PAPER F

OVERVIEW AND SCRUTINY COMMITTEE

DATE OF MEETING: **21 JANUARY 2020**

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

Report of: **Head of Corporate Services**

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

1 PURPOSE OF REPORT

1.1 To present the draft Capital Strategy, and the Treasury Management Strategy Statement for 2020/21 which incorporates the Annual Investment Strategy and Prudential and Treasury Indicators.

2 OFFICER RECOMMENDATION

2.1 That the Committee considers any recommendations it wishes to make to Cabinet in respect of the Capital Strategy and Treasury Management.

3 BACKGROUND

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

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

3.3 A new requirement this year is for the Council to agree a long-term capital strategy, taking into account the broader strategic context and commercialisation. This is attached as Appendix 1.

3.3 The Treasury Management Strategy Statement and Annual Investment Strategy are attached as Appendix 2.

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APPENDICES

Appendix 1 – Capital Strategy
Appendix 2 – Treasury Management Strategy Statement and Annual Investment Strategy

Hart District Council   Draft Capital Strategy

Purpose and Aims

1 The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy in December 2017. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.

2 The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

3 The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority.

4 The Prudential Code sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

5 This capital strategy sets out a framework for the self-management of capital finance and examines the following areas:

- Capital expenditure and investment plans
- Prudential Indicators
- External debt
- Treasury Management

National Context

6 It is important to set out the external environment in which Hart District Council is currently operating. Some of the key factors that impact directly on the capital programme are outlined below:

- Financial stability and tackling public debt continue to be key drivers for Central Government over this parliamentary term. This is resulting in reduced direct funding for local government, particularly related to revenue support. This has a direct impact on the Council's ability to self-fund capital investment.

- The Government has chosen to prioritise high-value investment, specifically in infrastructure and innovation that will directly contribute to raising Britain's productivity.

- Mechanisms for distributing government funding continue to evolve through the Government's devolution agenda specifically through the Local Growth Fund (LGF) and the increased role of Local Enterprise Partnerships (LEPs) in the strategic oversight of regional areas.

- The LGF now totals over £12 billion (including devolution deals) of capital investment. This presents both opportunities and risks to existing levels of government service delivery and investment, as LEPs with the strongest Strategic Plans will gain the greatest share.

“Vision 2040” – Hart District Council’s Strategic Response

7 The Council approved its “Vision 2040” in September 2019, which sets out a clear direction for the district.

8 “Vision 2040” is structured around three vision statements:

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

Become THE place to work – helping our local economy to thrive through:
- Developing the skills we need for the future by delivering a higher/further education campus within the district, working with local educational providers, with a technological focus
- Helping our micro/small businesses grow and our residents to work flexibly, with casual office space providing high speed internet
- Reducing the impact of climate change by building in sustainability and using new technologies to mitigate the impact of climate change

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

9 The vision will be delivered by changing the way the Council is run. A new operating model will include:
- Developing a new business model for the Council
- Creating welcoming services that are inclusive and engaging
- Developing our staff, training and empowering them to innovate
- Creating efficient services available 24/7
- Building in financial resilience from commercialization
- Developing partnerships to enable delivery

Corporate Plan 2017-22

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

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

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

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

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

4 An Efficient and Effective Council
- Explore options to increase financial self-sustainability

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

What is Capital Expenditure?

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

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

- The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with “proper practices”.
- The expenditure meets one of the definitions specified in regulations made under the 2003 Local Government Act.

- The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

Approach to Capital Investment

14 Hart District Council's Capital Strategy defines and outlines the Council's approach to capital investment and is fundamental to the Council's financial planning processes. It aims to ensure that:

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

Governance Arrangements Capital Programme Approvals

15 The Authority's constitution and financial regulations govern the capital programme as set out below:

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

Capital Programme Bodies

16 The main internal bodies that are responsible for the governance and management of the capital programme are the Full Council and Cabinet.

Funding Streams

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

a **Prudential Borrowing** – The introduction of the Prudential Code in 2004 allowed the Council to undertake unsupported borrowing itself. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. The Council must ensure that unsupported borrowing is affordable, prudent and cost effective. This funding can also be used as an option to front fund development to stimulate growth. This has provided the Council with the flexibility to raise capital funding as demand and business need have dictated. This type of borrowing has revenue implications for the Council in the form of financing costs.

b **External Grants** – Disabled Facilities Grants are funded by external grant allocations from central government.

c **Section 106, SANGs and External Contributions** – Elements of the capital programme are funded by contributions from private sector developers and partners. Growth in Hampshire has resulted in Section 106 and SANGs contributions from developers accounting for significant elements of funding of the capital programme in recent years.

d **Revenue Funding** – The Council can use revenue resources to fund capital projects on a direct basis. However, the impact of austerity on the Council's revenue budget has reduced options in this area and therefore the preference is for Invest to Save options to be adopted where feasible.

e **Capital Receipts** – The Council is able to generate capital receipts through the sale of surplus assets such as land and buildings. However, Hart now owns very few assets, besides the Civic Centre.

