Public Document Pack

Department of Corporate Resources

Members of Council

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Your Ref: GC/Council

Date: 17 January 2022

Dear Councillor

MEETING OF COUNCIL – TUESDAY, 25 JANUARY 2022

You are requested to attend the meeting of the Council to be held in the St George's Hall, Bridge Street, Bradford, BD1 1JT on Tuesday, 25 January 2022 at 4.00 pm

The agenda for the meeting is set out overleaf.

Yours sincerely

P. Akhtar

Parveen Akhtar
City Solicitor

Notes:

♦ A webcast of the meeting will be available to view live on the Council's website at https://bradford.public-i.tv/core/portal/home and later as a recording.

♦ The taking of photographs, filming and sound recording of the meeting is allowed except if Councillors vote to exclude the public to discuss confidential matters covered by Schedule 12A of the Local Government Act 1972. Recording activity should be respectful to the conduct of the meeting and behaviour that disrupts the meeting (such as oral commentary) will not be permitted. Anyone attending the meeting who wishes to record or film the meeting's proceedings is advised to liaise with the Agenda Contact who will provide guidance and ensure that any necessary arrangements are in place. Those present at the meeting should be aware that they may be filmed or sound recorded.

♦ On the day of the meeting please ensure that you comply with the Covid restrictions in place. Staff will be at hand to advise accordingly.

♦ The Fire Bell and Evacuation Procedure requires people to leave the building in an orderly fashion by the nearest exit, should the fire alarm sound. No one will be allowed to stay or return until the building has been checked.

Members are reminded that under the Members' Code of Conduct, they must register within 28 days any changes to their financial and other interests and notify the Monitoring Officer of any gift or hospitality received.

AGENDA

A. PROCEDURAL ITEMS

1. DISCLOSURES OF INTEREST

(Members Code of Conduct - Part 4A of the Constitution)

To receive disclosures of interests from members and co-opted members on matters to be considered at the meeting. The disclosure must include the nature of the interest.

An interest must also be disclosed in the meeting when it becomes apparent to the member during the meeting.

Notes:

(1) Members may remain in the meeting and take part fully in discussion and voting unless the interest is a disclosable pecuniary interest or an interest which the Member feels would call into question their compliance with the wider principles set out in the Code of Conduct. Disclosable pecuniary interests relate to the Member concerned or their spouse/partner.

(2) Members in arrears of Council Tax by more than two months must not vote in decisions on, or which might affect, budget calculations, and must disclose at the meeting that this restriction applies to them. A failure to comply with these requirements is a criminal offence under section 106 of the Local Government Finance Act 1992.

(3) Members are also welcome to disclose interests which are not disclosable pecuniary interests but which they consider should be made in the interest of clarity.

(4) Officers must disclose interests in accordance with Council Standing Order 44.

2. MINUTES

Recommended –

That the minutes of the meeting held on 12 October 2021 be signed as a correct record (previously circulated).

(Guy Close – 07811 503906)

3. APOLOGIES FOR ABSENCE

4. WRITTEN ANNOUNCEMENTS FROM THE LORD MAYOR (Standing Order 4)

(To be circulated before the meeting).

5. INSPECTION OF REPORTS AND BACKGROUND PAPERS

(Access to Information Procedure Rules – Part 3B of the Constitution)

Reports and background papers for agenda items may be inspected by contacting the person shown after each agenda item. Certain reports and background papers may be restricted.

Any request to remove the restriction on a report or background paper should be made to the relevant Strategic Director or Assistant Director whose name is shown on the front page of the report.

If that request is refused, there is a right of appeal to this meeting.

Please contact the officer shown below in advance of the meeting if you wish to appeal.

(Guy Close – 07811 503906)

B. BUSINESS ITEMS

6. PETITIONS (Standing Order 11)

To consider up to five requests for the Council to receive petitions in accordance with Standing Orders.

(i) Proposal to develop a health and wellbeing hub on former Keighley College site – Keighley Central Ward.

