

Open

Overview & Scrutiny Committee

Agenda

**To be held remotely
6pm
Thursday, 4th February 2021**



Overview & Scrutiny Committee

Members of Committee:

Chairman: Councillor M J Hart
Vice-Chairman: Councillor S J Chambers

Councillor N J Desmond
Councillor S Griffiths
Councillor T L Onslow
Councillor S E N Rook

Councillor C Edginton-White
Councillor S Miah
Councillor M Rayner
Councillor D R Sheppard

Would Members please note that, to ensure continuity in scrutiny, substitutes should only be appointed for the Scrutiny Committee in exceptional circumstances.

Information for Members of the Public:

Part I of the Agenda includes items for discussion in public. You have the right to inspect copies of Minutes and reports on this Agenda as well as the background documents used in the preparation of these reports.

Part II of the Agenda (if applicable) deals with items of "Exempt Information" for which it is anticipated that the public may be excluded from the meeting and neither reports nor background papers are open to public inspection.

1. The Overview & Scrutiny Committee meeting is open to the public except for any exempt/confidential items. These items are normally discussed at the end of the meeting. Where a meeting is held remotely, "open" means available for live or subsequent viewing.
2. Members of the public will be able to hear and see the meetings by a live stream on the Council's website:

<https://www.wyreforestdc.gov.uk/streaming.aspx>
3. This meeting is being held remotely online and will be recorded for play back. You should be aware that the Council is a Data Controller under the Data Protection Act 2018. All streamed footage is the copyright of Wyre Forest District Council.

Declaration of Interests by Members – interests of members in contracts and other matters

Declarations of Interest are a standard item on every Council and Committee agenda and each Member must provide a full record of their interests in the Public Register.

In addition, alongside the Register of Interest, the Members Code of Conduct ("the Code") requires the Declaration of Interests at meetings. Members have to decide first whether or not they have a disclosable interest in the matter under discussion.

Please see the Members' Code of Conduct as set out in Section 14 of the Council's constitution for full details.

Disclosable Pecuniary Interest (DPI) / Other Disclosable Interest (ODI)

DPI's and ODI's are interests defined in the Code of Conduct that has been adopted by the District.

If you have a DPI (as defined in the Code) in a matter being considered at a meeting of the Council (as defined in the Code), the Council's Standing Orders require you to leave the room where the meeting is held, for the duration of any discussion or voting on that matter.

If you have an ODI (as defined in the Code) you will need to consider whether you need to leave the room during the consideration of the matter.

Co-opted Members

Scrutiny Committees may wish to appoint Co-Opted Members to sit on their committee in order to add value to the scrutiny process. To appoint a Co-Opted Member, a Committee must first agree to appoint either a specific person or to approach a relevant organisation to request that they put forward a suitable representative (e.g. the local Police Authority). Co-Optees are non voting by default but Committees can decide to appoint voting rights to a Co-Optee. The Co-Option of the Member will last no longer than the remainder of the municipal year.

Scrutiny Committees can at any meeting agree to terminate the Co-Option of a Co-Opted Member with immediate effect. Where an organisation is appointed to put forward a Co-Opted Member, they are able to send a substitute in exceptional circumstances, provided that they notify Democratic Services in advance. Co-Opted Members must sign up to the Members Code of Conduct before attending their first meeting, failure to sign will mean that they are unable to participate. This also applies to substitute Co-Opted Members, who will need to allow sufficient time before a meeting in order to sign the Code of Conduct.

The following will apply:

- i) The total number of voting co-opted members on any Scrutiny Committee will not exceed 25% at any one time.
- ii) The total number of voting Co-opted Members on any Review Panel will not be limited.
- iii) Those Co-opted Members with voting rights will exercise their rights in accordance with the principles of decision making set out in the constitution.

For Further information:

If you have any queries about this Agenda or require any details of background papers, further documents or information, you should contact Louisa Bright, Principal Committee and Member Services Officer, Wyre Forest House, Finepoint Way, Kidderminster, DY11 7WF. Telephone: 01562 732763 or email louisa.bright@wyreforestdc.gov.uk

Wyre Forest District Council
 Overview & Scrutiny Committee
 Thursday, 4th February 2021
 To be held remotely
 Part 1
 Open to the press and public

Agenda item	Subject	Page Number
1.	Apologies for Absence	
2.	Appointment of Substitute Members To receive the name of any Councillor who is to act as a substitute, together with the name of the Councillor for whom he/she is acting.	
3.	Declarations of Interests by Members In accordance with the Code of Conduct, to invite Members to declare the existence and nature of any Disclosable Pecuniary Interests (DPI's) and / or Other Disclosable Interests (ODI's) in the following agenda items and indicate the action that they will be taking when the item is considered. Please see the Members' Code of Conduct as set out in Section 14 of the Council's Constitution for full details.	
4.	Minutes To confirm as a correct record the Minutes of the meeting held on the 5 th November 2020.	6
5.	"How are we doing?" Performance Update To consider a report from the Business Improvement Officer which updates members on the performance of the Council for quarter 3, from 1 st October 2020 to 31 st December 2020.	11
6.	Treasury Management Strategy Statement and Annual Investment Strategy 2021-22 To consider a report from the Corporate Director: Resources which provides Members with background information on the Chartered Institute of Public Finance (CIPFA) Prudential Code for Capital Finance in Local Authorities (Prudential Code). To also consider recommendations from the Treasury Management Review Panel from its meeting on 2 nd February 2021. <i>To follow</i>	26

7.	Scrutiny Proposal To consider a Scrutiny Proposal Form submitted by Councillor M Rayner	86
8.	Work Programme To review the work programme for the current municipal year with regard to the Corporate Plan Priority, Annual Priorities and the Forward Plan.	91
9.	Press Involvement To consider any future items for scrutiny that might require publicity.	
10.	Capital Portfolio Fund – Quarterly Fund Report To receive a report from the Corporate Director: Economic Prosperity & Place which provides an update on the performance of the Capital Portfolio Fund for the Final Quarter 2020 for the period up to the end of December 2020.	93
11.	To consider any other business, details of which have been communicated to the Solicitor of the Council before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.	
12.	Exclusion of the Press and Public To consider passing the following resolution: “That under Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of “exempt information” as defined in paragraph 3 of Part 1 of Schedule 12A to the Act”.	

Part 2

Not open to the Press and Public

13.	Agenda Item No. 10 - Capital Portfolio Fund – Quarterly Fund Report Electronic Appendix 1 - Jones Valerio June Quarterly Performance Report	
14.	To consider any other business, details of which have been communicated to the Solicitor of the Council before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.	

**WYRE FOREST DISTRICT COUNCIL
OVERVIEW & SCRUTINY COMMITTEE**

HELD REMOTELY

THURSDAY, 5TH NOVEMBER 2020 (6PM)

Present:

Councillors: M J Hart (Chairman), S J Chambers (Vice-Chairman), N J Desmond, C Edginton-White, S Griffiths, S Miah, T L Onslow, M Rayner, S E N Rook and D R Sheppard.

Observers

Councillors: G W Ballinger, J F Byng, A Coleman, R H Coleman, H E Dyke, N Martin, F M Oborski MBE, C Rogers and P W M Young.

OS.48 Apologies for Absence

There were no apologies for absence

OS.49 Appointment of Substitutes

No substitutes were appointed

OS.50 Declarations of Interests by Members

Councillor C Edginton-White declared, in respect of agenda item 10 – Establishment of Independent Museum Trust, that she was the Bewdley Town Council representative on the Bewdley Museum Management Board.

OS.51 Minutes

Decision: The minutes of the meeting held on the 3rd September and the minutes of the meeting held on 8th September 2020 be confirmed as a correct record and signed by the Chairman.

OS.52 “How are we doing?” Performance Update

The Committee considered a report from the Business Improvement Officer which updated members on the performance of the Council for quarter 2, from 1st July to 30th September 2020.

The Business Improvement Officer presented the report and appendices which included an exception report detailing those actions that were overdue or cancelled; detailed reports of performance against the Council's purposes of 'People' and 'Business'; a business tracker report, and a report on the Council's capital projects.

The Committee considered each page of the report and appendices in turn.

Agreed: The progress in performance for quarter 2 be noted.

**OS.53 Treasury Management Strategy Statement and Annual Investment Strategy
Mid Year Report 2020/21**

The Committee received a report from the Corporate Director: Resources which provided members with a mid-year review of the Council's treasury management policies, practices and activities in accordance with the CIPFA Treasury Management Code of Practice. The Committee also considered the recommendations from the Treasury Management Review Panel from its meeting on 2nd November 2020.

The Corporate Director: Resources led members through the report and outlined the key issues. She advised that this was the second of the 3 statutory reports which would be presented to the Committee in the current municipal year. She said that the report had been fully scrutinised by members of the Treasury Management Review Panel and a representative from the Council's Treasury Advisors, Link Asset Services, had provided an in-depth economic briefing to supplement the report.

The Corporate Director: Resources was pleased to advise that there were no breaches to report and all the treasury management activities were in full compliance with the Council's approved strategy. She reminded members that the next Treasury Management training session for members was scheduled to take place on 4th February 2021 and, given the ongoing economic volatility in the global markets which impact on treasury management, urged all members to attend.

Agreed: The Overview and Scrutiny Committee recommends to Council to:

Approve Treasury Management Mid-year Review and updated Prudential Indicators and Ratios in the report.

OS.54 Green Homes Grant – Local Authority Delivery Scheme

The Committee considered a report from the Head of Strategic Growth which outlined the process for the Government-funded Green Homes Grants to be made available to homeowners where their properties have poor energy efficiency and they have a low household income.

The Head of Strategic Growth presented the report. She explained that the authority had supported a Wychavon-led joint bid by Worcestershire Councils and had been awarded £200k for measures to properties in Wyre Forest. She said that there was some flexibility in that, if any council under spends its allocation, the funding can go to areas where a higher demand has been identified.

Members were advised that grants would be delivered through a process whereby the Private Sector Housing team would identify likely eligible properties and directly market the opportunity to them. She added that, if there was insufficient take up through this route, the grants would be promoted via social media.

The Committee welcomed the report and acknowledged the eligibility criteria of household income of less than £30k; and suggested that applications for households on the lower part of the income threshold should be prioritised.

Agreed: Recommend to Cabinet:

- 1.1 to recommend to Council that there is an amendment to the Capital programme by £300k to provide Green Homes Grants (to be recovered by funding from BEIS) noting that the exact level of expenditure will be dependent on the number of eligible applicants and grant funding received.**
- 1.2 That delegation be given to Officers to prepare an income hierarchy formula for the allocation of grants if practicable to do so.**

OS.55 Amendment to the Capital Portfolio Fund Acquisition Geography

The Committee considered a report from the Corporate Director: Resources and the Corporate Director: Economic Prosperity & Place which set out the proposed temporary arrangements for the acquisition geography for the Capital Portfolio Fund during the uncertain times brought about by the Coronavirus pandemic.

The Corporate Director: Resources led members through the report and outlined the key issues. She reminded members that the Council's current Capital Portfolio Fund policy was that it would always be the Council's preference to invest within the district area to support regeneration and local economic development, whilst allowing the Council to consider opportunities within the wider geographical area of the two Local Enterprise Partnerships (LEPs) which the authority is a member of. She further explained that the temporary arrangements were to limit any further acquisitions of properties through the Fund to be within Wyre Forest district only.

The Committee discussed the report and thanked the Corporate Director: Resources and the Corporate Director: Economic Prosperity & Place for a very thorough and comprehensive report.

Agreed: Recommend to Cabinet that:

The proposed temporary limitation of the geography for Capital Portfolio Fund purchases is agreed.

OS.56 Response to Consultation on Homeworking

The Committee considered a report from the Corporate Director: Economic Prosperity & Place which set out the responses received to the consultation with employees and unions in respect of homeworking as agreed by Council in July.

The Corporate Director: Economic Prosperity & Place presented the report and outlined the key issues.

The Committee discussed the report and several concerns were raised about the low number of responses and the negativity of the majority of the comments

Agenda Item No. 4

received. Members acknowledged that more homeworking was introduced as a result of Government guidance in relation to the Covid-19 pandemic.

Members were concerned about the mental health issues raised and the majority of the Committee felt there was not a clear mandate to proceed and the process should be halted and revised post April 2021.

The Chairman lost his IT connection at this point (7.24pm); the Vice Chairman chaired the meeting in his absence.

At 7.43pm the Committee agreed unanimously to suspend Council Procedure Rule (Standing Orders) 1.1 (iii) to allow the meeting to continue past 8pm.

The meeting was adjourned at 7.44pm and resumed at 7.51pm. The Chairman returned to the meeting and resumed the Chair for the remainder of the meeting.

The Cabinet Member for Housing, Health, Well-being and Democratic Services assured members that mental health and well-being was very important to the Council, and extra support would be offered to employees where issues had been raised.

Agreed: Recommend to Cabinet that:

The consultation responses together with the Corporate Leadership Team responses are noted.

When the item is reported to Council at its December meeting, Council should place a halt on proceedings and review after April 2021, and any such fresh proposals should be subject to a further staff consultation.

OS.57

Establishment of Independent Museum Trust

The Committee considered a report from the Chief Executive which set out the proposed steps necessary to establish Bewdley Museum as a fully independent trust, no longer part of Wyre Forest District Council. Once fully in place the only relationship would be that the Council would expect to be the principal funding partner.

The Chief Executive presented the report and outlined the key issues. The Committee fully scrutinised the report which included the main recommendations that will be considered by Cabinet. Members agreed that it was important that consideration be given to exploring a reversion clause to protect the buildings and to ensure the collection remained in Wyre Forest in the event of a failure of the new museum trust, and clarification was sought that the rights of depositors would not be affected.

Agreed: Recommend to Cabinet that:

The Overview and Scrutiny support the recommendations to Cabinet set out in paragraph 2.1 of the report, with the suggested minor amendments to 2.1.2 and 2.1.3 (c).

OS.58 Work Programme

The Chairman announced that there were currently no items listed on the work programme for members to consider at the December and January meetings. He said that if no items were put forward for scrutiny, the meetings would be cancelled.

OS.59 Press Involvement

There were no further items for scrutiny that might require publicity.

There being no further business, the meeting ended at 8.52pm.