18 The size of the Capital Programme will be influenced by funding sources and financing costs. The main limiting factor on the Council's ability to undertake capital investment is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government, now mainly through capital grants.

Overview of the Capital Programme

19 The Capital Programme is elsewhere on this agenda as Appendix 2 of the Budget Report.

2018/19 PRUDENTIAL INDICATORS FOR CAPITAL FINANCE

20 Appendix 2 of this report sets out the prudential indicators and outlines how expenditure will be financed by borrowing in an affordable, prudent and sustainable way.

COMMERCIALISATION STRATEGY

21 Cabinet agreed a Commercialisation Strategy in August 2018.

22 As central government funding is reduced, it is intended that the shortfall of up to £2 million will be made up by commercial income. It is planned that up to £50 million will be invested over the next 5 years.

23 This investment will be funded from a variety of sources, including developer funding.

24 Where possible, internal borrowing will be utilised, as this is more cost effective than external borrowing.

25 There are no plans to raise the limits for external borrowing in 2020/21.

PAPER E
Appendix 2

Hart District Council

TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21

Incorporating the Annual Investment Strategy And Minimum Revenue Provision Policy Statement

1 Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that 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.

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.

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

CIPFA defines treasury management as:

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

1.2 Reporting Requirements

1.2.1. Capital Strategy

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

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

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

The Capital Strategy is attached as Appendix 1 of this report.

1.2.2 Treasury Management Reporting

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

a. Prudential and Treasury indicators and Treasury Management 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).

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

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

Scrutiny

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

1.3 Treasury Management Strategy for 2020/21

The strategy for 2020/21 covers two main areas:

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

Treasury management issues
- the current treasury position;
- treasury indicators which 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
- the policy on use of external service providers.

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Link Asset Services, independent treasury management consultants as its external treasury management advisors.

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

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.

2 The Capital Prudential Indicators 2020/21 – 2022/23

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

2.1 Capital Expenditure

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

Capital Expenditure by Service (old structure)	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Corporate Services	743	As below	As below	As below	As below
Housing & Customer Services	14	As below	As below	As below	As below
Leisure	1,231	As below	As below	As below	As below
Environmental Promotion	3	As below	As below	As below	As below
Technical Services	392	As below	As below	As below	As below
Capital Expenditure by Service (new structure)	**2018/19 Actual £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**
Community Serv	As above	840	545	530	530
Corporate Serv	As above	315	893	0	0
Env and Tech Serv	As above	968	4,615	397	367
Regulatory	As above	39	24	0	0
Total	**2,383**	**2,162**	**6,077**	**927**	**897**
Commercial activities/ non-financial investments *	0	730	16,300	10,000	10,000
Total capital expenditure	**2,383**	**2,892**	**16,377**	**10,927**	**10,897**

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

Financing of capital expenditure £m	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Total capital expenditure	**2,383**	**2,892**	**6,077**	**927**	**897**
Financed by:					
Capital receipts	5	677	3,567	421	397
Capital grants	6,859	608	559	500	500
Revenue	0	0	0	0	0
Total financing	**6,864**	**1,284**	**4,126**	**921**	**897**
Borrowing requirement	**(4,481)**	**1,608**	**1,951**	**6**	**0**

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

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

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

The Council is asked to approve the CFR projections below:

Capital Financing Requirement (CFR)	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Brought Forward	21,165	16,262	18,155	35,874	45,001
Borrowing requirement	**(4,481)**	1,608	1,951	6	0
Less MRP and other financing movements	(422)	(445)	(532)	(879)	(880)
CFR commercial activities or non financial investment	0	730	16,300	10,000	10,000
Net movement in CFR	**(4,903)**	**1,893**	**17,719**	**9,127**	**9,120**
CFR Carried Forward	**16,262**	**18,155**	**35,874**	**45,001**	**54,121**

2.3 Minimum revenue provision (MRP) policy statement

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

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

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

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

This option provides for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or finance leases are applied as MRP.

