this report.

Background Papers: None

Officer to Contact: Karen Widdowson
Democratic Services Manager
(01509) 634785
karen.widdowson@charnwood.gov.uk

Annex

Report considered by the Cabinet Lead Member and relevant officers.

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	