Overview & Scrutiny Committee

Briefing Paper

Report of: Rhiannon Foxall, Business Improvement Officer
Date: Thursday 4th February 2021
Open

How Are We Doing? Performance Update

1. Summary

- 1.1 To update Members on the performance of the Council for Quarter 3 (from 1st October 2020 to 31st December 2020).

2. Background

- 2.1 Performance management is instrumental in all council activities as it helps us to keep track of how well we are performing and enables any potential issues to be identified at an early stage so remedial action can be taken. It also informs our decision-making processes which underpin the delivery of our Corporate Plan 2019-23.
- 2.2 The Council has processes in place to monitor our performance including:
- Corporate Plan Actions
 - Corporate Risks and associated actions
 - Leading Measures
 - Lagging Measures

3. Progress

- 3.1 **Appendix 1** is the [exception report](#).
- 3.2 **Appendix 2** is a detailed report of performance against our purpose of '[Place](#)'.
- 3.3 **Appendix 3** is the [museum overview](#).
- 3.3 **Appendix 4** is the [capital projects](#) report.

4. Key Achievements/Issues

- 4.1 Data for the total recorded ASB incidents is out of date. This data is provided by West Mercia Police who, as at September 2020, were unable to provide the data. We are liaising with them to see when this data will be available again.

5. Options

- 5.1 That the progress in performance for quarter 3 be noted.

6. Consultation

- 6.1 Leader of the Council
- 6.2 Corporate Leadership Team

7. Related Decisions

- 7.1 None.

8. Relevant Council Policies/Strategies

- 7.1 Wyre Forest District Council Corporate Plan 2019 – 2023.

9. Implications

- 9.1 Resources: No direct implications from this report.
- 9.2 Equalities: No direct implications from this report.
- 9.3 Partnership working: No direct implications from this report.
- 9.4 Human Rights: No direct implications from this report.
- 9.5 E-Government: No direct implications from this report.

10. Equality Impact Needs Assessment

- 10.1 An equality impact assessment has been undertaken and it is considered that there are no discernible impacts on the nine protected characteristics as set out by the Equality Act 2010.

11. Wards affected

- 11.1 None.

12. Appendices

- 12.1 Appendix 1 – Exception report
- 12.2 Appendix 2 – Full 'Place' report
- 12.3 Appendix 3 – Museum overview
- 12.4 Appendix 4 – Capital Projects report

13. Background Papers

Corporate Plan action information is available on the Council's Performance Management System, Pentana Performance. Alternatively, reports can be requested from the Business Improvement Officer.

Officer Contact Details:

Name: Rhiannon Foxall
Title: Business Improvement Officer
Contact Number: Ext. 2786
Email: rhiannon.foxall@wyreforestdc.gov.uk

Exception report for all purposes

Those actions that are approaching their due date or are overdue



Enabling others to do what they need to do

WFF 20/21 80

Undertake review of pay grading structure



Due Date	Managed By	Latest Note	Latest Note Date
31-Dec-2020	Ian Miller; Rachael Simpson	Proposals shared with unions September 2020. Revised implementation date 1 July 2021 to ensure robust data and secure agreement from unions. Report to Council February 2021.	06-Jan-2021

Support me to run a successful business

WFF 20/21 82

Erection of industrial units former Frencos site



Due Date	Managed By	Latest Note	Latest Note Date
31-Aug-2020	Mike Parker	Works were expected to be complete by end of December 2021 but contractor has experienced some delays in finishing laying tarmac. Revised schedule to be provided by contractor with completion expected to be imminent.	22-Jan-2021

ENSURE THAT THERE ARE GOOD THINGS FOR ME TO DO, SEE AND VISIT



This report details the progress we have made against our purpose of 'ensure that there are good things for me to do, see and visit'.

Actions
Listed below is the progress against our current major projects that support the delivery of our purpose of 'ensure that there are good things for me to do, see and visit'.



WFF 20/21 69

Stourport Riverside

55%

▶

Due Date	Managed By	Latest Note	Latest Note Date
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31-Dec-2021

Steve Brant; Alan Breen

The carpark re landscaping has been completed.
Procurement process is underway for play improvements.
With works likely to be completed May 2021
Works to create wildlife area and additional path
structure planned for 2021 – 2022.

21-Jan-2021

Cross cutting Actions

Listed below are primary actions for other purposes but also impact on this purpose:

WFF 20/21 30

Stourport Canal Basins

Measures

As a way of measuring the progress with our purpose, we collect key data to monitor trends and patterns. This data not only helps us to understand the impact of the work that we are doing but it also assists with decision making at a corporate level. The latest available data is detailed below:

LE016 Number of visitors to Bewdley Museum Aim to Maximise



Current Value 9,318



Managed By Alison Bakr

Cross cutting measures

Listed below are primary measures for other purposes but also impact on this purpose:

LE032 Participation rates in sport/leisure facilities – Wyre Forest Leisure Centre

KEEP MY PLACE SAFE AND LOOKING GOOD

This report details the progress we have made against our purpose of 'keep my place safe and looking good'.

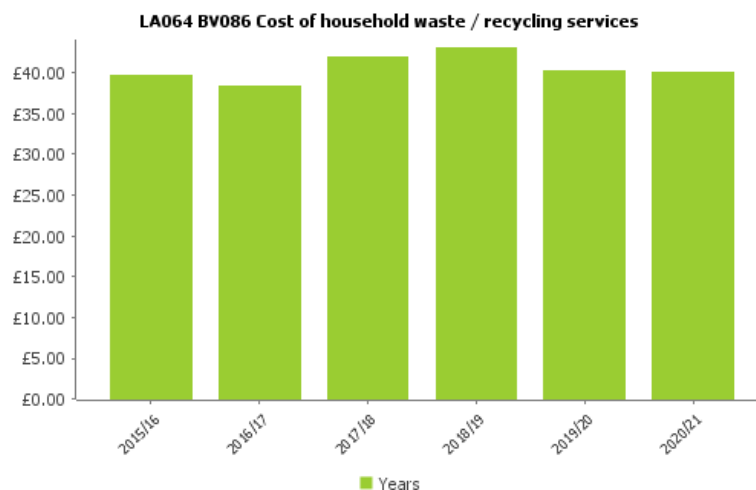


Measures

As a way of measuring the progress with our purpose, we collect key data to monitor trends and patterns. This data not only helps us to understand the impact of the work that we are doing but it also assists with decision making at a corporate level. The latest available data is detailed below:

LA064 Cost of household waste /
BV086 recycling services

Aim to
Minimise



Current
Value

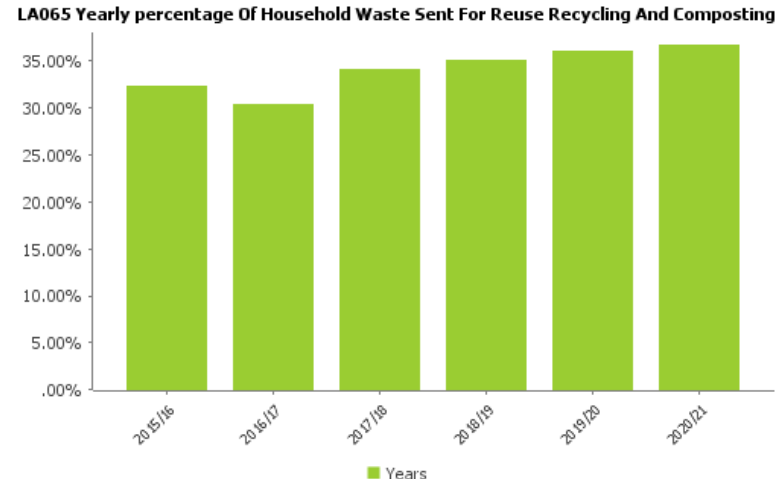
£40.08



Managed By Steve Brant

LA065 Yearly percentage Of Household Waste Sent For Reuse Recycling And Composting

Aim to
Maximise



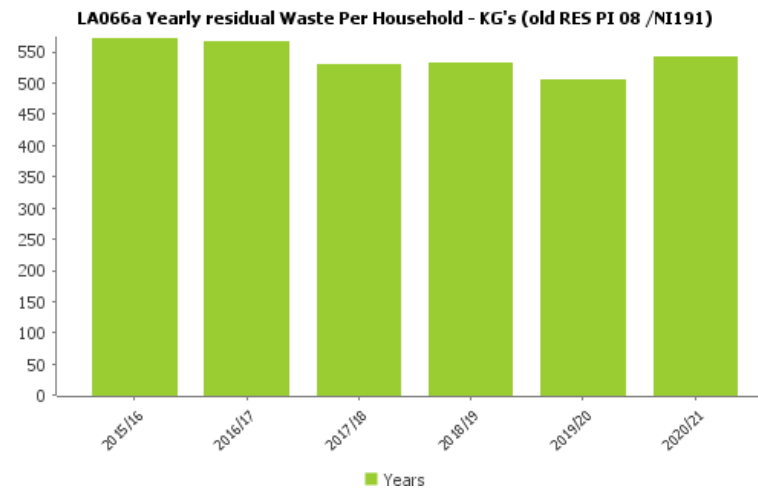
Current
Value 36.74%



Managed By Steve Brant

LA066a Yearly residual Waste Per Household – KG's (old RES PI 08 /NI191)

Aim to
Minimise

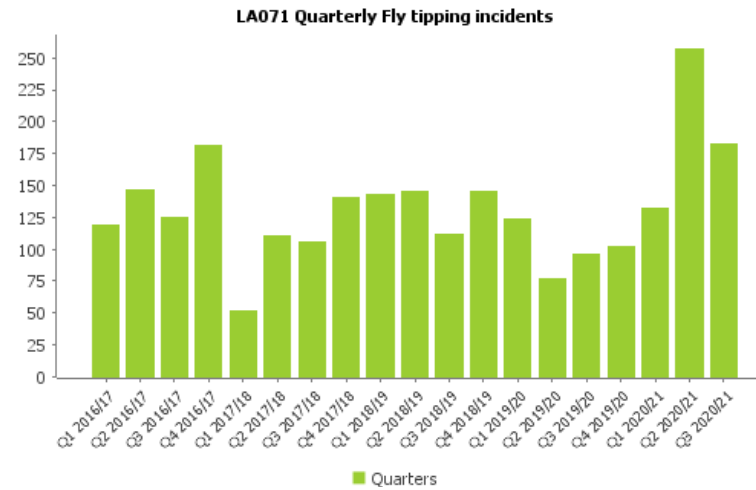


Current
Value 542



Managed By Steve Brant

LA071 Quarterly Fly tipping incidents Aim to Minimise

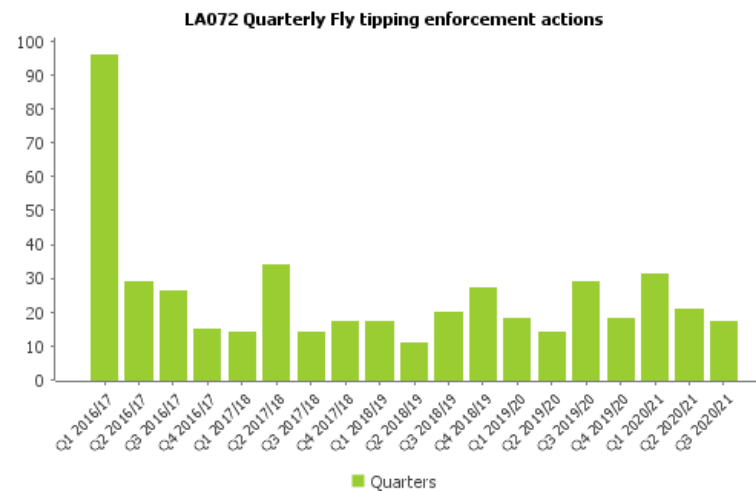


Current Value 183



Managed By Steve Brant

LA072 Quarterly Fly tipping enforcement actions Aim to Minimise

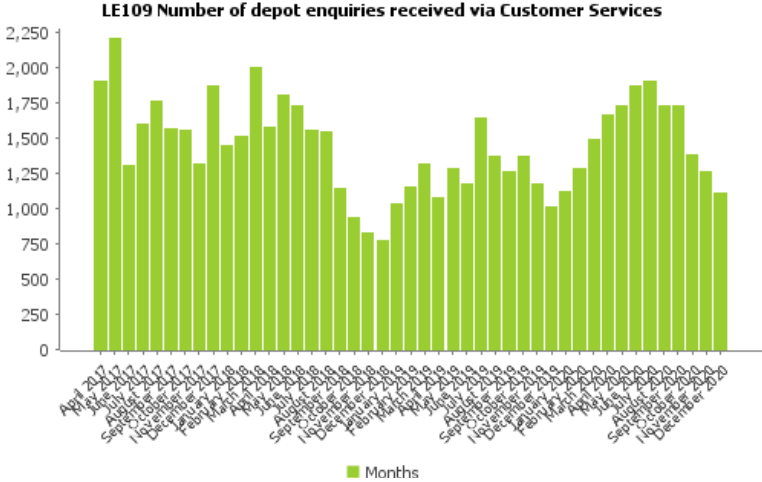


Current Value 17



Managed By Steve Brant

LE109 Number of depot enquiries received via Customer Services Aim to Minimise

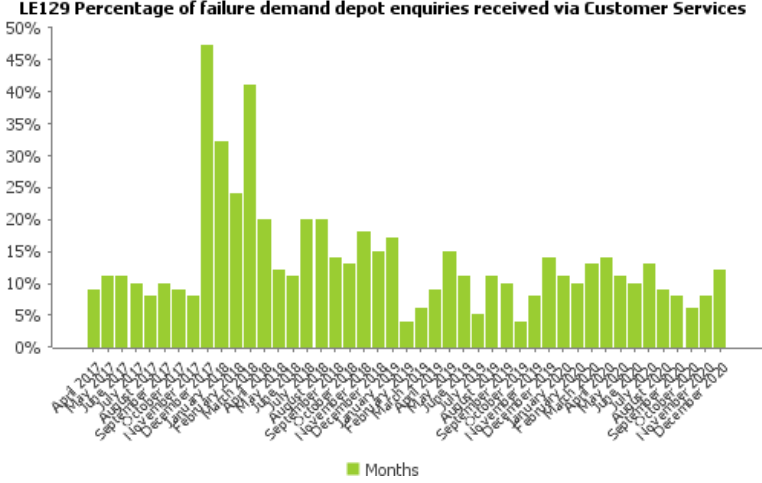


Current Value 1,116



Managed By Steve Brant

LE129 Percentage of failure demand depot enquiries received via Customer Services Aim to Minimise