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

3 Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The overall Treasury Management Portfolio as at March 2019 is shown below for investments:

Investments / Lending Summary as at: March 2019	Amount Invested (£)	Length of Deposit	Limit (£)	Within Limit Y/N	Terms	Rate (%)
Lloyds	2,000,000	193 days	5,000,000.00	Y	Fixed Term	0.85%
Lloyds	3,000,000	179 days		Y	Fixed Term	1.02%
Standard Chartered	3,000,000	106 days	5,000,000.00	Y	Fixed Term	0.77%
Eastleigh Borough Council	4,000,000	131 days	5,000,000.00	Y	Fixed Term	0.80%
National Bank of Canada	5,000,000	101 days	5,000,000.00	Y	Fixed Term	0.80%
National Westminster Bank Plc	3,000,000	87 days	5,000,000.00	Y	Fixed Term	0.86%
Santander UK plc	3,406,458	Call Account	5,000,000.00	Y	Instant Access	0.40%
Standard Life Ignis (MMF)	4,700,000	Call Account	5,000,000.00	Y	Instant Access	0.69%
Federated Sterling Cash Plus	4,418,604	Call Account	5,000,000.00	Y	Instant Access	0.64%
Barclays Bank plc	3,427,096	Call Account	5,000,000.00	Y	Instant Access	0.45%
TOTAL	**35,952,157**					

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

Borrowing	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	13,598	12,337	11,055	9,754	8,439
Other long term liabilities	0	0	0	0	0
Total debt	**13,598**	**12,337**	**11,055**	**9,754**	**8,439**
CFR	16,262	18,155	35,874	45,001	54,121
Under / (over) borrowing	**2,664**	**5,818**	**24,819**	**35,247**	**45,682**

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

3.2 Treasury Indicators: limits to borrowing activity

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

Operational Boundary for External Debt	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	25,000	25,000	25,000	25,000	25,000
Other long term liabilities	0	0	0	0	0
Commercial activities/ non financial investments	0	0	10,000	20,000	30,000
Total debt	**25,000**	**25,000**	**35,000**	**45,000**	**55,000**

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

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

Authorised Limit for External Debt	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	30,000	30,000	30,000	30,000	30,000
Other long term liabilities	0	0	0	0	0
Commercial activities/ non financial investments	0	0	10,000	20,000	30,000
Total	**30,000**	**30,000**	**40,000**	**50,000**	**60,000**

3.3 Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The below document and narrative has been prepared and written by consultants at Link Asset Services and the following table and narrative provides their summarised view.

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the Prime Minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% during 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC was likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC will raise Bank Rate.

Bond yields / PWLB rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. (See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government.

Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.
- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing Strategy

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Head of Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, (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 USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

3.5 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.

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

3.6 Debt rescheduling

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

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

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

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

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

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

3.8 Approved Sources of Long and Short term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4 Annual Investment Strategy

4.1 Investment policy – management of risk

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

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

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

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

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

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

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

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

   - Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.
   - 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. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

5. Non-specified investments limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio, (see paragraph 4.3).

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

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

8. This authority will set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 4.4).

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

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

11. All investments will be denominated in sterling.

12. As a result of the change in accounting standards for 2019/20 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

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

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of 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. The end

product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands

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

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

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

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

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

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

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

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

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

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

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits were exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to

improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Other limits

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

a) **Non-specified investment limit.**

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch.The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

4.4 Investment Strategy

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

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.00%

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:

2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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

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

Maximum principal sums invested > 364 & 365 days			
£m	2017/18	2018/19	2019/20
Principal sums invested > 364 & 365 days	£5m	£5m	£5m
Current Investments as at 08.01.20 in excess of 1 year maturing each year	£0	£0	£0

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

4.5 End of year investment report

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

5 APPENDICES

1. Prudential and treasury indicators
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer

5.1 The Capital Prudential and Treasury Indicators 2020/21 – 2022/23

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

5.1.1 Capital expenditure

Please see table in Section 2.1

5.1.2 Affordability prudential indicators

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

a. Ratio of financing costs to net revenue stream

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

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Ratio of financing costs to revenue stream (%)	5.75	5.97	6.50	10.07	9.84

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

5.1.3 Maturity structure of borrowing

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

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

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

5.1.4 Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 Interest Rate Forecasts 2020-2023

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Bank Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**0.75%**	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	**0.75%**	0.75%	0.75%	0.75%	0.75%	-	-	-	1.00%	-	-	-	-	-

5yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.34%**	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	**2.34%**	2.40%	2.50%	2.50%	2.60%	-	-	-	2.80%	-	-	-	-	-

10yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.55%**	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	**2.55%**	2.60%	2.70%	2.80%	2.80%	-	-	-	3.10%	-	-	-	-	-

25yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**3.07%**	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	**3.07%**	3.00%	3.10%	3.20%	3.20%	-	-	-	3.40%	-	-	-	-	-

50yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.90%**	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	**2.90%**	3.00%	3.10%	3.20%	3.20%	-	-	-	3.50%	-	-	-	-	-

PWLB forecasts are based on PWLB certainty rates

5.2 Economic Background

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

UK. Brexit. 2019 was a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report,** (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the

uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, in March 2020. The Chancellor also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed had been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about

2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.
However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. 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. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **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.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** 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 recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

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

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

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

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

Appendix 2

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

	Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
DMADF – UK Government	N/A	**100%**	**6 months**
UK Government gilts	UK sovereign rating	£5m	12 months
UK Government Treasury bills	UK sovereign rating	£5m	12 months
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	£5m	6 months
Money Market Funds CNAV	AAA	£5m	Liquid
Money Market Funds LNVAV	AAA	£5m	Liquid
Money Market Funds VNAV	AAA	£5m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	£5m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£5m	Liquid
Local authorities	N/A	£5m	12 months
Term deposits with housing associations	Blue Orange Red Green No Colour	Colour £5m	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	Colour £5m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	Colour £5m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£5m	

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.

5.5 Approved countries for investments

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

AA-

- Belgium
- Qatar

5.6 Treasury Management Scheme of Delegation

The bodies responsible for various functions are as follows:

Council

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

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

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

5.7 Role of the section 151 officer

The S151 (responsible) officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe

Hart District Council

Asset Management Plan and Corporate Property Strategy 2019

Executive Summary

This Asset Management plan provides an overview of the existing Hart District Council asset portfolio. The portfolio is modest in size and comprises a mix of operational, investment and community assets.

Community assets are those which are managed by the Council for the benefit of all constituents and include the vast and diverse range of Countryside and open spaces in the District.

The Council manage ten car park assets across the district which provide a vital source of income albeit officers are continually reviewing charging rates and locations of charging points to maximise the income from this asset class.

Investment assets are classed as those which are held for investment purposes to solely provide an income to the Council. At present the Council has one specific investment asset in Yateley, leased to the Citizens Advice Bureau. The implementation of the Commercialisation strategy will inevitably include the purchase of future investment properties purely for income purposes.

The Civic Office building is the largest single asset by floor area owned by the Council. The building is facing numerous challenges due to its age and configuration and current vacancy rate of 14.6% needs to be addressed through efficiencies of Council occupation.

1.0 Introduction

The Asset Management Plan and Corporate Property Strategy (AMP&CPS) is in place to produce a strategic overview of the Council's property assets and the process and systems in place to achieve the efficient, effective and economical management and maintenance of them. It is recommended as best practice under RICS guidance and ensures processes are reviewed regularly to adapt to changes in legal, corporate and market conditions.

The Council is committed to implementing the AMP&CPS in supporting the Council's Service Priorities under the Corporate Plan 2017-2022 and the Council's 2040 Vision – ***'for Hart to become THE best place to live, work and enjoy'.***

The land and building assets provide the facilities to support the operations and services provided by the Council.

Whilst Hart is a small district council with relatively few property assets (with total land and building assets valued at £43m as at 31 March 2018), the need to make the best use of its property assets, for the benefit of the community it serves, is fully recognised by Hart. Land and buildings are a significant part of the property, plant and equipment asset base, accounting for 97.5 % of the Council's assets as at 31 March 2018.

2.0 Structure and Strategy

The council management team comprises two Joint Chief Executives, supported by four Heads of Services and Service Managers. Asset management sits within Corporate Services and comprises the following:

- Strategic asset management undertaken by the newly appointed Corporate & Projects Manager reporting to the Head of Corporate Services
- Maintenance and management of the Council's land and building assets carried out by the Environmental and Technical Services Manager (HOETS) working with the maintenance and technical team.

The Joint Chief Executives meet with the Heads of Services on a weekly basis whilst the entire management team meet monthly, where property asset matters and service requirements can be considered. A strategic overview of property asset management matters is provided by the Board which meets monthly to monitor and make recommendations on the delivery of corporate projects.