Please note that as petition (i) has over 1,500 signatures there will be a debate.

(ii) Safe crossing space for children outside Buttershaw Business and Enterprise College – Royds Ward

(iii) Parking permit scheme in Steeton – Royds Ward

(iv) Curbing dangerous driving and anti-social behaviour on Redburn Road – Heaton Ward.

If any further requests are received, in writing, by mid-day three working days before the meeting (Thursday), details will be circulated.

(Fatima Butt – 07970 411746)

7. PUBLIC QUESTION TIME (Standing Order 13)

There are no public questions.

(Fatima Butt – 07970 411746)

8. MEMBERSHIP OF COMMITTEES AND JOINT COMMITTEES (Standing Order 4)

To consider any further motions (i) to appoint members to a Committee or a Joint Committee; or (ii) to appoint Chairs or Deputy Chairs of Committees (excluding Area Committees).

9. REPORT BY THE LEADER OF THE COUNCIL

A written report by the Leader of Council giving an update on key issues will be circulated before the start of the meeting. There shall be a period of up to 15 minutes during which any Member of Council may ask the Leader of the Council (or a Member of the Council nominated by the Leader) a question on any matter arising out of the written report.

10. MEMBER QUESTION TIME (Standing Order 12)

To deal with supplementary questions arising from the attached questions of which written notice has been given.

Notes:

(i) Answers to written questions shall be circulated at the commencement of the meeting.

(ii) The Lord Mayor will have regard to the list of questions and the political composition of the Council in calling on Members to put their supplementary question to the Leader of Council and Portfolio Holders.

(iii) A period of up to 30 minutes shall be available for supplementary questions to Members of the Executive.

1. Councillor Marcus Dearden

It’s extremely welcome that this Labour council is committed to investing in parks and play areas in Bingley, an investment which is desperately needed for local families. I will be continuing to push for the best possible investment for the ward and for it to be delivered as soon as possible. Can the portfolio holder outline how much we are investing in the parks plan overall across the district and can I be assured that the funds will be directed to the parks and spaces where they are most needed?

2. Councillor Sally Birch

Given the increasing number of high profile organisations including The Equality and Human Rights Commission, the BBC, the Government’s Equality Office and numerous Government Departments to name but a few, opting to withdraw from the highly controversial Stonewall Equality Index, what benefits does the Council believe will be achieved by continuing to pursue this “accreditation”?

3. Councillor Jeanette Sunderland

The Families First programme in Bradford has been placed on a ‘Recovery Plan’ and had increased Ministry of Housing, Communities and Local Government intervention and scrutiny due to not meeting its targets of the numbers of families being worked with in a whole family way and the number of family outcomes achieving significant and sustained progress. How much money was lost to Bradford due to failure to meet targets?

4. Councillor Matt Edwards

Data from the Department for Environment, Food and Rural Affairs shows fly-tipping in Bradford is at its worst level since relevant records began - with 18,001 fly-tipping incidents reported to Bradford Council in 2020-21 – an increase of 12 per cent increase on 2020.

Does the portfolio holder agree that, whilst this is a national problem, exacerbated by the brutal budget cut under successive Conservative governments, that the Council's current approach does not appear to be working?

Would the Council consider setting up a task force to examine new ideas and look at what other Councils are doing to tackle the issue? – for example Wirral Borough Council has invested in new cutting-edge, wireless camera equipment which are easier to deploy and are more resistant to vandalism.

5. Councillor Carol Thirkill

Can you outline the work undertaken by the council to reduce the number of empty homes in the district?

6. Councillor Nussrat Mohammed

The Council closed off Shay Lane in our ward as part of temporary road changes during the pandemic. I've been getting lots of feedback from residents on this issue, could the portfolio holder advise what's going to happen next and whether residents' voices will be heard?

