PAPER E

CABINET

DATE OF MEETING: **4th February 2021**

TITLE OF REPORT: **CAPITAL STRATEGY, TREASURY MANAGEMENT STRATEGY STATEMENT, AND ASSET MANAGEMENT PLAN**

Report of: **Head of Corporate Services**

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

1 PURPOSE OF REPORT

1.1 To present the Capital Strategy and the Treasury Management Strategy Statement for 2020/21, which incorporates the Annual Investment Strategy and Prudential and Treasury Indicators. To also present the Asset Management Plan. The Treasury Management Strategy Statement was considered at the January meeting of the Overview & Scrutiny Committee. The Asset Management Plan and Capital Strategy remain the same in policy but have been updated for the latest reported figures.

2 RECOMMENDATION to Council

That Cabinet recommend approval to Council of:

2.1 The Capital Strategy

2.2 The Treasury Management Strategy Statement noting the change to allow the Council to invest in Medium Term Notes and Long -Term Multi-Asset Diverse Funds

2.3 The Asset Management Plan.

3 .0 BACKGROUND

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

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

3.3 The Treasury Management Strategy Statement and Annual Investment Strategy are included in the body of the report.

PAPER E

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Appendices
Appendix 1 - Capital Strategy
Appendix 2 - Asset Management Plan and Corporate Property Strategy 2021/21

Annex A

1.Introduction

1.1 Background

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

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

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

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

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

2.0 Reporting Requirements

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

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

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

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

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

3.0 Capital Strategy

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

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

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

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

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

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

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

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

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

4.0 Treasury Management Strategy for 2021/22

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

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

5.0 Training

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

5.0 Treasury Management Consultants

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

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

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

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

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

6.1 Capital Expenditure

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

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

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

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

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

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

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

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

6.3 Minimum revenue provision (MRP) policy statement

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

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

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

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

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

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

6.4 Borrowing

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

6.5 Current Portfolio Position

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

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

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

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

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

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

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

6.6 Treasury Indicators: limits to borrowing activity

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

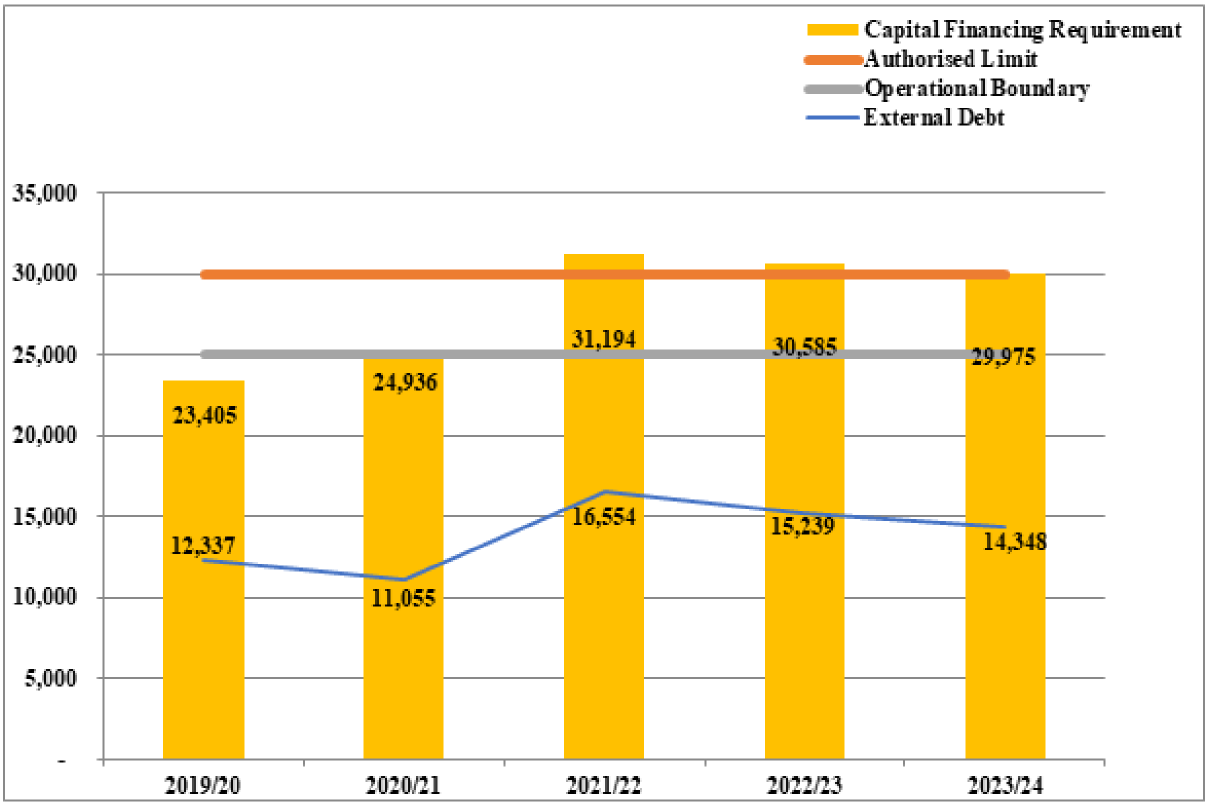
Operational Boundary for external debt	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Borrowing	25,000	25,000	25,000	25,000	25,000
Other long-term liabilities	0	0	0	0	0
Total debt	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**