The newly appointed Commercial and Projects Manager will be responsible for taking ownership of this asset management strategy and reporting updates / pertinent issues to the entire management team.

An Estate Surveyor is employed one day per week in the Environmental and Technical Services team to deal with day to day property matters. This is supported with the appointment of external consultants as required.

At Member level, responsibility for asset management forms part of the Commercialisation portfolio which sits with the portfolio holder Richard Quarterman. The plan accords with the following:

- Hart District Council corporate strategy
- Government's strategies and policies (e.g. One Public Estate)
- Legal requirements (Health and Safety and statutory compliance)
- Best practice requirements (CIPFA, RICS)

The Council's property assets are categorised as follows:

- **Operational Assets -** These Council assets are primarily held for operational purposes i.e. occupied by Council staff or contractors who provide the services on behalf of the Council.

- **Investment Assets -** The Citizens Advice Bureau at Yateley is the one building currently held for investment purposes i.e. for rental income to the Council. Numerous car parks also provide income although are not consistently operating at maximum capacity.

- **Community Assets** – As part of their role in protecting the natural environment the Council is custodian of considerable areas of amenity and recreational land assets.

3.0 Asset Base and Data Management

The Council's Deeds and Legal agreements relating to property are recorded and stored securely in a Deeds Room at the Civic Offices.

The Council have completed a voluntary land registration program and the Land Registry documents have been linked to the Council GIS system. The Land Terrier is a central source of the Council's land and property information, a copy of which can be accessed by the public through the Hart website.

As the Council's property portfolio is modest, officers utilise a simple excel based database to record details of buildings, sizes, occupiers, rental levels and other pertinent information. Actions are prompted from this database re disposal of surplus space, rationalisations, lease expiries, renewals and rent reviews.

An Asset Register of all the Council's land and buildings is maintained and updated annually by the Council's external financial and valuation advisors in accordance with International Financial reporting Standards (IFRS) based on the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA). Valuations are undertaken in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation Standards. The annual update takes account of enhancements through the Capital Programme, acquisitions and disposals and a 5 year revaluation program. The Asset life is taken as the number of years estimated on the last valuation report and is reviewed as part of the five-year revaluation programme.

A summary of the land and property held from the Asset Register at 31.3.18 is set out below-

Operational Assets	£
Land and Buildings held for Hart DC to operate their services from	38,930,000
Investment Assets	
Land and Buildings held for rental income and /or capital appreciation	70,000
Community Assets	
Land and Buildings that the Council intends to hold in perpetuity, that have no determinable useful life and which may have a restriction on disposal	4,020,000
TOTAL LAND AND BUILDINGS	43,020,000

The value of the Council's assets has overall increased since the last AMP in 2016 which is explained in part by the market, the acquisition of the new Hart Leisure Centre and disposal of the old leisure centre.

Any planned and reactive maintenance programmes are currently procured via Hampshire County Council ensuring we achieve a good service. Officers continue to monitor this as certain items are reactive and at times have to be dealt with swiftly.

4.0 Property Management Policy

Operational Assets

Officers recommend the policy is to retain freehold ownership, keep land and buildings in good repair, performing efficiently, meeting all legislative and Health & Safety requirements and providing a fit for purpose asset from which to deliver the Council services. Each asset is regularly reviewed to ensure it is being used efficiently and where possible officers implement strategies to improve efficiency and income generation as part of the wider Commercialisation strategy.

Investment Assets

The Commercialisation portfolio will consist of investment assets (both existing and future purchases) and be held purely for commercial purposes only, i.e. providing a positive rate of return on the Councils money. This portfolio is held by Councillor Richard Quarterman and jointly managed by the head of Corporate Services and the Commercial and Projects Manager in consultation with the Joint Chief Executives and the Leader of the Council as deputy.

Community Assets

The policy towards **community assets** is to manage and maintain them efficiently for the benefit and use of the community.

Maintenance Projects

Condition surveys of the Council's buildings are arranged on a cyclical basis and inform any maintenance strategies on a single asset basis.

Funding for reactive maintenance of the Civic Offices is managed by the Buildings Manager and funded through the revenue budget. Reactive maintenance of other corporate buildings is included in the estates management budget, which is managed by the HoETS.