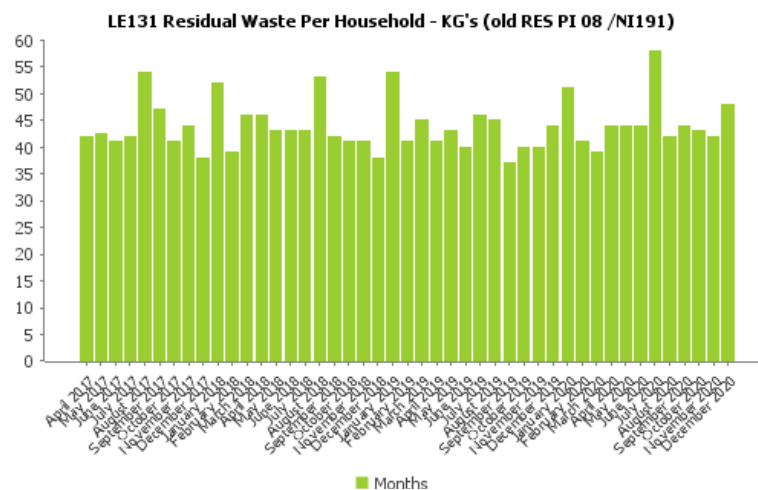


Current Value 12%



Managed By Steve Brant

LE131	Residual Waste Per Household – KG's (old RES PI 08 /NI191)	Aim to Minimise
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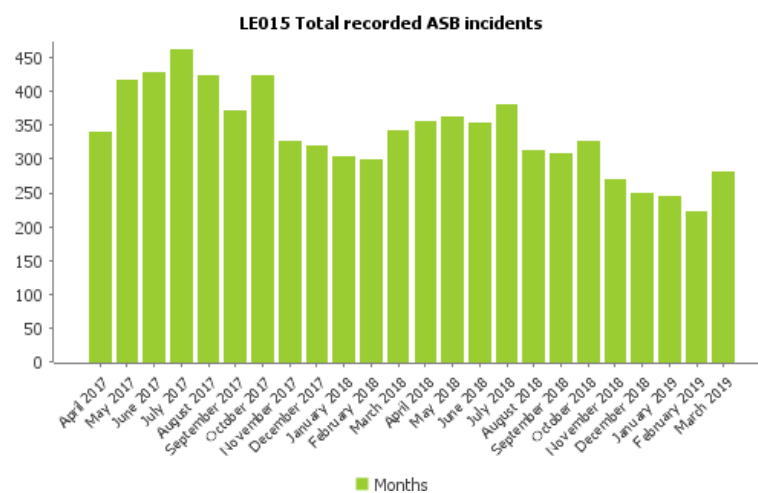


Current Value	48
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Managed By Steve Brant

LE015	Total recorded ASB incidents	Aim to Minimise
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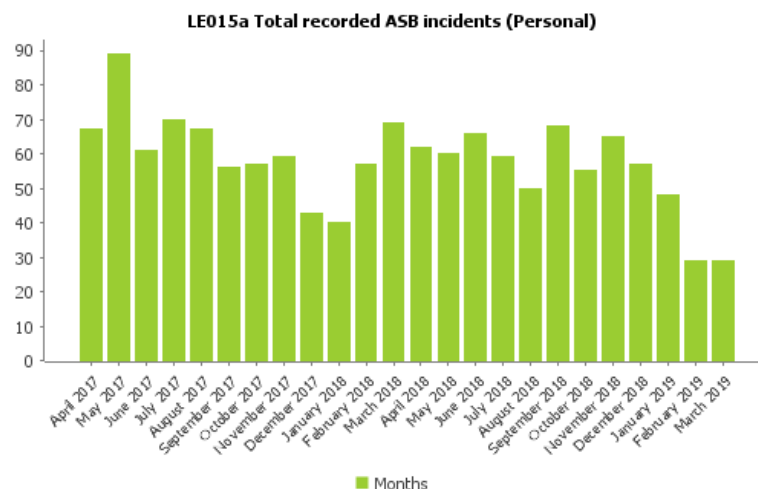
Current Value	280
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Managed By Kathryn Underhill

LE015a Total recorded ASB incidents (Personal)

Aim to Minimise

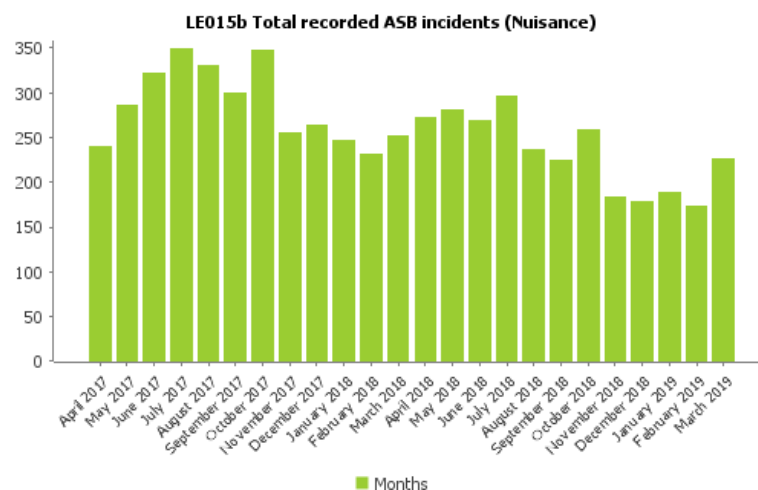


Current Value 29

Managed By Kathryn Underhill

LE015b Total recorded ASB incidents (Nuisance)

Aim to Minimise

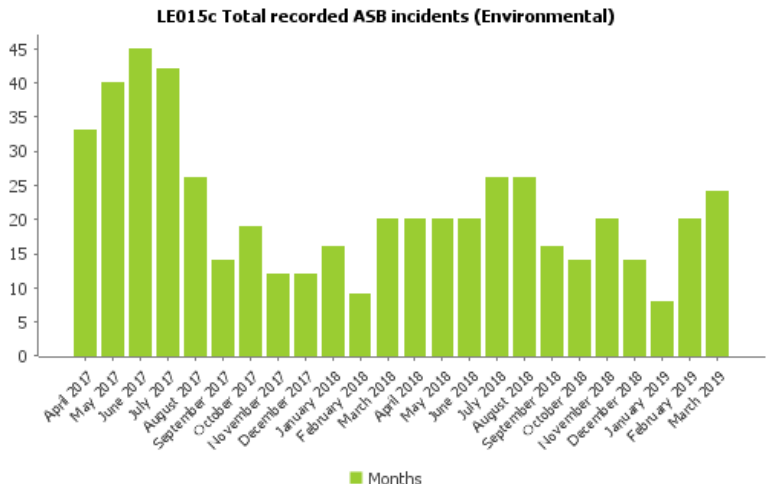


Current Value 227

Managed By Kathryn Underhill

LE015c Total recorded ASB incidents (Environmental)

Aim to Minimise



Current Value 24



Managed By Kathryn Underhill

Bewdley Museum 2020/21

Our 20/21 season has been one of the most challenging we have ever known. The museum opened in March and our numbers were on track with the previous year, then we closed because of the pandemic and remained close for three months. Since then we have opened and closed three times.

During the season our café, shop and outdoor events did exceptionally well, visitor numbers were back to the previous season and mainly because the café took advantage of the gardens to serve takeaway and then a sit down service. People were desperate to use the outside space and we used this to our advantage. In summary;

- Our outside spaces were fully utilised and the few autumn events we could run such as Halloween and Father Christmas and were extremely well attended.
- Our Education programme was digitalised with online sessions developed and trialled in a number of schools.
- Our activities programme for children in the school holidays became a booking a time slot and this worked really well in controlling numbers and we managed 1100 children which was almost the same as the previous year.
- The revamped shop has proved to be very successful offering unique gift ideas. The offer has been expanded to include stock on the website with a call and collect facility. Between months of being open and this new feature the shop has generated 80% of its original target.
- Our heritage weddings took a real hit however only one cancelled and the rest (18) moved to 2021
- Our site and gardens continue to attract growing numbers of people our focus this year continues to be in the areas we know we can deliver well that are popular with our visitors and critically generate income growth year on year. These helped the café to have their best year to date and were so beneficial for the health and wellbeing of people during the pandemic.
- This has been an extremely difficult year for the team, they have had to adapt and rethink the offer on site. Maintaining the site through these difficult times is a real reflection of the dedication and commitment of the staff which makes the museum the success that it is. I would like to extend my thanks for the hard work and effort they all put in.

Alison Bakr
Museum Manager
January 2021

Capital Projects

This report details the progress of all of our capital projects



WFF 20/21 68

Green street depot 2020 improvement and investment plan

100%



Due Date

Managed By

Latest Note

Latest Note Date

30-Jun-2020

Steve Brant

Building fully completed and we are in 12 month retention period.

19-Aug-2020

WFF 20/21 77

Churchfields

100%



Due Date

Managed By

Latest Note

Latest Note Date

31-Dec-2020

Mike Parker

Works on site complete and will be subject to final risk assessment by County Council Highways.

22-Jan-2021

Listed below are actions that will become capital projects in the future

WFF 20/21 31

Lion Fields

WYRE FOREST DISTRICT COUNCIL**OVERVIEW AND SCRUTINY COMMITTEE****4TH FEBRUARY 2021****Treasury Management Strategy 2021-22**

OPEN	
CABINET MEMBER:	Councillor G Ballinger
RESPONSIBLE OFFICER:	Corporate Director: Resources
CONTACT OFFICERS:	Tracey Southall - Ext. 2100 tracey.southall@wyreforestdc.gov.uk Helen Ogram – Ext, 2107 helen.ogram@wyreforestdc.gov.uk Lisa Hutchinson - Ext. 2120 lisa.hutchinson@wyreforestdc.gov.uk
APPENDICES:	Appendix 1 - MRP Strategy Appendix 2 - Interest Rate Forecasts Appendix 3 - Prudential and Treasury Indicators Appendix 4 - Economic Background Appendix 5 - Specified and Non Specified Investments Appendix 6 - Approved Countries for Investments Appendix 7 - Treasury Management Scheme of Delegation Appendix 8 - The Treasury Management Role of the Section 151 Officer

1. PURPOSE OF REPORT

- 1.1 To provide Members with background information on the Chartered Institute of Public Finance (CIPFA) Prudential Code for Capital Finance in Local Authorities (Prudential Code).
- 1.2 To restate the Prudential Indicators and Limits for the financial years 2021-22 to 2030-31 and set out the expected treasury operations for this period.
- 1.3 To seek approval for the Council's Treasury Management Strategy Statement for the period 1st April 2021 to 31st March 2022 that sets out how the Council's treasury service will support the capital decisions taken, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by Section 3 of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.

- 1.4 To seek approval for the Council's Investment Policy and Strategy Statement for the period 1st April 2021 to 31st March 2022 that sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.
- 1.5 To seek approval for the Council's Minimum Revenue Provision (MRP) Policy Statement for the period 1st April 2021 to 31st March 2022 that sets out the Council's criteria for repayment of Prudential Borrowing.
- 1.6 This proposed strategy will be considered by the Treasury Management Review Panel on 2nd February 2021 and its views will be reported to the Committee at this meeting. Overview and Scrutiny will now make recommendations to February 2021 Council on this key strategy. This is in compliance with the CIPFA Treasury Management Code of Practice.
- 1.7 To fulfil four key legislative requirements:
 - The reporting of the Prudential Indicators as required by the CIPFA Prudential Code;
 - The Treasury Management Strategy Statement in accordance with the CIPFA Code of Practice on Treasury Management and CIPFA Prudential Code;
 - The Investment Policy and Strategy Statement (in accordance with Ministry of Housing, Communities and Local Government (MHCLG) investment guidance);
 - The Minimum Revenue Provision (MRP) Policy Statement (as required by Regulation under the Local Government and Public Involvement in Health Act 2007).

2. RECOMMENDATIONS

The Overview and Scrutiny Committee recommends to Council to:

- 2.1 **Approve the restated Prudential Indicators and Limits for the financial years 2021-22 to 2030-31 included in Appendix 3. These will be revised for the February 2021 Council meeting, as per paragraph 7.2 of this report, following any changes to the Capital Programme brought about as part of the budget process.**
- 2.2 **Approve the updated Treasury Management and Investment Policy and Strategy Statements for the period 1st April 2021 to 31st March 2022 (the associated Prudential Indicators are included in Appendix 3 and the detailed criteria is included in Section 10 and Appendix 5).**
- 2.3 **Approve the Minimum Revenue Provision (MRP) Statement that sets out the Council's policy on MRP included in Appendix 1.**
- 2.4 **Approve the Authorised Limit Prudential Indicator included in Appendix 3.**
- 2.5 **Notes that the separate, but intrinsically linked, Capital Strategy 2021-31 to be approved separately by Council, sets out the policy statement covering non-treasury investments including the related suite of prudential indicators.**

3. **BACKGROUND**

- 3.1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 3.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 3.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest, costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 3.4. Whilst any initiatives such as property acquisitions or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

3.5. **CIPFA defines treasury management as:**

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

3.6. **Reporting Requirements: Treasury Management**

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

- **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
 - the capital plans (including prudential indicators);
 - a minimum revenue provision (MRP) policy (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).
- **A mid year treasury management report** – This is primarily a progress report and will update members on the capital position, amend prudential indicators as necessary, and detail whether any policies require revision.
 - **An annual treasury report** – This is a backward looking document that
 - provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

3.7. Reporting Requirements: Capital Strategy

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

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

The aim of the 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.

The capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury property acquisitions, whilst not investments, will be reported through the former for full transparency. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy on non treasury investments, such as property acquisitions, usually driven by expenditure on an asset. The capital strategy will show:

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

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

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

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

The capital strategy includes capital expenditure, investments, liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

This introduces further layers of reporting of risk in relation to investments that are not part of treasury management; particularly where prudential borrowing funding is used to achieve multiple objectives, including generating a net return.