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

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

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

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



6.7 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11.8.20. However, following the conclusion of the review of PWLB margins over gilt yields on 25.11.20, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

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

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

- *Please note that we have made a slight change to our interest rate forecasts table above for forecasts for 3, 6 and 12 months. Traditionally, we have used LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that all LIBOR rates up to 6m are currently running below 10bps, using that convention would give negative figures as forecasts for those periods. However, the liquidity premium that is still in evidence at the short end of the curve means that the rates being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 10 bps is achievable for 3 months, 10bps for 6 months and 20 bps for 12 months.*
- *During 2021, Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.*
- *We will maintain continuity by providing clients with LIBID investment benchmark rates on the current basis.*

6.8 Impact of COVID-19 on interest rates

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

6.9 Gilt yields / PWLB rates

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

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

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

6.10 Investment and borrowing rates

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

PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
Local Infrastructure Rate is gilt plus 60bps (G+60bps)

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

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

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

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

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

6.11 Borrowing Strategy

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Head of Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed or 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.

6.12 Policy on borrowing in advance of need

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

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

6.13 Debt rescheduling

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

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

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

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

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

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

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

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

Local temporary
Local Bonds
Local authority bills
Overdraft
Negotiable Bonds

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

7 Annual Investment Strategy

7.1 Investment policy – management of risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7.2 Creditworthiness policy

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

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

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

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

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

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

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

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

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

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

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

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

Creditworthiness

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

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

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

7.3 Other limits

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

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

7.5 Investment Strategy

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

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

7.5.1 Investment returns expectations

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

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

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

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

7.5.2. Negative investment rates

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

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

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

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

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

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

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

7.5.3 End of year investment report

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

8 APPENDICES

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

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

1. Capital expenditure
Please see table in Section 6.1

8.2 Affordability prudential indicators

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

a. Ratio of financing costs to net revenue stream

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

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

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

8.3 Maturity structure of borrowing

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

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

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

8.4 Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

8.5 Interest Rate Forecasts 2020-2024

PWLB forecasts are based on PWLB certainty rates

Link Group Interest Rate View 9.11.20

These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

8.6 **Economic Background**

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

- ***UK.*** *The Bank of England's Monetary Policy Committee kept* ***Bank Rate*** *unchanged on 5th November. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of* ***quantitative easing (QE) of £150bn****, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".*
- *Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:*
  - *The economy would recover to reach its pre-pandemic level in Q1 2022*
  - *The Bank also expects there to be excess demand in the economy by Q4 2022.*
  - *CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".*
- *Significantly, there was no mention of* ***negative interest rates*** *in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.*
- *One key addition to* ***the Bank's forward guidance*** *in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase through to quarter 1 2024 but there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly.* ***Inflation*** *is unlikely to pose a threat requiring increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. It is*

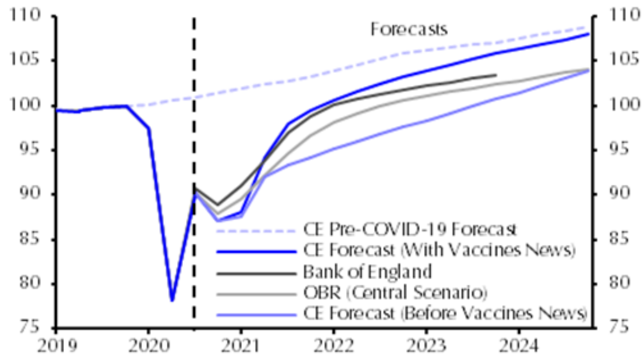
expected to briefly peak at around 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern.