Maintenance is prioritised in accordance with corporate policy-

A. Health & Safety
B. New legislative and regulatory requirements
C. Future retention and management for the asset
D. Works to prevent deterioration of the asset
E. Works which if not addressed may effect service or income from asset
F. Works to enhance the value of the asset

Mechanical and Electrical planned maintenance is procured through Hampshire County Council's term maintenance contract. The provision of these services being manged by Hampshire County Council. The option to procure additional maintenance services through this contract is available. The maintenance of countryside sites is tendered for on an as need basis in accordance with the Council's standing orders.

Optimising use of Operational Assets

As part of the Commercialisation strategy, officers have undertaken a review of the Civic Offices and other operational assets, primarily to ensure the continued efficient use of Council property. This is achieved by:

Efficiency
Regular review of the Council's land and building holdings to determine optimum property need to deliver services and report on any surplus space.

The Council will regularly review surplus office space and consider alternative uses.

Where feasible, surplus office space will be offered in preference to organisations the Council works in partnership with or supports so long as an open market transaction is agreed.

A market rent and service charges will be collected on let space. The tenant will be responsible for paying business rates and building insurance. Grant support will be considered on an annual basis when the Council is in partnership or decides to support an organisation in occupation of its buildings.

Tenants will not be permitted to take up occupation until a legal agreement is in place. This includes existing assets where officers are actively seeking to agree legal formalities on any building where a tenant is in occupation.

Disposal
The disposal of any assets in line with the Corporate and Commercialisation strategies (if appropriate and in the best interests of the Council)

Disposals to achieve best value under s123 of the Local Government Act 1972 with preference for the Council to retain freehold ownership.

Where land and buildings are required for ongoing community use, freehold or leasehold transfer to the town or parish councils may be considered but only if the request is submitted under formal Community Asset Transfer procedures and if the outcome is in the best interest of the Council.

Asset and property management advice, including the valuation of land and buildings is provided by external contractors appointed by the Council and in line with RICS guidance.

Where a freehold disposal is approved, the Council may consider a restrictive covenant to retain some control over future use of the land, or compensation for lifting of the covenant.

The Council will consider a buy back option as part of any disposal terms if the land or building is no longer required for the use that was originally agreed under the sale.
Lettings will not confer security of tenure and will always be under licence, a tenancy at will or a contracted out lease, after taking legal advice.

Legal Services
Legal Services are currently provided on all property matters through a shared arrangement with Basingstoke and Deanne Borough Council.

The Commercialisation strategy will continually review how legal services are currently procured. In certain circumstances and if the opportunity requires, officers will procure external legal advice if timeframes stipulate a swift legal process which is not able to be met by the current shared service provider.

5.0 Performance Monitoring and Measurement.

The Council is aligned to the Government Estate Strategy 2018 (Cabinet Office publication) where co-location of public services is a driver for greater value and efficiencies both in terms of use of the public estate but also in a collaborative approach to the services provided. The Council strives, "to use its property assets in the most cost effective way to meet the needs and wishes of the community of Hart ".

The broad objectives from government guidance on property asset management have been adopted;

- Minimising cost of use – maximising income where possible
- Managing properties in the most economic, efficient and effective manner
- Optimising the utilisation of land and buildings
- Generating Capital Receipts - limit the burden on the Council Tax payer
- Maximising return on investment
- Continuing to meet the needs of the community - fit for purpose

The majority of office based Hart DC staff operate from the Civic Offices and the table below outlines an overview of the different areas within the Civic offices:

Net Internal Area	3,564 sq.m (38,363 sq. ft.)
Less Council Chambers and Committee Rooms	241 sq m (2,592 sq ft)
Less area occupied by Hart tenants	593 sqm (6,385 sq ft)
Less vacant space (Ground, & 3rd floors)	522 sq m (5,616 sq ft)
Hart DC occupation of office space	2,208 sqm (23,770 sq ft)

Hart staff and consultants total 130 and therefore occupy on a ratio of 180 sq ft per head. The Government Property Unit (part of the Cabinet Office) had set a target for 100 sq ft per full time member of staff for government property.

The minimum space for staff from Regulation 10 of the Workplace, (Health Safety and Welfare) Regulations 1992 is at least 11 cubic metres. In a typical room, where the ceiling is 2.4m high, a floor area of 4.6m* (for example 2.0 x 2.3m) will be needed to provide a space of 11 cubic metres. This will not always give sufficient unoccupied space, as required by the Regulation. Rooms may need to be larger, or to have fewer people working in them, than indicated, depending on such factors as the contents and layout of the room and the nature of the work. Where space is limited careful planning of the workplace is particularly important.