The Capital Strategy for 2021–31 was considered by Cabinet on 22nd December 2020 at the same meeting as the Medium Term Financial Strategy (MTFS) for 2021-24. The Capital Strategy proposed for this budget cycle provides high-level projections over a longer timeframe of 10 years. This extended timeframe is to provide extra information for additional transparency, particularly in relation to movements in the Balance Sheet, Capital Financing Requirements and Minimum Revenue Provision which all impact on the revenue budget and reserves requirement. Final progression to Council following the scrutiny process, as set out below, will align with both the TMSS and MTFS report approval.

3.8. Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Treasury Management Review Panel who makes recommendations to the Overview and Scrutiny Committee for the Treasury Management Reports. The Strategic Review Panel undertakes the scrutiny role for the Financial Strategy covering the MTFS and the Capital Strategy, making recommendations back to Cabinet for onward progression to Council.

3.9. Treasury Management Strategy for the period 1st April 2021 to 31st March 2022

The strategy for 2021-22 covers two main areas:

i. Capital Issues

- the capital plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

ii. Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;

- policy on borrowing in advance of need;
- debt rescheduling;
- the 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.

4. TREASURY LIMITS FOR THE PERIOD 1st APRIL 2021 to 31st MARCH 2022

- 4.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.
- 4.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is ‘acceptable’.
- 4.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion, incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and three successive financial years, details of the Authorised Limit can be found in Appendix 3 of this report.

5. CURRENT PORTFOLIO POSITION

5.1 The Council's treasury portfolio position at 11th January 2021 comprised:

Investments Held With	As at 11 th January 2021 £	Average Rate of Return	Duration
Lloyds Bank	625,000	0.01%	Instant Access
Handelsbanken	4,000,000	0.05%	Instant Access
Santander	1,000,000	0.08%	Instant Access
Aberdeen Money Market Fund	4,000,000	Variable (0.01% on 11/01/21)	Instant Access
Aviva Money Market Fund	1,125,000	Variable (0.01% on 11/01/21)	Instant Access
Federated Prime Cash Plus Ultra Short Dated Bond Fund	2,000,000	Variable (0.1625% on 11/01/21)	Trade plus one day
Lloyds	2,000,000	0.10%	95 days notice
Nat West Bank	1,555,000	0.15%	95 days notice
Handelsbanken	1,000,000	0.10%	95 days notice
Santander	2,000,000	0.30%	35 days notice
Santander	1,000,000	0.40%	95 days notice
Santander	1,000,000	0.58%	180 days notice
Lloyds Bank	1,000,000	1.05%	Fixed to 19/02/21
Lloyds Bank	1,000,000	0.30%	Fixed to 02/07/21
Nat West Bank Certificate of Deposit (CD)	1,000,000	0.21%	Fixed to 19/08/21
Coventry Building Society	1,000,000	0.05%	Fixed to 17/03/21
Standard Chartered	1,000,000	0.05%	Fixed to 16/03/21
Coventry Building Society	1,000,000	0.05%	Fixed to 17/03/21
Coventry Building Society	1,000,000	0.05%	Fixed to 09/02/21
Coventry Building Society	1,000,000	0.05%	Fixed to 19/01/21
Total (nb, balance includes circa £15m commitments to be paid in February and March, eg. to major preceptors)	29,305,000		

5.2 The table below details the latest position regarding the Council's remaining Icelandic investment.

Bank	Original Investment £	Interest Claimed £	Total Claim £	Dividends Received £	Balance Outstanding including Interest Due £	Balance Outstanding Principal Only £
Kaupthing Singer & Friedlander	5,000,000	156,378	5,156,378	4,475,736	680,642	660,000

6. **BORROWING REQUIREMENT**

- 6.1 The Council's Capital Financing Requirement (CFR), its underlying borrowing requirement, is detailed below. Capital expenditure was originally approved by Council on 26th February 2020; slippage in the Capital Programme is now factored into the Prudential Indicators included in this report along with the impact of any changes to the Capital Programme proposed by Cabinet on 22nd December 2020.

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Actual £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
Capital Financing Requirement as at 31st March	40,566	49,014	60,918	59,534	58,128	56,639

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
Capital Financing Requirement as at 31st March	55,912	55,376	53,706	52,235	50,245	48,379

7. **PRUDENTIAL AND TREASURY INDICATORS FOR THE PERIOD 1st APRIL 2021 to 31st MARCH 2022**

- 7.1 Prudential and Treasury Indicators (as set out in Appendix 3 to this report) are relevant for the purposes of setting an integrated treasury management strategy.
- 7.2 Within the Budget Report to Council in February 2021, revised Prudential Indicators will be presented for approval (see Recommendation 2.1 of this report) if appropriate.
- 7.3 The Prudential Indicators relating to the non-treasury investments are reported separately within the Capital Strategy report.

8. **BORROWING STRATEGY**

- 8.1 The Council has undertaken external borrowing to fund the CFR and will continue to do so for any future unsupported capital expenditure.

The Council's external borrowing position at 11th January 2021 totalled £37m, detailed below:

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Lender	Principal	Date	Type	Interest Rate	Maturity
PWLB	£1m	15/03/13	Fixed interest rate	2.62%	15/03/22 (9 years)
PWLB	£1m	29/07/14	Fixed interest rate	3.99%	29/07/33 (19 years)
PWLB	£1m	20/10/14	Fixed interest rate	3.54%	20/10/56 (42 years)
PWLB	£1m	02/12/14	Fixed interest rate	3.44%	02/12/39 (25 years)
PWLB	£1m	20/01/15	Fixed interest rate	2.99%	20/01/39 (24 years)
PWLB	£1m	04/02/15	Fixed interest rate	2.87%	04/02/41 (26 years)
PWLB	£1m	04/02/15	Fixed interest rate	2.80%	04/02/37 (22 years)
PWLB	£1m	08/04/15	Fixed interest rate	2.96%	08/04/35 (20 years)
PWLB	£1m	02/07/15	Fixed interest rate	3.35%	02/07/32 (17 years)
PWLB	£1m	20/07/15	Fixed interest rate	3.40%	20/07/31 (16 years)
PWLB	£1m	29/07/15	Fixed interest rate	3.13%	29/07/30 (15 years)
PWLB	£1m	06/08/15	Fixed interest rate	2.96%	06/08/28 (13 years)
PWLB	£1m	02/02/16	Fixed interest rate	2.99%	02/02/63 (48 years)
PWLB	£1m	24/06/16	Fixed interest rate	2.21%	24/06/26 (10 years)
PWLB	£1m	03/03/17	Fixed interest rate	2.42%	03/03/62 (45 years)
PWLB	£1m	26/03/18	Fixed interest rate	2.28%	26/03/64 (46 years)
PWLB	£1m	14/09/18	Fixed interest rate	2.49%	14/09/68 (50 years)
PWLB	£1m	14/09/18	Fixed interest rate	2.53%	14/09/60 (42 years)
PWLB	£1m	25/09/18	Fixed interest rate	2.59%	25/03/62 (43.5 years)
PWLB	£1m	03/12/18	Fixed interest rate	1.79%	03/12/24 (6 years)
PWLB	£1m	12/12/18	Fixed interest rate	2.47%	12/12/68 (50 years)
PWLB	£1m	17/12/18	Fixed interest rate	2.46%	17/12/66 (48 years)
PWLB	£1m	11/02/19	Fixed interest rate	2.38%	11/02/65 (46 years)
PWLB	£1m	12/03/19	Fixed interest rate	2.36%	12/03/66 (47 years)

Lender	Principal	Date	Type	Interest Rate	Maturity
PWLB	£1m	25/03/19	Fixed interest rate	1.82%	25/09/27 (8.5 years)
PWLB	£1m	25/03/19	Fixed interest rate	2.29%	25/09/59 (40.5 years)
PWLB	£1m	26/03/19	Fixed interest rate	2.20%	26/09/67 (48.5 years)
PWLB	£1m	01/04/19	Fixed interest rate	1.80%	01/04/29 (10 years)
PWLB	£1m	04/06/19	Fixed interest rate	1.74%	04/11/29 (10.5 years)
PWLB	£1m	04/06/19	Fixed interest rate	2.17%	04/11/69 (50 years)
PWLB	£1m	24/06/19	Fixed interest rate	2.13%	26/01/61 (41.7 years)
PWLB	£1m	08/07/19	Fixed interest rate	1.86%	08/07/34 (15 years)
PWLB	£1m	20/08/19	Fixed interest rate	1.67%	20/08/69 (50 years)
Crawley Borough Council	£2m	10/12/19	Fixed interest rate	1.40%	10/12/21 (2 years)
Portsmouth City Council	£2m	30/06/20	Fixed interest rate	1.00%	30/06/22 (2 years)
Total	£37m				

8.2 **Prospects for Interest Rates: View provided by Link Asset Services**

The Council's appointed external treasury advisor are Link Asset Services. Part of the service provided is to assist the Council to formulate a view on interest rates. Link provided the following forecasts based on the new margins over gilts announced on 26th November 2020. PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012:

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Link Group Interest Rate View		9.11.20					(The Capital Economics forecasts were done 11.11.20)							
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	
Bank Rate														
Link	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	
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-	
5yr PWLB Rate														
Link	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	
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-	
10yr PWLB Rate														
Link	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	
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-	
25yr PWLB Rate														
Link	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	
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-	
50yr PWLB Rate														
Link	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	
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-	

The coronavirus outbreak has done huge economic damage to the United Kingdom (UK) and economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate, first to 0.25% and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December 2020, 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 31st December 2020: as this has now occurred, these forecasts do not need to be revised.

Link has also provided a detailed Economic Background, see Appendix 4.

- 8.3 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021-22 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.*

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the US and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the Treasury Management Panel and Overview and Scrutiny Committee at the next available opportunity.

- 8.4 In view of the above forecast the Council's borrowing strategy will be to consider all suitable options and take advantage of the most attractive rates available, both from the PWLB and from the Market, including other Local Authorities and other bodies as relevant, as and when required.

8.5 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.

In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk and other risks and the level of such risks given the controls in place to minimise them
- ensure there is a clear link to the capital strategy
- be mindful of affordability requirements in latest code guidance.

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.

8.6 UK Municipal Bond Agency

The UK Municipal Bond Agency has now been established and it is reported that two loans have been made to date to Lancashire County Council. The Chief

Financial Officer will consider the use of this new source of borrowing as and when appropriate and will continue to monitor progress of this new potential treasury partner. Any arrangement will be subject to compliance with the approved treasury policy in accordance with standard practice.

8.7 Property Investment Funds

Property funds are a vehicle for investing funds and diversifying investments. The Council currently has no investments within these types of funds, but is continuing to review the suitability of this option. Property funds should be seen as a medium to long term investment (5 years minimum) to ensure that the full benefit of the return is seen, and to also ensure that any entry fees, annual management fees and exit costs are covered over the life of the investment. Any fund of this nature incurs costs, and these vary depending on the type of fund. Property funds can provide a regular return on the initial investment amount. As a result of the increased durations required to increase yields our treasury strategy, set out in paragraph 10.3 and Appendix 5, provides the Chief Financial Officer with the flexibility to consider the use of this non-specified investment if appropriate. Any arrangement will be subject to compliance with the approved treasury policy in accordance with standard practice.

8.8 Money Market Funds

There are three structural options for money market funds (MMFs):

- **Public Debt Constant Net Asset Value (CNAV)** MMFs - must invest 99.5% of their assets into government debt instruments, reverse repurchase agreements (repos) collateralised with government debt, cash, and are permitted to maintain a constant dealing net asset value (NAV). This Fund is already in existence and there is no change proposed to the current structure; this fund is not currently used due to low yields.
- **Low Volatility Net Asset Value (LVNAV)** MMFs - permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the Fund does not deviate from the dealing NAV by more than 20 basis points (bps). Funds will have amortised cost accounting for investments out to 75 days. This means that they can value such investments at par, thus these investments should not affect the underlying Fund's NAV. All but one of the Council's MMFs are this type of fund.
- **Variable Net Asset Value (VNAV)** MMFs – Funds which price their assets using market pricing and therefore offer a fluctuating dealing NAV. No change to the current approach for Ultra Short rated Bond Funds; the Council currently uses one of this type of fund.

Note: all MMFs carry relatively low risk

These separate classes are reflected in the authority's investment criteria (see table at paragraph 10.3).

8.9 Ethical Investing

This is a topic of increasing interest to members, and one that is also being raised with our treasury advisors. Investment guidance, both statutory and from CIPFA, makes it clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities.

Link is looking at ways in which they can incorporate Environmental, Social and Governance (ESG) factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, they continue to review the options and will update us as progress is made. As such, it is not practicable to include ESG metrics into this template at the current time.

9. DEBT RESCHEDULING

- 9.1 If short term borrowing rates are considerably cheaper than longer term fixed interest rates, 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).
- 9.2 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).
- 9.3 Consideration will also be given to identify if 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.
- 9.4 Any rescheduling will be reported to the Cabinet at the earliest meeting following its action. However, rescheduling of any current borrowing is unlikely to occur as the 100 basis point increase in the PWLB rates only applied to new borrowing rates and not to premature repayment rates.

10. ANNUAL INVESTMENT STRATEGY

10.1 Investment policy – management of risk

- 10.1.1 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, which for this Council are essentially property acquisitions with multiple objectives including income generation, 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). In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options if deemed appropriate for the risk appetite of this Council.

10.1.2 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This Council 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 5 under the categories of ‘specified’ and ‘non-specified’ investments.
 - i. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
 - ii. **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. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 10.3.
6. Transaction limits are set for each type of investment in paragraph 10.3.
7. The Council has set a limit for the amount of its investments which are invested for longer than 365 days, (see Appendix 3, paragraph 1.9).

8. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see Appendix 6).
9. This Council has engaged external consultants, (see paragraph 11), 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.
10. All investments will be denominated in sterling.
11. As a result of the change in accounting standards for 2020-21 under **IFRS 9**, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018 the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31st March 2023.)

10.2 Management Practices for Non-Treasury Investments

10.2.1 The Council has adopted the following statements covering non-treasury investments:

- This Council recognises that investment in other financial assets and property for multiple objectives, including income generation, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.
- This Council will ensure that all of its investments are covered in the Capital Strategy and the Strategy for the Capital Portfolio Fund and Development Loans fund and will set out the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.
- The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Council's risk exposure therein.