7. Councillor Geoff Winnard

Could the Portfolio Holder for Healthy People and Places inform members of what the Council is doing to ensure that the health and social care needs of our district will be heard and taken into account in the proposed statutory Integrated Care System for West Yorkshire and will the new arrangements provide an opportunity for joint commissioning of services with the NHS?

8. Councillor Taj Salam

What more can we do to press the government to help with the transition to electric vehicles given the financial burden that people and businesses will face – in particular taxi and other vehicle operators? I'm concerned about the purchase price of EVs but also the cost of charging – surely the government should put in place a price cap on energy firms' excessive profiteering from charging EVs? Can't the government also offer better financial incentives to encourage the switch to EVs and reduce the charging costs for small businesses?

9. Councillor Nazam Azam

What are the next steps in Bradford's bid to be UK City of Culture?

10. Councillor Bob Felstead

We note that Bradford Council support the West Yorkshire Mayor's White Rose Forest scheme which seeks to remove carbon from the air and also to address the issue of natural flood management in the Aire Valley and should be grateful if the Leader of Council would guarantee a similar commitment to support the excellent work carried out by the Yorkshire Dales Millennium Trust, which will also remove CO2 from the atmosphere and also fulfils the Council commitments to improve natural flood risk management along the Wharfe Valley, which affects homes in the district.

11. Councillor Brendan Stubbs

Can the Portfolio holder please detail the current number of planning enforcement cases broken down by ward that remain unresolved? Further to this can the Portfolio Holder provide information on how many of these are awaiting a date in court following a failure to comply with an enforcement notice?

12. Councillor Vanda Greenwood

Can the portfolio holder outline the key points from the social care white paper and what it means for the people of our district? Also do you share my concern that the government's approach shockingly puts the burden on the least well off and fails to deliver the real reforms we need?

13. Councillor Shakeela Lal

Does the Leader join me in congratulating the University of Bradford's business school for being named best in the country at the Times Higher Education Awards?

14. Councillor David Heseltine

Given that young people want to feel safe and be able to use play facilities such as Skateparks and MUGAS in the dark days of winter, would it not be sensible, while upgrading our street lamps to LED, that BMDC consider lighting play facilities to allow them to be used for more of the year?

15. Councillor Nussrat Mohammed

Double parking is an ongoing problem raised by a number of constituents and it is a worry that emergency vehicles could struggle to get past. Can the portfolio holder outline what powers local authorities have on this and what actions are we able to take to tackle the problem?

16. Councillor Taj Salam

The government is finally catching up with Bradford Council's approach on EV charging points. The Prime Minister has announced plans for all new-builds to have EV charging points. Can the portfolio holder confirm how many years we've had this policy in Bradford and what successes it's achieved so far?

17. Councillor Mike Pollard

As a result of performance shortcomings in respect of years prior to 2020/21, the Council's delivery of the 'Families First' programme was placed on a 'Recovery Plan' with increased MHCLG (as then named) intervention and scrutiny, due to not meeting its targets of the numbers of families being worked with in a 'whole family' way and the number of family outcomes achieving significant and sustained progress. Could the Portfolio Holder please quantify the monetary resource lost to the Council over the period of the underperformance identified (the benchmark to be used in that calculation being the 100% achieved in 2020/21)?

18. Councillor Caroline Firth

Can the leader explain what communication the council's emergency response team had from Northern Power grid after power was knocked out in various areas across the district due to Storm Arwen? What help did they put in place for residents and what offer of support was made to the council from Northern Power grid to aid our residents? What is the learning from this incident? Will she join me in thanking and praising residents and council staff who stepped up and helped those affected?

19. Councillor David Warburton

Can the portfolio holder give an update on Wyke Sports Village?

20. Councillor David Heseltine

Further to the last Council meeting what progress has been made on the "priority" that is resolving the ventilation and now flooring problems, to allow Bingley Youth Cafe to open again and as Bingley Pool is destined to close due to Bradford Council being unwilling to offer up a serviceable facility for a CAT, what plans are there to ensure Bingley Youth Cafe has a permanent home in the town?