- *However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2nd December, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31st March will limit the degree of damage done.*
- *As for **upside risks**, we have been waiting expectantly for news that various **COVID19 vaccines** would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, their phase three trials are still only two-thirds complete. More data needs to be collected to make sure there are no serious side effects. We don't know exactly how long immunity will last or whether it is effective across all age groups. The Pfizer vaccine specifically also has demanding cold storage requirements of minus 70C that might make it more difficult to roll out. However, the logistics of production and deployment can surely be worked out over the next few months.*
- *However, there has been even further encouraging news since then with another two vaccines announcing high success rates. Together, these three announcements have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021, once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would remain some years away. There is also a potential question as to*

whether the relatively optimistic outlook of the Monetary Policy Report was swayed by making positive assumptions around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.

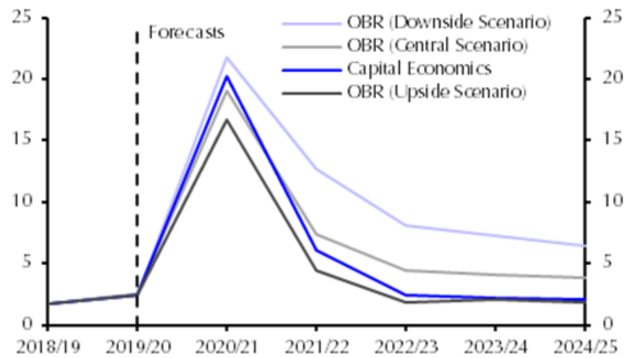
- ***Public borrowing** is now forecast by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.*
- *Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. However, the second national lockdown starting on 5th November for one month is expected to depress GDP by 8% in November while the rebound in December is likely to be muted and vulnerable to the previously mentioned downside risks. It was expected that the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, the graph below shows what Capital Economics forecast will happen now that there is high confidence that successful vaccines will be widely administered in the UK in the first half of 2021; this would cause a much quicker recovery than in their previous forecasts.*

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



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

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



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

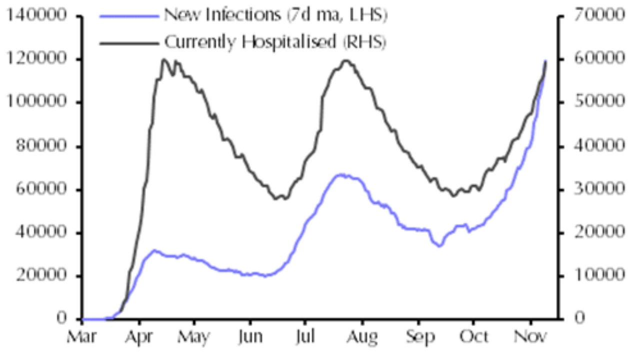
- *There will still be some* ***painful longer term adjustments*** *as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely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

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

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

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

COVID-19 New infections & hospitalisations



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

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

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

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

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

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

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

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

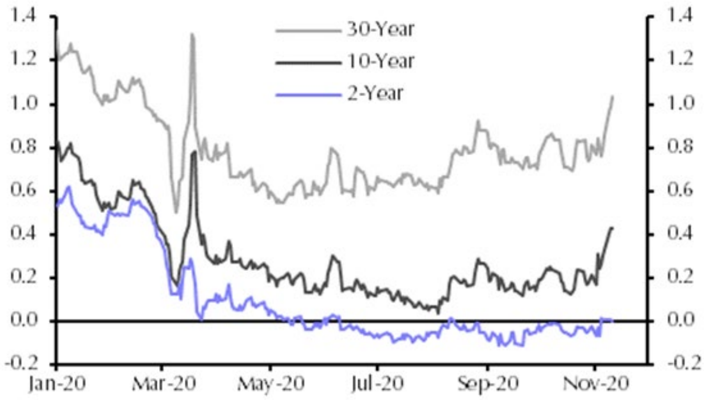
Until recent years, world growth has been boosted by increasing ***globalisation*** *i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by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