10.3 Creditworthiness Policy

The Council continues to apply the creditworthiness service provided by Link Asset Services.

Link advise that their 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:

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- 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 and any assigned watches and 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 Chief Financial Officer is satisfied that this service will continue to provide a high level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years * (credit score 1)
- Dark pink 5 years for Ultra-Short Dated Bond Funds (USDBF) (credit score 1.25)
- Light pink 5 years for Ultra-Short Dated Bond Funds (USDBF) (credit score 1.5)
- Purple 2 years (credit score 2)
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks) (credit score 3)
- Orange 1 year (credit score 4)
- Red 6 months (credit score 5)
- Green 100 days (credit score 6)
- No colour not to be used (credit score 7+)

Local flexibility supplementary to the base Link criteria

This local flexibility will take into account market factors and normal due diligence checks.

- The Council's own bank may be used for investment durations up to 1 year in accordance with the limits as specified in the table below and in Appendix 5, subject to it achieving a minimum colour rating of green.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

The following table shows the standard limits using the Link Creditworthiness Policy. However, details of the limits for Specified and Non-Specified Investments applicable to this Council can be found in Appendix 5.

	Colour (and long term rating where applicable)	% Limit	Time Limit
Banks *	yellow	25%	5yrs
Banks	purple	25%	2 yrs
Banks	orange	25%	1 yr
Banks – part nationalised	blue	50% (subject to a maximum value of £5m, whichever is the higher) Requires Chief Financial Officer approval if greater than 25%	1 yr
The Council's Bank	minimum green	50% But, will require prior Chief Financial Officer approval if greater than 25% or £5m, and time limit is greater than current colour	1 yr
Banks	red	25 %	6 mths
Banks	green	25 %	100 days
Other institutions limit	green	25 %	100 days
DMADF	AA	unlimited	6 months
Local authorities	n/a	25 %	5 yrs
Housing associations	green	25%	100 days
	Fund Rating	% Limit	Time Limit
Money market funds CNAV ¹	AAA	25%	Liquid
Money market funds LVNAV ²	AAA	25%	Liquid
Money market funds VNAV ³	AAA	25%	Liquid
Ultra-Short Dated Bond funds with a credit score of 1.25	Dark pink / AAA	25%	Liquid
Ultra-Short Dated Bond funds with a credit score of 1.5	Light pink / AAA	25%	Liquid
Property Funds		25%	Up to 5 years and over

¹CNAV – Constant Net Asset Value (see paragraph 8.8)

²LVNAV – Low Volatility Net Asset Value

³VNAV – Variable Net Asset Value

* The yellow colour category is for UK Government debt or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

The Link Asset Services' credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system 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 on a weekly basis as a minimum requirement. The Council is immediately 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 (CDS) against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Councils 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 the decision making process. Link Asset Services will supply this information to the Treasury team as part of their comprehensive service.

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 in 2008. 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.

10.4 Non UK Country Limits

The Council has determined that it will only use approved counterparties from countries outside the UK with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

In addition to the minimum sovereign credit rating, no more than 25% would be placed with any individual non-UK country at any time should they meet the creditworthiness criteria.

10.5 Investment Strategy

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

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

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

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

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

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

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 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 accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

10.6 End of Year Investment Report

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

10.7 External Fund Managers

The use of specialist investment managers will be considered by the Chief Financial Officer on an ongoing basis, to manage a proportion of the Council's investments (minimum market requirement is usually £10 million) where market conditions are considered favourable to achieve higher overall investment returns. Specialist investment managers will be appointed by the Chief Financial Officer under delegated powers and subject to the Council's Standing Orders Relating to Contracts, if applicable. It is however highly unlikely the Council will hold sufficient funds for investment to be able to consider the use of External Fund Managers due to diminishing cash reserves and the increasing Capital Financing Requirement.

The Council's external fund manager(s) would comply with the Annual Investment Strategy. Any agreement(s) between the Council and the fund manager(s) would additionally stipulate guidelines and duration and other limits in order to contain and control risk.

11. POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

11.1 The Council uses Link Asset Services, Treasury Solutions (Link) as its external treasury management advisers.

11.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. The Chief Financial Officer will ensure that statutory Section 151 responsibilities continue to be met, in close liaison with, but without undue reliance, upon our external service providers and having regard to all available information.

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

11.4 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and also other non-financial assets that councils hold for multiple objectives, including generating a net-yield (for example property portfolios). This may therefore include property acquisitions funded from prudential borrowing that are not managed as part of the normal treasury management processes or under treasury management delegations. This Council's Capital Strategy policy requires that properties are not held purely for commercial purposes/financial gain and must be located within the specified geographical boundary, (this is currently within district, Cabinet report 10th November refers) and acquisitions so far have all been purchased for multiple objectives including economic regeneration for the district. It is recognised that the management of risk is a key factor in this wider approach to property acquisitions and the due diligence and governance requirements include

the use of specialist advisors including KPMG, Bruton Knowles, Lambert Smith Hampton, GVA Grimley and Savilles. Asset Purchase and Sale Investment advice and Asset Portfolio Management is currently provided by Jones Valerio Ltd. Ongoing Property Management is being managed by BNP Paribas.

12. SCHEME OF DELEGATION

- 12.1 The Council's Treasury Management Scheme of Delegation is detailed in Appendix 7.

13. ROLE OF THE SECTION 151 OFFICER

- 13.1 The Treasury Management Role of the Section 151 Officer is detailed in Appendix 8. The revised Treasury Management Code of Practice has significantly extended the specific role of this officer to include a series of new roles in respect of the capital strategy and also a specific role in respect of investment in non-financial assets. These are also reported as part of the Capital Strategy report for transparency and cross reference.

14. MEMBER AND OFFICER TRAINING

- 14.1 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. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. The Council has addressed this important issue by:

- Annual Portfolio holder training from the Chief Financial Officer and Treasury Consultants;
- Treasury Management Review Panel annual training updates (with additional updates as necessary);
- Daily Officer monitoring of Treasury and Money Market information by Treasury Officers;
- Regular attendance by Officers at professional Seminars provided by Treasury Consultants, CIPFA and MHCLG

The training needs of treasury management officers are periodically reviewed.

In addition to treasury management, Member training is held annually in relation to the Capital Strategy, Capital Portfolio Fund.

15. LOCAL ISSUES

- 15.1 The Financial Strategy for 2017-20 approved in February 2017 included significant proposals for two Council Policies closely allied to the Treasury Management Service Strategy. The first of these policies was in relation to Loans to Third Parties (now renamed Development Loans Fund) for which an

allocation of £10m was allocated in the 2017-18 Capital Programme. The second was to create a £25m Capital Portfolio Fund, subsequently increased to £26.5m; both policies support our corporate priority of regeneration and economic development. Expenditure is subject to specific approval and due diligence evidenced by each business case. More detail in relation to these non-treasury investments is contained within the Capital Strategy Cabinet report 22nd December 2020

http://www.wyreforest.gov.uk/council/docs/doc56260_20201222_cabinet_agenda.pdf (agenda item 7.2) that will be reported for approval to February 2021 Council alongside this TMSS as part of the overall Financial Strategy.

- 15.2 During the next year the funds available for investment will continue to reduce as the Council realigns its financial plans against the backdrop of the COVID-19 pandemic coupled with the ongoing uncertainty around the UK's trade deal with the European Union. The UK economy and Councils up and down the Country are facing the most challenging set of circumstances since the Second World War and this significantly increases the risk of not being able to maintain financial sustainability. This has a consequential impact on treasury management cashflows and spending plans. The Medium-Term Financial Strategy proposed for 2021-24 includes a decisive action plan for which a summary programme of work is set out to explore and implement more shared services, alternative service delivery options and other planned transformation. Work to continue to progress localism in partnership with our Town and Parish Councils is also planned as part of this trajectory towards closing the funding gap and inevitably becoming a smaller organisation. The successful award of £20.5m Future High Streets Funding is extremely positive and should boost regeneration of the district; it is noted that the Capital Programme and associated prudential indicators will be updated to include the gross costs of this scheme for February Council following reports to Cabinet to set out the requisite detail. As approved capital projects progress and movements in the MRP are reflected, the borrowing requirement will continue to fluctuate, as detailed in this report.
- 15.3 Historically, the most significant issue to affect the Council was the exposure of investments with links to Icelandic Banks. Repayments in respect of the remaining investment continue in line with expectations. The Council has one relatively modest sum outstanding and overall recovery rates are high. Further details can be found in Section 5.2 of this report.
- 15.4 The Prudential Code suggests including Local Indicators where the information will lead to a better understanding of local circumstances. Many Councils now take a more commercial approaches to generating income and have approved capital property acquisition schemes that meet corporate priorities whilst also generating rental streams. The strict definition of the current indicator showing financing costs as a proportion of net revenue stream excludes such rental income, thereby skewing the results. A local indicator is included within Appendix 3, to show the effect of the complete investment return upon the net revenue stream, thus demonstrating that the inclusion of these schemes still provides prudent and affordable results.

16. KEY ISSUES

- 16.1 The Council continues to enter into external borrowing in accordance with the current approved TMSS. Loans outstanding as at 11th January 2021 total £37million, and this will increase in line with the CFR over the period of the Financial Strategy. As approved capital projects progress, including the significant policy for the Capital Portfolio Fund, the borrowing requirement will continue to increase. No expenditure has been made to date in respect of the Development Loans Fund although one loan has been approved Subject to timing of proposals, we will continue to utilise internal borrowing and when necessary take advantage of historically low borrowing rates, taking into account cost of carry, before they start to rise again. Full details can be found in Section 8.1 of this report.
- 16.2 The Chief Financial Officer and treasury team keep the TMPs under review with the assistance of the Council's Treasury Consultants.
- 16.3 Achieving financial sustainability is the most significant challenge facing the Council particularly in the light of the ongoing COVID-19 pandemic and resultant uncertainty. The refreshed Transformation Programme required to deliver the savings required with the localism work stream continuing to be a key a key lever as reflected in the Cabinet Proposals last year and refreshed as part of this year's MTFS. As a direct consequence of the ongoing COVID-19 pandemic and the consequent addition of new generic savings targets as part of the Cabinet Proposal process the overall funding gap has increased from circa £1.7m to circa £2.6m in 2023-24. Whilst the funding gap is even more significant relative to last year, the increase in overall balance sheet reserves as part of the 2019-20 Final Accounts process and the clear reporting of the use of reserves within the MTFS ensures there is full transparency. It is acknowledged that the funding gap represents a key risk to ongoing financial sustainability significantly exacerbated by COVID-19. This has a consequential impact on treasury management cashflows and spending plans. This Strategy manages the risks as set out in section 19. All relevant factors will be monitored and if the risks change significantly then further reports will be made to update the Treasury Strategy.

17. FINANCIAL IMPLICATIONS

- 17.1 The Financial Implications of the Treasury Management function are included in the Council's Medium Term Financial Strategy, Capital Strategy and Three Year Budget and Policy Framework.

18. LEGAL AND POLICY IMPLICATIONS

- 18.1 The Local Government Act 2003 supplemented by Regulations set out the current framework for a prudential system for local authority capital finance. This Act, together with CIPFA's Prudential Code for Capital Finance in Local Authorities, came into effect on 1st April 2004. This code together with recent revised editions, guides decisions on what Local Authorities can afford to borrow and has statutory backing under Regulations issued in accordance with the Local Government Act 2003.

- 18.2 Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services as part of the Authority's Standing Orders and Financial Regulations, gives it the status of a "code of practice made or approved by or under any enactment", and hence proper practice under the provisions of the Local Government and Housing Act 1989.
- 18.3 The publication of the revised CIPFA Prudential Code and Treasury Management Code in December 2017 introduced further layers of control around risk in relation to investments that are not part of treasury management activity particularly relevant to where prudential borrowing is used and a commercial return is sought. Revised Investment and MRP guidance from the MHCLG (which should be read in conjunction with the codes) was issued in February 2018. Developments will continue to be monitored and updates including associated risks covered in future reports.
- 18.4 The first full year of compliance with the CIPFA Financial Management Code (FM Code) will be 2021-22. This provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively.
- 18.5 As part of the Spending Review announcement on the 25th November 2020, it was announced that the PWLB have concluded their review, please see link in Background reference 23.18 below, the key changes are summarised in the Capital Strategy December Cabinet and were effective from 26th November 2020.

19. RISK MANAGEMENT

- 19.1 The Council is aware of the risks of passive management of the treasury portfolio. With the support of Link Asset Services, the Council's treasury advisors, the Council has proactively managed the portfolio over the year.
- 19.2 Shorter-term variable rates and likely future movement in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the lending list, accurately forecasting returns can be difficult.
- 19.3 In the event of a counterparty default, a formal demand for payment, to include principal, contractual interest and default interest, will be made as soon as possible. Such demand will need to meet the criteria as specified in the Insolvency Act Amendments Rules 2010.
- 19.4 One of the risks associated with the Council's Capital Programme, allied to this TMSS, is that given the current economy and the finalisation of Brexit negotiations, planned asset disposals are not fully realised in terms of timing and valuation assumptions. This may increase external borrowing until such sales proceeds are realised and also incur additional costs, of debt repayment to those already included in Finance Strategy. For major projects, reserves are held to mitigate this risk.
- 19.5 There is no significant change proposed to the Council's counterparty criteria. The Council will continue to aim to achieve the optimum return on its investments commensurate with its investment priorities of security and liquidity. The government continues its programme of selling its stake in Royal Bank of

Scotland. The investment criteria for this class of investment enables more flexibility for the use of the UK part nationalised banks (currently RBS Group) where necessary. However, this will be kept under review and investments above 25% will only be placed on an exception basis and only with advance Chief Finance Officer (CFO) approval.