21. Councillor Kevin Warnes

Would the Leader of Council agree to use her position as Chair of the West Yorkshire Combined Authority's Transport Committee to ensure that the committee's 'Forward Plan of Key Decisions' includes a comprehensive review of the carbon emissions implications of the transport projects being managed by the combined authority, bearing in mind that a review of this sort does not feature among the 51 items on the committee's published current plan despite WYCA's declaration of a climate emergency in June 2019? [see 'Forward Plan of Key Decisions from 1 December 2021 (01/01/2022 to 30/04/2022, Forward Plan of Key Decisions).

22. Councillor Paul Godwin

I welcome that the Leader has called on government to bring an end to the environmentally damaging practice of heather burning on our moorlands. Has the Leader had a response yet from government and what are the next steps?

23. Councillor Hassan Khan

We have badly ageing hospital buildings in the Bradford district and yet we've not seen the same government grant funding here that other parts of the country have seen. I know the Leader has lobbied strongly on this and is supporting our district's bid for brand-new hospitals to replace Airedale, Lynfield Mount and the BRI. When will we hear back from government?

24. Councillor Kyle Green

Could the Portfolio Holder for Healthy People and Places advise when the council will look to invest in Ilkley Pool and Lido to provide adequate family changing facilities, modern equipment including gym facilities?

25. Councillor Jeanette Sunderland

The Government has announced a workforce retention fund. Has the Council received any funding and what are the Council's plans to ensure it reaches the pay packets of staff?

26. Councillor Zafar Iqbal

What actions are we taking together with the police to help women stay safe on nights out and in other public spaces?

27. Councillor Mohsin Hussain

Does the portfolio holder have an update on timescales for delivery of the Towns Fund projects in Keighley?

28. Councillor Rebecca Whitaker

Please can the Portfolio Holder confirm what strategic plans are being put in place to resolve fixing the numerous street lights which are not working across the Bradford District? What conversations are being held with Northern Power grid to speed up the process in situations where they are involved? The current position is becoming increasingly more concerning. In particular, for residents in Silsden who have had to spend the last few months navigating the new road changes at the bottom of Keighley Road including negotiating the unlit islands and those crossing the notoriously busy and dangerous A629 in such poorly lit conditions that it is putting public safety at risk. Please can you provide a definitive date when the street lights will be fixed?

29. Councillor Taj Salam

As we are in the cold winter months will the portfolio holder outline our current actions to support rough sleepers off the streets and into accommodation.

30. Councillor Aneela Ahmed

Can the portfolio holder give an update on how the Darley Street Market and Bradford Live regeneration schemes are progressing and how many jobs they are expected to create?

31. Councillor Debbie Davies

Would the Leader of the Council inform colleagues why, instead of spending £27.5m on One City Park for 56,000 square feet of office space, the council doesn't just buy The Interchange building which is £4.2m for 60,000 square feet of Grade A office space and available now?

32. Councillor Mohammed Shafiq

Can the portfolio holder update me on the progress made in children's services?

33. Councillor Nussrat Mohammed

Will the portfolio holder give an update on how we are progressing with delivery of the new streetlights programme, the main benefits in terms of maintenance, cost savings and the environment and how it's being rolled out across the district?

34. Councillor Sally Birch

In Bingley Rural we are working with local schools, the polices and parish councils to reduce parking issues and residents' complaints due to school parents struggling to access free and safe parking. In Wilsden there is a car park which used to offer 30 minutes of free parking. This is no longer the case. Wilsden Primary School have asked if they could be offered a small number of "Parents Parking Permits" which would allow a 30-minute free parking slot in the car park on Main St both at the start and end of the school day. They would only allocate these passes to parents who live the furthest from the school and have little option but to use their car each day. Can this be considered as a scheme which would reduce traffic congestion near the school, allow those parents who have to use their car to have free access to safe parking and would be administered by the school?