Other efficiency monitors and benchmarking to be considered for monitoring -

1. Cost per person
2. Cost per sq m (rent, rates, maintenance etc.,)
3. CO2 per person/per sq m
4. Water consumption per person
5. Management practice score
6. Facilities score
7. Compliance and flexibility score
8. Workplace environmental score
9. Health and safety score
10. Functional suitability score

'For information, the BCIS benchmark for annual running cost of non-air-conditioned office block is nearly £130 per m2 of net internal floor area.

The BCIS benchmarks are based on a survey of published data, reports from individual properties and BCIS life cycle cost plans for typical buildings (Occupancy cost Plans). They are BCIS best estimates based on available data £ per m2 net internal floor area per annum at H2 2019 UK mean location. A summary of the BCIS costs and comparative costs of the Civic offices is below.

	BCIS Cost (£ per sq m)	Hart costs for Civic Offices (£ per sq m)
Fabric maintenance	£5.66	TBC
Services maintenance	£7.00	£31.11
Cleaning	£4.10	£11.78
Utilties	£15.00	£24.84

<u>Carbon Reduction</u>
Carbon reduction target proposals will be considered by Hart's Cabinet in 2019, and an Energy Audit is proposed for 2019/20. The Climate Change working group are tasked with creating the Hart Climate Change Strategy & Action Plan for consideration in early 2020. Officers are working closely with the working group and will welcome any ideas put forward regarding real estate assets and specifically the Civic offices.

6.0 Action Plans

As at November 2019, the major building assets retained by the Council and the Action Plans for each are detailed below. Certain assets do not require immediate attention and are therefore detailed in the table at the end of this section.

Civic Offices, Harlington Way, Fleet

- Estimated rental value if refurbished and leased to open market £10 per sq ft
- 5,616 sq ft currently vacant in the building representing total void cost of £151,632 per annum (£10 psf rent, £5 psf business rates and £12 psf service charge inclusive)
- Current occupancy ratio of operational sections of building is 180 sq ft per person
- Comparing to modern occupancy rates, HDC can employ a further 70-80 staff without needing to expand into existing vacant space

Issue	Solution	Cost Saving or Income	Responsibility	Target Date
Ground floor Vacant	1,978sqft lease to external occupier	£15 psf inclusive £30,000pa	Corporate	June 2020
Ground floor Hart4Business – Under utilised	Encourage staff to use for meeting purposes. Investigate membership rates & expose on social media	TBC dependent on membership rates	Corporate	June 2020
3rd floor Vacant	3,640 sq ft Lease to like-minded organisation	£15 psf inclusive £54,600pa	Corporate / HoETS	2020
Civic Campus Regeneration	Work with FTC to find a solution	TBC	Corporate	Ongoing

Harlington Centre, Fleet

- HDC are responsible for repairs and maintenance including central plant / boiler
- Central plant / boiler also services Fleet library which is owned by HCC

Issue	Solution	Cost Saving or Income	Responsibility	Target Date
Agree leasehold occupational arrangement with FTC	Work with FTC to formalise agreement as soon as possible	Nil	Corporate / HoETS	March 2020
Civic Centre Regeneration	Civic Regeneration working group will inform future plans for the Harlington Centre	TBC	Corporate	Ongoing

CAB, Royal Oak Close, Yateley

- CAB currently occupying on a tenancy at will
- HDC currently responsible for all repairs and maintenance
- CAB also occupy premises at Civic Offices, Harlington Way, Fleet

Issue	Solution	Cost Saving or Income	Responsibility	Target Date
CAB legal agreement now expired.	Work with CAB to agree new Lease. Take advice from office agents	Nil	Corporate / HoETS	March 2020

Remaining Assets

Operational Asset	Action Plan	Commercial Opportunity	Responsibility	Target
Frogmore Day Care Centre, Yateley	Leased to the Trustees of Frogmore Day Care Centre who provide day care.	Community use campus	HoETS	Ongoing
Crossbarn, Odiham	Premises leased to local management committee to provide facilities for local	Community use- potential change of use if community use ceases	HoETS	Ongoing