- 19.6 Although the rating for the Council's bank, Lloyds, is currently red (6 months) if this should deteriorate the policy allows for discretion to be exercised allowing longer investments up to 12 months to continue to be placed. The resultant risk is recognised and would be mitigated by approval on an exceptional basis only with advance Chief Finance Officer (CFO) approval.
- 19.7 Proposed expenditure in respect of the two Council Policies, detailed in 15.1 above, that are closely allied to the Treasury Management Service Strategy will be subject to specific approval and due diligence evidenced by each business case in order to minimise risk. These risks are explained in the detailed Capital Strategy 2021-31 report presented to Cabinet on 22nd December 2020 http://www.wyreforest.gov.uk/council/docs/doc56260_20201222_cabinet_agenda.pdf (agenda item 7.2) that will follow the same approval route as this TMSS and MTFS.
- 19.8 The ongoing requirement to produce a Capital Strategy will ensure that there is appropriate focus on risk and longer-term affordability of capital plans and include emphasis on non-treasury investments.
- 19.9 The ongoing impact of COVID-19 and the resultant uncertainty on forecasting of future cash flows is a new risk this year. The funding provided by Government has so far mitigated the greater part of this risk. Daily Treasury Management meetings and robust budget monitoring including assessment of how this links to changes in cash flows, manages and mitigates this risk as far as possible.

20. EQUALITY IMPACT ASSESSMENT

- 20.1 This is a financial report and there is no requirement to consider an Equality Impact Assessment.

21. CONCLUSION

- 21.1 See Recommendations.

22. CONSULTEES

- 22.1 Link Asset Services (Treasury Advisors)
- 22.2 Leader of the Council/Cabinet Member for Strategy and Finance
- 22.3 CLT
- 22.4 Treasury Management Review Panel

23. BACKGROUND PAPERS

23.1 Local Government Act 2003.

23.2 CIPFA Prudential Code 2017.

23.3 CIPFA Revised Code of Practice on Treasury Management 2017.

23.4 Local Government and Housing Act 1989.

23.5 Council 26-02-20: Treasury Management Strategy 2020-21.
http://www.wyreforest.gov.uk/council/docs/doc55603_20200226_council_agenda.pdf

23.6 Council 23-09-20: Annual Report on Treasury Management Service and Actual Prudential Indicators 2019-20.
http://www.wyreforest.gov.uk/council/docs/doc56077_20200923_council_agenda.pdf

23.7 Overview and Scrutiny Committee 05-11-20: Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2020-21.
http://www.wyreforest.gov.uk/council/docs/doc56121_20201105_o_and_s_agenda.pdf

23.8 CIPFA Treasury Management in the Public Services Guidance Notes 2018.

23.9 CIPFA statement 17/10/2018 on borrowing in advance of need and investments in commercial property.

23.10 CIPFA Bulletin 02 Treasury and Capital Management Update October 2018.

23.11 Overview and Scrutiny Committee 01-06-17: Strategies for the Capital Portfolio Fund and Loans to Third Parties (Development Loans Fund).
http://www.wyreforest.gov.uk/council/docs/doc51960_20170601_o_and_s_agenda.pdf

23.12 Cabinet 22nd December 2020 - Capital Strategy 2021-31
http://www.wyreforest.gov.uk/council/docs/doc56260_20201222_cabinet_agenda.pdf(agenda item 7.2)

23.13 Statutory investment guidance where updated in 2018 (*English local authorities*)

23.14 Statutory MRP guidance where updated in 2018 (*English local authorities*)

23.15 CIPFA Guidance on Prudential Property Investment November 2019.

23.16 CIPFA Financial Management Code October 2019.

23.17 Report from the recent Public Accounts Committee
<https://publications.parliament.uk/pa/cm5801/cmselect/cmpublicacc/312/31202.htm>

23.18 Response to Consultation PWLB future lending Terms
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938043/Response_to_consultation_Public_Works_Loan_Board_future_lending_terms_1.pdf

APPENDIX 1 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 at the discretion of the Chief Financial Officer (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.

For capital expenditure financed by borrowing after 1 April 2008 the Chief Finance Officer (Section 151 Officer) should determine whether an annuity or equal instalment method is adopted for certain classes of investment to ensure that the most financially beneficial method is adopted.

During 2020-21 the Council's approach to calculating a prudent minimum revenue provision has been kept under review to further take account of the need to evaluate business cases for Capital Portfolio Fund acquisitions that have multiple objectives including generation of revenue income streams. Following the review some minor additional wording has been added to reflect that discretion may be exercised to charge a VRP even where an MRP is not required by statute, for Development Loans Fund expenditure in particular.

The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

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

Asset Life Method

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday').

There are two ways of calculating MRP under the Asset Life Method:

- i. **the equal instalment method** allows the use of a simple formula to generate a series of equal annual amounts over the estimated life of the asset.
- ii. **the annuity method** makes provision for an annual charge to the General Fund which takes account of the time value of money (e.g. whereby paying £100 in 10 years' time is less of a burden than paying £100 now). The schedule of charges produced by the annuity method results in a consistent charge to revenue over an asset's life, taking into account the real value of the annual charges when they fall due. The annuity method also matches the repayment profile to how the benefits of the asset financed by borrowing are consumed over its useful life (i.e. the method reflects the fact that asset deterioration is slower in the early years of an asset's life and accelerate towards the latter years). This is commensurate with a prudent provision matching debt repayment to the period which the capital expenditure provides benefit. This method is most appropriate for use in circumstances where the initial investment is recouped from rental yields that are subject to cyclical, upwards only reviews. It is also appropriate in connection with projects promoting regeneration or administrative efficiencies or other schemes where revenues will increase over time.

The Chief Finance Officer (Section 151 Officer) will determine whether an annuity or equal instalment method is utilised to ensure that a prudent and financially beneficial method is adopted.

Estimated life periods will be determined by the Chief Financial Officer (Section 151 Officer) under powers delegated by Council. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council as determined by the Chief Financial Officer. However, under these powers delegated by Council, the Chief Financial Officer reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. For example, the Guidance recommends that in the case of loans and grants towards capital expenditure by third parties (under Regulation 25(1)(b), a charge should be made over a period "equal to the estimated life of the assets in relation to which the third party expenditure is incurred" and this is the approach adopted in this MRP Policy. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided

up in cases where there are two or more major components with substantially different useful economic lives.

In accordance with the Guidance, MRP will be charged in the financial year following that in which the asset is completed or becomes operational, however the Chief Financial Officer may choose to apply a VRP in the year of acquisition in exceptional circumstances if it was deemed necessary due to the level of materiality.

With regards to the Council's Policy on Development Loans Fund, where the capital expenditure relates to shorter term loan arrangements, the policy will be to not charge any MRP to the revenue account if full repayment of loans will be anticipated within the shorter term, as per the agreements. A VRP may however be made at the discretion of the Chief Financial Officer. This scheme is included within the Capital Programme and loan applications will be subject to specific approval by the Cabinet and due diligence of the business case for each proposal. The principal element of the receipts will be set aside for this purpose; hence an element of the CFR will be reduced when repayment of loans are made.

The Prudential Indicators included in Appendix 3 assume that MRP/VRP will be payable on Development Loans Fund in order to present the 'worst case' cash flow position for TMSS purposes. This budget modelling will be revised, based on the approval of specific business cases for allocation of the funding. This has been modelled on a straight line basis.

MRP Overpayments

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed for use in the budget. This policy must disclose the cumulative overpayment made each year. Up until 31st March 2020 there were no cumulative VRP overpayments.

The Council is satisfied that the policy for calculating MRP set out in this Policy Statement will result in the Council continuing to make prudent provision for the repayment of debt, over a period that is on average reasonably commensurate with that over which expenditure provides benefit.

The Chief Financial Officer will, where it is prudent to do so, use discretion to review the overall financing of the Capital Programme and the opportunities afforded by the regulations, to maximise the benefit to the Council whilst ensuring the Council meets its duty to charge a prudent provision.

APPENDIX 2 INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by Link Asset Services and Capital Economics (an independent forecasting consultancy).

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

Link Group Interest Rate View		9.11.20				(The Capital Economics forecasts were done 11.11.20)								
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	
Bank Rate														
Link	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	
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-	
5yr PWLB Rate														
Link	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	
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-	
10yr PWLB Rate														
Link	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	
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-	
25yr PWLB Rate														
Link	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	
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-	
50yr PWLB Rate														
Link	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	
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-	

The PWLB rates above are based on the new margins over gilts announced on 26th November 2020. The forecasts have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

APPENDIX 3 PRUDENTIAL AND TREASURY INDICATORS

1 THE CAPITAL PRUDENTIAL INDICATORS 2021-31

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

The prudential indicators will be revised in February 2021, as part of the Council's approval of the Financial Strategy 2021 to 2024, as the indicators included within this report are based on current recommendations.

1.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans.

Capital expenditure £'000	2019-20 Actual	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Chief Executive and Solicitor to the Council	-	-	414	-	-	-
Community Well-being and Environment	2,337	335	1,475	888	582	-
Economic Prosperity and Place**	1,759	5,715	8,330	1,000	1,000	1,000
Resources	561	418	488	125	-	-
Capital Portfolio Fund and Development Loans Fund	7,359*	8,033*	11,176*	-	-	-
Vehicle, Equipment and Systems Renewals	1,184	846	1,034	299	224	363
Total	13,200	15,347	22,917	2,312	1,806	1,363

Capital expenditure £'000	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate	2029-30 Estimate	2030-31 Estimate
Chief Executive and Solicitor to the Council	-	-	-	-	-	-
Community Well-being and Environment	-	-	-	-	-	-
Economic Prosperity and Place**	1,000	1,000	1,000	1,000	1,000	1,000
Resources	-	-	-	-	-	-
Capital Portfolio Fund and Development Loans Fund	-	-	-	-	-	-
Vehicle, Equipment and Systems Renewals	1,144	1,393	329	547	25	184
Total	2,144	2,393	1,329	1,547	1,025	1,184

* Whilst it is highly unlikely that the full allocations will be spent as currently estimated, these are included as maximum sums to enable the Council to take advantage of relevant opportunities to support regeneration in the wider sense as they may arise.

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** Capital budgets from 2021-22 onwards for Disabled Facilities Grants are subject to annual Better Care Fund allocations from Central Government.

*** Capital expenditure estimates are based on current approvals so exclude the Future High Street Funding. This will be added together with any other late changes for the February Council Report.

Other long-term liabilities - the above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. However, the Council currently has no other long term liabilities.

The tables below summarise 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.

Capital expenditure £'000	2019-20 Actual	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Total	13,200	15,347	22,917	2,312	1,806	1,363
Financed by:						
Capital receipts	470	649	1,612	-	-	-
Capital grants	1,365	4,942	6,896	1,888	1,382	1,000
Revenue	350	124	50	-	-	-
Total net financing need for the year	11,015	9,632	14,359	424	424	363
Net financing need split as follows:						
Net financing need for the year: Capital Portfolio Fund and Development Loans Fund	7,359	8,033	11,176	-	-	-
Percentage of total net financing need %	67%	83%	78%	0%	0%	0%
Net financing need for the year: Capital Programme	3,656	1,599	3,183	424	424	363
Percentage of total net financing need %	33%	17%	22%	100%	100%	100%

Capital expenditure £'000	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate	2029-30 Estimate	2030-31 Estimate
Total	2,144	2,393	1,329	1,547	1,025	1,184
Financed by:						
Capital receipts	-	-	-	-	-	-
Capital grants	1,000	1,000	1,000	1,000	1,000	1,000
Revenue	-	-	-	-	-	-
Total net financing need for the year	1,144	1,393	329	547	25	184
Net financing need split as follows:						
Net financing need for the year: Capital Portfolio Fund and Development Loans Fund	-	-	-	-	-	-
Percentage of total net financing need %	0%	0%	0%	0%	0%	0%
Net financing need for the year: Capital Programme	1,144	1,393	329	547	25	184
Percentage of total net financing need %	100%	100%	100%	100%	100%	100%

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

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

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

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council does not currently have such schemes within the CFR.

The current CFR projections are presented below:

£'000	2019-20 Actual	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Capital Financing Requirement						
CFR: Capital Portfolio Fund and Development Loans Fund	17,098	24,809	35,510	34,825	34,139	33,451
CFR: Capital Programme	23,468	24,205	25,408	24,709	23,989	23,188
Total CFR	40,566	49,014	60,918	59,534	58,128	56,639
Movement in CFR	10,171	8,448	11,904	(1,384)	(1,406)	(1,489)

	Movement in CFR represented by:					
Net financing need for the year (above)	11,015	9,632	14,359	424	424	363
Less MRP/VRP and other financing movements	(844)	(1,183)	(1,446)	(1,808)	(1,830)	(1,852)
Movement in CFR	10,171	8,448	11,904	(1,384)	(1,406)	(1,489)

£'000	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate	2029-30 Estimate	2030-31 Estimate
Capital Financing Requirement						
CFR: Capital Portfolio Fund and Development Loans Fund	32,762	32,071	31,441	30,810	30,178	29,547
CFR: Capital Programme	23,150	23,305	22,265	21,425	20,067	18,648
Total CFR	55,912	55,376	53,706	52,235	50,245	48,379
Movement in CFR	(727)	(536)	(1,670)	(1,471)	(1,990)	(1,866)

	Movement in CFR represented by:					
Net financing need for the year (above)	1,144	1,393	329	547	25	184
Less MRP/VRP and other financing movements	(1,871)	(1,929)	(1,999)	(2,018)	(2,015)	(2,050)
Movement in CFR	(727)	(536)	(1,670)	(1,471)	(1,990)	(1,866)

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any non treasury activity in relation to the Council's overall financial position. The capital expenditure figures shown in 1.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Council's remaining activity.

1.3 Affordability prudential indicators

Within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

1.4 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream for the period of the Medium Term Financial Strategy (MTFS).

%	2019-20 Actual	2021-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Ratio (Prudential Code)*	10.49	17.46	19.60	23.70	22.91
Ratio (Local Indicator)*	1.96	6.18	6.32	7.65	7.39

* A local indicator was introduced from 2018-19 onwards to reflect the impact of the estimated rental income stream for the Capital Portfolio Fund scheme (currently excluded from the Prudential Code calculation), demonstrating that the capital investment continues to be prudent and sustainable.

The estimates of financing costs include current commitments.

1.5 Incremental impact of capital investment decisions on the Band D Council Tax

This indicator is retained as a local indicator from 2018-19 following the revision to the prudential code in December 2017. It identifies the revenue costs associated with the Cabinet proposals being the proposed changes to the three year capital programme compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

This indicator, shown for the period of the MTFS, will be revised in February 2021 as part of the Council's approval of the Financial Strategy 2021 to 2024.