Summary

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

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

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



INTEREST RATE FORECASTS

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

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

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

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

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

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

The balance of risks to the UK

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

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

- ***UK** - further national lockdowns or severe regional restrictions in major conurbations during 2021.*
- ***UK / EU trade negotiations** – if they were to cause significant economic disruption and downturn in the rate of growth.*
- ***UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.*
- ***UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.*
- *A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets*

returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- *Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.*
- ***German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.*
- ***Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.*
- ***Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. In November, Hungary and Poland threatened to veto the 7 year EU budget due to the inclusion of a rule of law requirement that poses major challenges to both countries. There has also been a rise in anti-immigration sentiment in Germany and France.*
- ***Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.*

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

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

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

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

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

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

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

	Minimum credit criteria / colour band	**** Max % of total investments / £ limit per institution**	**Max. maturity period**
DMADF – UK Government	yellow	100%	6 months (max. is set by the DMO*)
UK Government gilts	yellow	100%	5 years
UK Government Treasury bills	yellow	100%	364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	yellow	£5m	5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA	£5m	Liquid
Money Market Funds VNAV	AAA	£5m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	yellow	100%	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use

Term deposits with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£5m	

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

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

8.8 Approved countries for investments (as at 01.12.2020)

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

Based on lowest available rating

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

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

AA

- Abu Dhabi (UAE)
- France

AA-

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

8.9 Treasury Management Scheme of Delegation

The bodies responsible for various functions are as follows:

Council

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

Cabinet

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

Overview & Scrutiny Committee

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

8.10 Role of the section 151 officer

The S151 (responsible) officer is responsible for:

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

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

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

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

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

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

Hart District Council - 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** – As an example Disabled Facilities Grants given to residents 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.

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.

19 Full details of the Capital Programme are shown in Appendix 2 of the Budget Report presented to Cabinet in February 2021.

2020/21 PRUDENTIAL INDICATORS FOR CAPITAL FINANCE

20 The main report sets out the prudential indicators and outlines how expenditure will be financed including 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 5 years; however this is subject to availability of future sites and projects suitable for the Council being available.

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

24 Due to the fall in interest rates for Public Works Loan Board moneys the Council will use the most cost-effective source of borrowing when making funding decisions.

Hart District Council

Asset Management Plan and Corporate Property Strategy 2021/21

Executive Summary

This Asset Management plan provides an overview of the existing Hart District Council asset portfolio. The portfolio 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 provide income and/or capital receipts 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 include the purchase of future investment properties for income and/or capital receipts 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.

With total land and building assets valued at £48.6m as at 31 March 2020), the need to make the best use of its property assets, for the benefit of the community it serves, is fully recognised by the Council. Land and buildings are a significant part of the property, plant and equipment asset base, accounting for 97.6 % of the Council's assets as at 31 March 2020.

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 Commercial & Assets Manager reporting to the Head of Corporate Services
- Maintenance and management of the Council's land and building assets carried out by the Head of Environmental and Technical Services (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 Corporate Projects Board which meets monthly to monitor and make recommendations on the delivery of corporate projects.

The Commercial and Assets 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 is divided between two portfolio holders; the element which relates to part of the Commercialisation portfolio which sits with the portfolio holder Richard Quarterman and the responsibility for general assets and finance which sits with James Radley. 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. 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 31.3.20 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	6,350,000
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	43,580,000

The value of the Council's assets has overall increased since the last AMP in 2018 which is explained in part by the market and in part the acquisition of the Investment Assets at Hedge End.
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 affect 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; the information below states use before Covid-19 as currently the majority of staff work from home.

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. It should be noted that these minimum spaces apply to when people are in the office. If people are working from home the overall property size can be reduced.

Other efficiency monitors and benchmarking to be considered: -

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	£6.19
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 2020, 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 or can reduce its space significantly.

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 2021
Civic Centre Regeneration	Civic Regeneration working group will inform future plans for the Harlington Centre	TBC	Corporate	Ongoing

<u>CAB, Royal Oak Close, Yateley</u>

- 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 2021

<u>Remaining Assets</u>

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 2021
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	If facility no longer required or	HoETS	Ongoing

	Wintney is leased to the contractor for waste services from a joint contract with Basingstoke and Deane BC.	relocated		
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
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 2020 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.