	community. Hart support Listed Building maintenance costs. Additional freehold parking to support the facility acquired in 2018.			
Hart Leisure Centre, Fleet	New LC built and operated by appointed Contractor from 2017.	Community use	Corporate Services	Ongoing
Frogmore Leisure Centre, Yateley	New capital project to improve existing Squash Court area. Ongoing	Community use	Corporate Services	Ongoing
Southwood Sports Ground and Pavilion, Fleet	Football club occupy under Tenancy at Will. Lease to be considered along with other options for managing the premises.	If facility no longer viable as sports facility, consideration given to adding to existing SANGs.	Corporate Services	Ongoing Sept 2020
Public Conveniences at Fleet, Hartley Wintney	PCs at Fleet are closed and let in part for storage to Foodbank. Letting of whole to be considered. On flexible lease to protect any potential for redevelopment. Hartley Wintney PCs are transferred to Parish under lease.	Yes- change of use/redevelopment of Town Centre /Hart holdings- is this an investment asset? Yes – if no longer required for community use.	HoETS	Ongoing
Depots/workshops at Hartley Wintney	Springwell Depot at Hartley Wintney is leased	If facility no longer required or relocated	HoETS	Ongoing

	to the contractor for waste services from a joint contract with Basingstoke and Deane BC.			
Depot Workshop at Fleet	The Workshop at Fleet is used as a base by the Hart grounds maintenance and street care service.	Potential if no longer required as operational asset	HoETS	Ongoing
The Workshop / Old Pumphouse Close, Fleet	Continued use by the Countryside team	Investigate development / change of use subject to relocation of Countryside team activities to an alternative location	HoETS	Ongoing
Car Parks at Fleet (5), Hartley Wintney, Hook, Blackwater (2) and Odiham (2)	All car parks are open, used and collect income. Recent improvements to Church Road car park in Fleet have now been completed, condition survey of all Hart car parks to be completed in 19/20 and programme of improvement works agreed.	Yes- if underused/ unviable	HoETS	Survey March 2020 Works TBC
Hook ex Public Conveniences	Hook PCs are closed and let on flexible lease to retail tenant. Future redevelopment protected.	Yes – potential redevelopment with car park	HoETS	

7.0 Countryside Open Space and Heath – Community Assets

Hart are committed 'to protecting our natural and environmental assets' as a priority under the Corporate Plan 2017-2022, ensuring Hart remains an attractive place to live and work.

As at 1 April 2019 the major sites of open space owned and managed by the Council and classified as Community Assets are—

- Elvetham Heath Nature Reserve
- Fleet Pond and Nature Reserve
- Hazeley Heath Common
- Odiham Common
- Phoenix Green Common – Hartley Wintney
- Royal Oak Valley
- Ashwells Copse
- Land at Cove
- Land adjacent to Ancells Farm Nature Reserve – Fleet
- Part of Ancells Farm SSSI (Leased to wildlife Trust) – Fleet
- Bramshot Farm Country Park- Fleet
- Central Common – Hartley Wintney
- Causeway Green – Hartley Wintney
- West Green Common – Hartley Wintney
- Dipley common – Hartley Wintney
- Stoken green common – Hartley Wintney
- QE2 Fields – Hartley Wintney
- Cricket Hill Pond – Yateley
- Edenbrook Country Park – Fleet

These sites include many of North Hampshire's important nature reserves and wildlife areas and the majority are open to the public to visit and enjoy. Fleet Pond is Hampshire's largest freshwater lake and other sites include very significant and important areas of heathland, woodland, wet meadows and marshes.

Management Plans are in place for the Nature Reserves and more important habitats. Three Green Flags have been awarded - a benchmark for excellence and the highest of environmental standards being maintained.

The Countryside team within Environment and Technical Services also provides an advisory and inspecting role of sites transferred to the Town and Parish Councils to manage e.g. Oakley Park Woods, Basingbourne Heath and Hunts Common at Hartley Wintney

SANGs

Hart District Council (Planning) adopted an Interim Avoidance Strategy in 2010 to facilitate residential development in areas of Hart affected by the Thames Basin Heaths Special Protection Area (SPA).

One of the elements of the Strategy is the provision of Suitable Alternative Natural Greenspace (SANG) which are areas of open space designed to attract new residents away from the SPA, particularly dog walkers , thereby protecting the fragile heathland habitat found in the SPA.

Currently two Hart owned SANGs are available to developers in Hart and they contribute by way of a financial tariff per proposed dwelling. The contributions are ring- fenced for capital investment and maintenance of the particular SANG.

Hart DC own existing open public space which can be put forward for the provision of SANG and developer contributions would be held against that asset for future investment.

Public Open space maintained but not owned by Hart DC

The Council are maintaining many areas of public open space under agreements with housing developers who have retained the freehold or where the land is currently unregistered.

The Council are reviewing these areas with a view to considering if it is in the public interest to acquire the freehold interest of these areas at a nominal sum.