£	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Council tax - band D	0	0	0

1.6 Current portfolio position

The Council's treasury portfolio position (investments and borrowing) at 11th January 2021 is detailed in sections 5.1 and 8.1 of the main report.

The Council's external debt position at 31st March 2020, with forward projections for borrowing are summarised below (maximum external borrowing is shown, but there may be a varied mix of internal and external borrowing if that is deemed more advantageous by the Chief Financial Officer, depending upon interest rates and Council cash balances). The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000	2019-20 Actual	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
External Debt						
Gross debt at 31st March	37,000	49,000	60,000	59,000	58,000	56,000
The Capital Financing Requirement	40,566	49,014	60,918	59,534	58,128	56,639
Under / (over) borrowing *	3,566	14	918	534	128	639

Within the above figures the level of debt relating to the Development Loans Fund and Capital Portfolio Fund is:

	2019-20 Actual	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
External Debt for Development Loans Fund and Capital Portfolio Fund						
Actual debt at 31 March £'000	17,000	24,000	35,000	34,000	34,000	34,000
Percentage of total external debt %	46%	49%	58%	58%	59%	61%

£'000	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate	2029-30 Estimate	2030-31 Estimate
External Debt						
Gross debt at 31st March	55,000	55,000	53,000	52,000	50,000	48,000
The Capital Financing Requirement	55,912	55,376	53,706	52,235	50,245	48,379
Under / (over) borrowing *	912	376	706	235	245	379

Within the above figures the level of debt relating to the Development Loans Fund and Capital Portfolio Fund is:

	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate	2028-29 Estimate	2029-30 Estimate	2030-31 Estimate
External Debt for Development Loans Fund and Capital Portfolio Fund						
Actual debt at 31 March £'000	33,000	32,000	31,000	31,000	30,000	29,000
Percentage of total external debt %	60%	58%	58%	60%	60%	60%

Within the 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 Chief Financial Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the short term.

*However, in the future it may be that the Council will not be able to comply with this indicator introduced in November 2012 since any fixed term maturity loans would not be reduced until they are repaid. The CFR would continue to be reduced by MRP/VRP, hence the gross external debt may eventually exceed the CFR. The debt would attract excessive premiums if it was prematurely repaid. The unexpected change from net to gross debt in 2012 is unachievable for many Councils given past decisions made in full accordance with the Prudential Code. Links' advice is that it is sufficient to disclose this as part of the Strategy review.

1.7 Treasury Indicators: limits to borrowing activity

The operational boundary

This is the limit beyond which external debt is not normally expected to exceed, shown for the period of the MTFS. 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 £'000	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Debt	65,000	65,000	65,000	65,000
Other long term liabilities	-	-	-	-
Total	65,000	65,000	65,000	65,000

The authorised limit for external debt

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

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.

Authorised limit £'000	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Debt	75,000	75,000	75,000	75,000
Other long term liabilities	-	-	-	-
Total	75,000	75,000	75,000	75,000

1.8 Maturity structure of borrowing

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

Maturity structure of fixed interest rate borrowing 2021-22		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%
Maturity structure of variable interest rate borrowing 2021-22		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

These limits give maximum flexibility for borrowing, to ensure financial advantages of each transaction.

1.9 Investment treasury indicator and limit

This indicator sets the limits on 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.

Maximum principal sums invested > 365 days			
£m	2021-22	2022-23	2023-24
Principal sums invested > 365 days	£2m	£2m	£2m

APPENDIX 4 ECONOMIC BACKGROUND (PROVIDED BY LINK ASSET SERVICES (TREASURY ADVISORS))

4.1 GLOBAL OUTLOOK

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.

4.2 KEY RISKS - central bank monetary policy measures

Brexit. The interest rate forecasts provided by Link in paragraph 8.2 of this report were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term Public Works Loan Board (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 government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.

UK - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

A resurgence of the **Eurozone sovereign debt crisis**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. 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 will 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, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.

Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

UK - a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.

The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

4.3 United Kingdom (UK) economy

The key quarterly meeting of the Bank of England Monetary Policy Committee (MPC) kept Bank Rate unchanged on 5th November 2020. However, it revised its economic forecasts to take account of a second national lockdown from 5th November 2020 to 2nd December 2020 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 2021 when the current programme of £300bn of QE 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 2020 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 of 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 Gross Domestic Product (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 2020 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 2021, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June 2021).

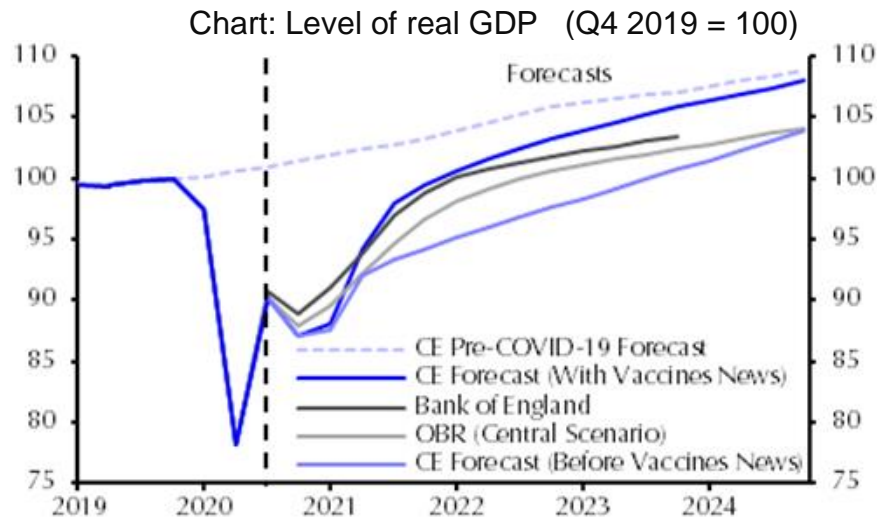
These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to 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 2020, 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 of 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%.

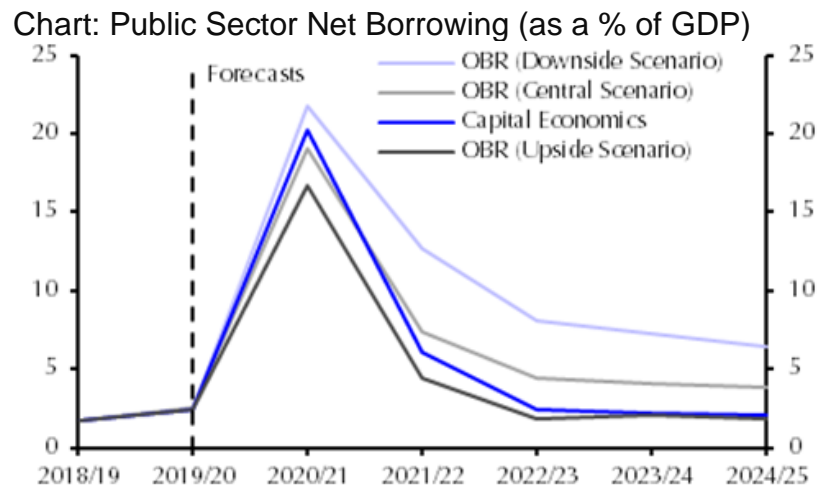
Public borrowing. This was forecast in November 2020 by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE carried out 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 European Union (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 of 2019. It is likely that the one month national lockdown that started on 5th November 2020, 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 5th January 2021 to national lockdowns of various initial lengths in each of the four nations as the National Health Service (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.



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.



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 31st December 2020, the final agreement on 24th December 2020, 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 17th December 2020. 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 2020. 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 30th April 2021 until 31st October 2021. (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 2021.
- The furlough scheme was lengthened to the end of April 2021.
- The Budget on 3rd March 2021 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 6th August 2020 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%.

4.4 Economy outside UK

EU. In early December 2020, 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

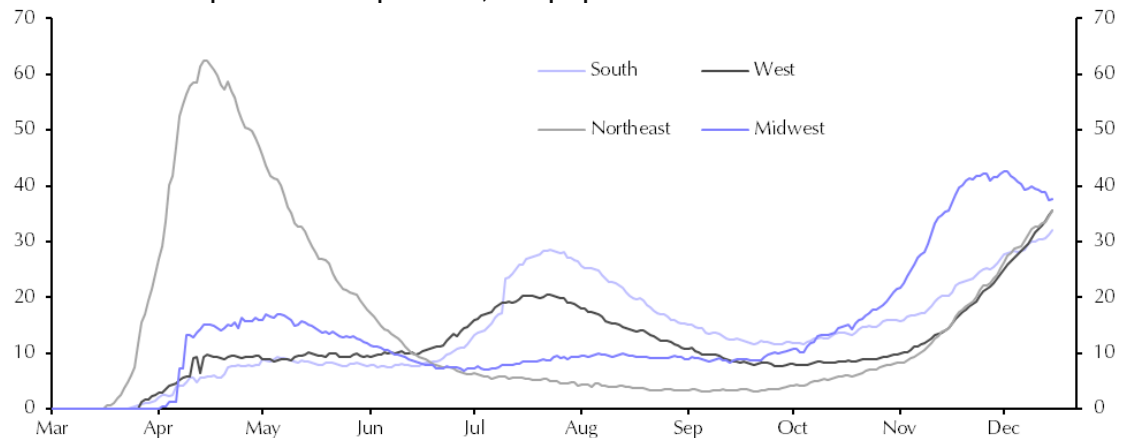
and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant 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 European Central Bank (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.

USA (US). The result of the November 2020 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 2021. 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 US 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 2020, suggests that the US could be in the early stages of a fourth wave. While the first wave in March 2020 and April 2020 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 2020 and retail sales dropping back. The economy is set for further weakness in December 2020 into the spring. However, a \$900bn fiscal stimulus deal passed by Congress in late December 2020 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 Federal Reserve's (Fed) adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, the mid-September 2020 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 Federal Open Market Committee's (FOMC) updated economic and rate projections in mid-September 2020 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 5th November 2020 was unremarkable - but at a politically sensitive time around the elections. At its 16th December 2020 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.

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 2020 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.

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 5 SPECIFIED AND NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS:

The Council has determined to authorise Specified Investments as follows:

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable).

	Minimum 'High' Credit Criteria
Debt Management Agency Deposit Facility (DMADF) – UK Government	-
The Council's Own Bank – for transactional purposes	End of day balance £1m (at the discretion of the Chief Financial Officer)
The Council's Own Bank – for investment purposes	Green
Deposits – local authorities	-
Deposits – housing associations	Green
Term deposits – banks and building societies *	Green
Other Financial Instruments	Green

Term deposits with nationalised banks, banks and building societies

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
UK part nationalised banks*– currently RBS Group.	Blue	In-house	50% (subject to a maximum value of £5m, whichever is the higher). Requires Chief Financial Officer approval if greater than 25%	As per colour
The Council's Own Bank – for investment purposes	Green	In-house	50% But requires Chief Financial Officer approval if greater than 25% or £5m, and time limit is greater than current colour	1 year
Banks nationalised by high credit rated (AA+ sovereign rating) countries – non UK**. For UK revert to Link Creditworthiness Methodology	Green	In-house and Fund Managers	25%	As per colour

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):

	Minimum 'High' Credit Criteria
1a. Money Market Funds (CNAV)	AAA
1b. Money Market Funds (LVNAV)	AAA
1c. Money Market Funds (VNAV)	AAA
2a. Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA
2b. Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA
3. Bond Funds	AAA
4. Gilt Funds	UK sovereign rating

* Where a bank is part of a group then the total exposure to the group will be the same as the individual exposure assigned to the parent organisation

** e.g. USA (AA+); specified list of countries approved for investing with their banks detailed in Appendix 6 (correct as at date of report)

Additional Information on Specified Investments as Detailed Above

Nationalised/part-nationalised banks. The current Link Creditworthiness Methodology assigns a 12 month (blue) duration to nationalised/part-nationalised banks to recognise the perceived higher credit quality. The Council's Treasury Strategy gives sufficient flexibility to enable a maximum investment level of 50% with such institutions (subject to a maximum value of £5m, whichever is the higher) that would require Chief Financial Officer approval if greater than 25%. The Government currently has a major stake in the Royal Bank of Scotland Group.

Other countries. The Council will only consider investments with non UK countries that are a minimum of AA+ rated (for UK revert to Link Creditworthiness Methodology).

Council's Own Bank – For transactional purposes. Where the Council's own bankers fail to meet the basic credit criteria, balances will be minimised as far as possible with an upper limit of £1m. This allows for reasonable flexibility needed for day to day cash flow management.

Council's Own Bank – For investment purposes. The Council's own bank may be used for investment durations up to 1 year in accordance with the limits as specified in the TMSS and in the table above, subject to it achieving a minimum colour rating of green with the CFO's approval. However, where the Council's own bankers fail to meet the basic credit criteria, it shall not be used for investment purposes.

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

NON-SPECIFIED INVESTMENTS:

The Council has determined to authorise Non-Specified Investments as follows:

1. Maturities of ANY period

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Green	In-house	25%	As per colour
Certificates of deposit issued by banks and building societies	Green	In-house	25%	As per colour
Treasury Bills	UK sovereign rating	In-house and Fund Managers	25%	6 months
Bonds issued by multi-lateral development banks	AAA	In-house and Fund Managers	25%	As per colour
Corporate Bonds	Green	In-house and Fund Managers	25%	As per colour
Floating Rate Notes and Covered Bonds	Green	In-house and Fund Managers	25%	As per colour
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	25%	6 months
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	In-house and Fund Managers	25%	6 months
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
Corporate Bond Fund	-	Externally Managed	25%	Up to 5 years and over
Property Funds	-	Externally Managed	25%	Up to 5 years and over

2. Maturities in excess of 1 year

	Minimum Credit Criteria/Colour Band	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	-	In-house	25%	As per colour
Term deposits – housing associations	-	In-house	25%	As per colour
Term deposits – banks and building societies	Green	In-house	25%	As per colour
Certificates of deposit issued by banks and building societies	Green	In-house	25%	As per colour
Collateralised deposit	Green	In-house	25%	As per colour
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	25%	As per colour
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	25%	As per colour
Corporate Bonds	AAA	In-house and Fund Managers	25%	As per colour
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
Bond Funds	AAA	Externally Managed	25%	Up to 5 years and over
Gilt Funds	AAA	Externally Managed	25%	Up to 5 years and over

For both Specified and Non Specified Investments, due to the continued uncertainty in the financial markets, it is recommended that the Investment Strategy is approved on a similar approach to previous years which will provide officers with the flexibility to deal with any unexpected occurrences. Officers will restrict the pool of available counterparties from this criteria to ensure that security of capital remains the paramount consideration. This may involve the use of the Debt Management Account Deposit Facility (DMADF), AAA rated Money Market Funds and institutions (as deemed appropriate) with higher credit ratings than those outlined in the investment strategy or which are provided support from the Government. Investments are currently being maintained up to 12 months, although this will be kept under review and longer term investments may be considered within the approved policy in the future. This is also applicable to the approved countries detailed in Appendix 6.