35. Councillor Rebecca Whitaker

As it is becoming increasingly apparent that the various Council

Enforcement Teams are struggling with onerous workloads resulting in huge backlogs of work, making it increasingly difficult to be effective when reacting to complaints from members of the public, can the Portfolio Holder explain what immediate measures are being put in place to assist the Enforcement Officers to execute their work in a more effective, timely fashion?

36. Councillor Alun Griffiths

Of the 582 cut down lighting columns listed in the answer to my question at the last council meeting, how many have been replaced in the 15 weeks since then? How many of the 19 in Idle and Thackley Ward? In addition, can the Portfolio Holder please provide details of the number of streetlights awaiting bulb replacement or repair (excluding the cut downs) broken down by ward? Please can the portfolio Holder also provide current waiting times for these street lights to be restored to full working order?

37. Councillor Matt Edwards

Following the Schools Street Pilot, can you provide a breakdown of each school site and whether the pilot has been deemed to have succeeded or requires improvements, or indeed has failed?

38. Councillor Debbie Davies

During to the easing of Covid 19 related restrictions, most libraries in the district re-opened significantly earlier than Baildon Library, which continued for some time with a click and collect service, purportedly because of structural problems with the building, yet it somewhat later re-opened for limited visitors, despite Council Officers having confirmed that there have been no material changes to the condition of the building, thus can the Portfolio Holder confirm that it was not kept closed unnecessarily for six months?

11. RECOMMENDATIONS FROM THE EXECUTIVE AND COMMITTEES (Standing Order 15) 1 - 62

a) At the meeting of the Governance and Audit Committee held on 25 March 2021 consideration was given to the report (Document “AD”) of the Director of Finance and IT which presented the Council’s 2021-22 Treasury Management Strategy.

Resolved – That the report be noted and referred to Council for adoption.

Action: Director of Finance

b) At the meeting of the Governance and Audit Committee held on 25 November 2021 consideration was given to the report of the Director of Finance and IT which presented the Council’s

Treasury Mid-Year Review up to 30 September 2021.

Resolved – That the details in paragraph 3 of Document “R” be noted and the report be referred to the 14 December 2021 Council meeting for adoption.

Action: Director of Finance

12. NOTICES OF MOTION (Standing Order 17)

To consider the notices of motions set out below:

12.1

Healthy Homes and Places

To be moved by: Councillor Matt Edwards
Seconded by: Councillor Martin Love

This Council notes:

- The powerful evidence which demonstrates the link between people’s homes and their health, wellbeing and life chances.
- That the COVID-19 emergency has reinforced the need for healthy environments which provide space for recreation, children’s play and walkable streets.
- That well-designed homes that meet all our resident’ needs over their lifetimes can radically reduce costs to NHS and social care budgets.
- That people have a basic right to live in environments free from unacceptable levels of air and noise pollution.
- That homes must be affordable to heat.
- This is a climate emergency. Houses in the UK account for 30 per cent of the UK's total energy use, 27 per cent of UK carbon dioxide emissions and around 24 per cent of greenhouse gas emissions. It is therefore more important than ever that new houses are built to zero carbon standards.
- That current government policy to deregulate planning is creating thousands of substandard homes through conversion of existing buildings into homes without planning permission.

This council also notes that these are the Healthy Homes Principles, as promoted by the Town and Country Planning Association:

- all new homes must be safe in relation to the risk of fire;
- all new homes must have, as a minimum, the liveable space required to meet the needs of people over their whole lifetimes, including adequate internal and external storage space;
- all main living areas and bedrooms of a new dwelling must have access to natural light;
- all new homes and their surroundings must be designed to be inclusive, accessible, and adaptable to suit the needs of all;

- all new homes should be built within places that prioritise and provide access to sustainable transport and walkable services, including green infrastructure and play space;
- all new homes must secure radical reductions in carbon emissions in line with the provisions of the Climate Change Act 2008;
- all new homes must demonstrate how they will be resilient to a changing climate over their full lifetime;
- all new homes must be built to design out crime and be secure;
- all new homes must be free from unacceptable and intrusive noise and light pollution;
- all new homes must not contribute to unsafe or illegal levels of indoor or ambient air pollution and must be built to minimise, and where possible eliminate, the harmful impacts of air pollution on human health and the environment, and;
- all new homes must be designed to provide year-round thermal comfort for inhabitants.