APPENDIX 6 APPROVED NON UK COUNTRIES FOR INVESTMENTS (correct as at date of report)

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- USA
- Canada

The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This list will be added to or deducted from by officers should ratings change in accordance with this policy. For the UK revert to Link Methodology (currently AA-). Limits in place will apply to a group of companies

In addition to the minimum sovereign credit rating, no more than 25% would be placed with any individual non-UK country at any time, should they meet the credit worthiness criteria.

This page is correct as at 11th January 2021

APPENDIX 7 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

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

(ii) Committees/Council/responsible body –Overview and Scrutiny Committee with recommendations from the Treasury Management Review Panel as appropriate

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

(iii) Body/person(s) with responsibility for scrutiny – Overview and Scrutiny Committee with recommendations from the Treasury Management Review Panel as appropriate

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX 8 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
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term (20 year) timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (*TM Code p54*): -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

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- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

**Wyre Forest District Council
Scrutiny Proposal Form**

Name of Councillor:	Mary Rayner / Anna Coleman / Roger Coleman
Subject Area to be Scrutinised:	<p>Fireworks have been around for at least 4 centuries. It was originally to celebrate the failure of the gunpowder plot. It also has many connotations that of religious and political as well as general enjoyment now to also celebrate Christmas and New year. All the current legislation has been about Health and Safety, regulations of explosives and so on. Traditional fireworks were usually fountains and rockets that burst into stars with limited height and noise levels. In more recent years the specification and science has allowed the nature of the fireworks to change and they have become louder the bangs make areas vibrate with the volume.</p>
Rationale: reason for scrutinising the subject area	<p>Over the years firework designs have changed from being just a visual display with low localised levels of sound to being extremely loud thundering noisy fireworks which is causing trauma to many sections of the local community. The loud bangs have massive impact on people's pets, people with nervous dispositions, unpleasant for many older people who can be frightened and do not wish to leave their homes. Every time fireworks produce a large bang there is a risk of causing alarm distress or anxiety to people. Distress injury and possible death of animals both domestic and wild including protected species. Because of noise government has already legislated the banning of bangers and domestic fireworks may not exceed 120dB. Modern commercial displays shoot fireworks to greater heights causing wider spread sound and light disturbance of a much wider area.</p>
Evidence: What evidence is there to support the rationale and the need for the scrutiny review	<p>We have received many emails from pet owners and other vulnerable residents who get distressed by the loud noises produced by these really loud fireworks.</p> <p>There is legislation/guideline by the government on areas of Health and safety with fireworks lighting them and so on but nothing on the monitoring of noise. Loud bangs can often cause horses to panic and in trying to</p>

	<p>escape from the noise they can charge fences damaging themselves or if they have broken the fence cause a hazard to themselves and the public if they escape. Pet rabbits are very susceptible to stress which can kill them. Residents can often mitigate the threat to animals on specific known firework days but are caught totally unprepared if they are set off on someone's birthday. It's a known fact that all the animals in WMSP are tranquilised when they have their firework events. They have the benefit of foresight not so easy for their neighbours. The NFU have also written documents about fireworks and the effects on animals being the animals becoming frightened and have lower production yields. The RSPCA tried to get a restriction through parliament in 2016 which was unsuccessful due to other overriding claims on Parliaments time and have now commenced another campaign. The effects on domestic animals is enormous. Rescued dogs are frequently already traumatised and evidence shows they can even become dangerous with loud bangs. Finally we should remember our armed service veterans suffering from PTSD is it a Taliban attack or so called <i>harmless</i> fun?</p>
<p>Key Outcomes: What do you think the review should achieve</p>	<p>A total ban on the discharging of fireworks from all WFDC owned land. Application of a licensing system to control the type sound level and timing of commercial displays. The licence fee would be doubled for noisy fireworks. Selling fireworks would be difficult to legislate to specific dates; the aim would therefore be to disallow discharging on any occasion; restricted to specific days which may include religious festivals and the more common UK dates. All fireworks would be restricted to a dB level <equal to that prescribed in law for domestic fireworks. Promotion by WFDC of the various government guidelines which advise against discharge after 11pm except for 3 days which are 5th November, 25th December and 1st January when they can be after 11pm. This would stop extremely loud fireworks being discharged all the year round.</p>

<p align="center">Please select from the list below which of the following is applicable to the subject area to be scrutinised:</p>	<p align="center">Detail</p>	<p align="center">Scoring</p>
<p>(1) Is there evidence of poor performance?</p>	<p>There is little evidence the people are adhering to the Health and Safety guidelines of 2018 and the other supporting documents. Informing /pre-warning people of the fireworks display and any adverse effects. Clearing up debris after the event. Domestic and wild animals can be seriously affected by this, either by eating it accidentally or stepping on the end of a wooden rocket spike. Control of noise at work regulations 2005. ER2014 that local authorities are the proper place to apply for licences for appropriate sites with certain fixed rules parameters.</p>	<p align="center">10</p>
<p>(2) Is there a high level of dissatisfaction with the service?</p>	<p>Yes. There is as it has never been scrutinised and there are many residents raising concerns about the level of noise and the adverse effects locally on the domestic and wild animals. Many residents believe that the council in ignoring them has brought upon itself a perceived lack of judgement in the safeguarding of the public causing it reputational damage.</p>	<p align="center">10</p>
<p>(3) Has there been a budgetary overspend?</p>	<p>No it would be financially neutral as the admin costs and enforcement costs would be covered by the licence fee. [WRS is financially neutral in its income & expenditure]</p>	<p align="center">10</p>
<p>(4) Is there a high level of risk involved?</p>	<p>Other residents may object as they feel they are being disadvantaged being monitored with the use of big bang fireworks</p>	<p align="center">10</p>
<p>(5) Is the review likely to identify better value for money for the Council?</p>	<p>The review may make the council look as though they are taking the concerns of the residents in the Wyre Forest seriously and can be seen as they are working for them.</p>	<p align="center">10</p>

<p>(6) Does the service provide substantial benefits for all or a significant proportion of residents in the District?</p>	<p>The reduction in loud fireworks will benefit all of a nervous disposition pet and animal owners including farmers, equestrian centres dog and cat rescue centres and other animal establishments.</p>	<p>8</p>
<p>(7) Is there strong evidence linking the topic to the Corporate Plan and the Council' s Key Aims and Priorities?</p>	<p>The Corporate plan is provide the people of Wyre Forest with a safe environment to live in and is a key priority. The Councils Corporate Responsibility is to mitigate identified risks</p>	<p>8</p>
<p>(8) Is there public interest in this e.g. press coverage?</p>	<p>Yes there would be a large public and press interest and coverage involved in this scrutiny, as witnesses would need to be called to substantiate the concerns raised by residents.</p>	<p>6</p>
<p>(9) Officer led review planned.</p>	<p>Yes there would need to be an officer to help and assist with this scrutiny to take notes and call witnesses.</p>	<p>4</p>
<p>(10) New Legislation/good practice anticipated within the next year.</p>	<p>Yes this would lead onto good practice for the next year and a recommendation to the local MP to take the matter further to Parliament.</p>	<p>-4</p>

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(11) Topic has been reviewed in the last 3 years and there are likely to be no significant changes	Never been reviewed as it is a new issue	-2
TOTAL: (Score of over 40 points meets criteria to set up a Scrutiny Review Panel)		

**Overview & Scrutiny Committee
Work Programme 2020-2021**

11th June 2020

“How are we doing?” Q4 update (Housing and Planning)
Consideration of the flooding motion from Council
Car Parking Changes as of 1st June 2020

Information Items:

Recommendation Tracking 2019-2020
Feedback from Cabinet 31-03-2020

25th June 2020 – Special

Consideration of the flooding motion from Council – Evidence Gathering from the Environment Agency

2nd July 2020

Consideration of the flooding motion from Council – Evidence Gathering from Worcestershire County Council, West Mercia Police, Hereford & Worcester Fire and Rescue Service and Severn Trent
Review of Public Space Protection Orders (PSPOs) and Results of the Consultation Process
Community Led Housing Policy Update
Property Flood Grants – Amendment to Capital Programme
Bromsgrove Street Car Park Developer Agreement
Nominations for Treasury Management Review Panel

23rd July 2020 – Special

Capital Portfolio Fund - Quarterly Fund Report - EXEMPT Appendix

3rd September 2020 – Special

Consideration of the flooding motion from Council – Evidence Gathering from voluntary partners, affected residents and businesses.
Consideration of the flooding motion from Council - Draft Final Report and Recommendations for Council

8th September 2020

“How are we doing?” Q1 update (Enabling)
Annual Report on Treasury Management Service and Actual Prudential Indicators 2019-20
Planning Consultation Responses
Planning s106 Obligations
Consultation Response to the Pre-Submission Draft of the Shropshire Local Plan Regulation 18

Information Items:

Feedback from Cabinet 07-07-2020

5th November 2020

“How are we doing?” Q2 update (Business and People)
Treasury Management Strategy Statement and Annual Investment Strategy Mid
Year Report 2020/21
Green Homes Grant – Local Authority Delivery Scheme
Amendment to the Capital Portfolio Fund Acquisition Geography - EXEMPT
Appendix
Response to Consultation on Homeworking
Establishment of Independent Museum Trust

Information Item:

Feedback from Cabinet 16-09-2020

4th February 2021

“How are we doing?” Q3 update (Place)
Treasury Management Strategy Statement and Annual Investment Strategy 2021-22
Scrutiny Proposal Form – Councillor M Rayner
Capital Portfolio Fund Quarterly Performance Report (Qtr ending Dec 2020) –
EXEMPT Appendix

Information Item:

Feedback from Cabinet 10-11-2020

March 2021

Review of Public Space Protection Orders (PSPOs)
Update from the Environment Agency – Flooding Outcomes

April 2021

Enterprise and Business Growth Strategy
Strategic Asset Management Plan
Facilities Asset Management Plan



Overview & Scrutiny Committee

Briefing Paper

Report of: Mike Parker – Corporate Director Economic Prosperity
& Place
Date: 4th February 2021
Open with and Exempt Appendix

Capital Portfolio Fund – Quarterly Fund Report

1. Summary

- 1.1 This report provides an update on the performance of the Capital Portfolio Fund for the Final Quarter 2020 for the period up to the end of December 2020. Appendix 1 (exempt) is the detailed Quarter Fund Report (QFR).

2. Background

- 2.1 In July 2019 the Council's Cabinet agreed the Asset Management Strategy (AMS) 2019-22 and this was adopted at the July Council meeting. The adoption of the AMS is a key document for the Council as part of its Capital Strategy; the AMS sits alongside the Capital Portfolio Fund Strategy as the means by which the Council can monitor the performance of properties acquired using the Capital Portfolio Fund. These documents are part of the suite of documents Council is due to consider at February Council and form part of the updated Capital Strategy to be considered.
- 2.2 The Council has appointed Jones Valerio to support the acquisition and overall management of the portfolio of assets and they were instrumental in supporting the development of the Asset Management Strategy.
- 2.3 The Asset Management Strategy is structured around each of the acquired assets having an individual Strategic Asset Level Business Plan (SALBP). This enables the Council to oversee the individual assets and at a glance determine their 'live' status in terms of planned activity and performance. All decisions made by the Council on each asset are transparently made using the Procedure Guidance and Client Approval process which gives a clear audit of decisions made regarding each asset. In turn the collective SALBPs then forms the overall Asset Management Strategy where the Council is able to monitor performance against the strategic objectives of growing capital and revenue value as well as taking holistic decisions about the overall balance of the portfolio in terms of asset sector, location, lot size etc and to form a view about relative performance against agreed KPIs and local and regional market benchmarks.
- 2.4 Performance reporting is a key tenet of the Strategy and Part 9 sets out the manner in which regular reporting will take place to ensure the Council is always up to date with the performance of individual assets as well as the

overall performance of the portfolio. This is the third performance report to Overview and Scrutiny since the adoption of the AMS with frequency of reporting on a biannual basis. Since the last report there is more information now included from the Council's appointed Property Manager BNP Paribas and from the Council's newly appointed Asset Valuers, Avison Young, but as this appointment is quite recent there are still some valuation matters which remain outstanding.

3. Key Issues

- 3.1 Appendix one is the detailed QFR for Q4 which contains a detailed commentary on the overall strategy of the portfolio together with a detailed report on performance and some specifics on developing proposals for some of the acquisitions to increase capital value and revenue returns.
- 3.2 The QFR indicates that the portfolio is still well balanced across retail, office and industrial sectors and gives a detailed breakdown of performance collectively across the portfolio and by each individual asset. The Council's advisers Jones Valerio will make a full presentation to the Committee at the meeting itself. It should be noted that this QFR report is up to end of December 2020 and begins to absorb the impact of the Coronavirus pandemic, but not to the fullest extent for example with the current lockdown.

4. Conclusion

- 4.1 This is the third QFR that has been produced and it sets out the extensive indicators of the performance of the acquisitions in the Capital Portfolio Fund. These are reported to Overview and Scrutiny on a biannual basis.

5. Options

- 5.1 The Overview and Scrutiny Committee is requested to note the performance of the Capital Portfolio Fund:

6. Appendices

Appendix 1 (Exempt) – Jones Valerio June Quarterly Performance Report

7. Background Papers

None

Officer Contact Details:

Name: Mike Parker

Title: Corporate Director: Economic Prosperity & Place

Contact Number: 2500