This Council resolves to:

- Strive to ensure that the principles of Healthy Homes and Places are met, in order to create the highest quality places for residents which will be a fitting legacy for future generations;
- Review related policies, processes and procedures as part of current Local Plan review, and develop and adopt new policies, to ensure that all new development is in line with the Healthy Homes and Places Principles;
- Make the Healthy Homes and Places principles an integral part of Council decision making on housing and planning; and
- Ensure the next review of the corporate plan includes healthy homes and places as a priority.

12.2

Children's Services

To be moved by: Councillor Brendan Stubbs
Seconded by: Councillor Jeanette Sunderland

This council notes that the report of the Children's Commissioner into Bradford's Children's Services has been delivered to the Secretary of State.

12.3

Elections Bill

To be moved by: Councillor Geoff Reid
Seconded by: Councillor Alun Griffiths

This Council notes that the government's Electoral Integrity Bill proposes to bring in photo-ID checks at polling stations and reduce the independence of the Electoral Commission. We believe that both these changes would be particularly harmful to Bradford. As the United Kingdom's youngest city, Bradford would be affected more than most local authorities by a law discriminating in favour of bus pass holders and those who have a driving licence, passport or equivalent forms of identification.

The Bill claims to be a response to electoral fraud but, whenever there has been suspicion of fraud in Bradford, West Yorkshire Police, like their colleagues in many other areas, have been reluctant to follow up allegations, preferring to leave such matters to the Electoral Commission. The maintenance of a properly funded, independent Electoral Commission with power to prosecute is in Bradford's interest as a large local authority, whereas making the Commission subservient to a House of Commons committee controlled by the party of government would seriously undermine the Commission's credibility and capacity to regulate elections.

The Council notes the report published in December by the House of Commons Public Administration and Constitutional Affairs Committee which urged the government to pause the passage of the Bill with a view to making it more fit for purpose.

The Council commends the work of Bradford's Electoral Services Department in its efforts to expand the electoral register by pro-active contact with hard to reach groups who would be most likely to be discouraged from voting should the Bill become law.

The Council requests the Leader of the Council to write to the District's MPs expressing these concerns and to members of the House of Lords resident in Bradford, urging them to resist the Bill if it should be remitted to peers for approval.

12.4

Resident Parking Permit Reform

To be moved by: Councillor Peter Clarke
Seconded by: Councillor Rebecca Whitaker

The Council notes:

- That the current system of Resident Parking Permits is in parts not fit for purpose and has caused some residents significant anxiety, stress and concern.
- The current system is cumbersome in certain situations and doesn't provide simplicity for the individual needs of some residents.
- Under the current system contractors or health care visitors, etc. are needlessly inconvenienced.

The Council resolves:

- To increase support for those applying for permits, who do not have ready access to the internet, those who are infirm or who have a disability, including offering easy access to paper Parking Permits for residents and visitors.
- To review the application system to make it easier for residents to apply and to simplify provision for contractors, health-carers and other visitors.

12.5

Home – school transport

To be moved by: Councillor Kyle Green
Seconded by: Councillor Rebecca Poulsen

Council notes:

- That there have been significant failings over a protracted period, in the Children's Services that it provides.
- Many families rely on home – school transport, with much of it provided via council contracts with taxi, private hire or Hackney Carriage companies.
- Several of these contracts have been cancelled recently at short notice.

Council resolves:

- To request that appropriate officers, undertake an urgent review focussing on adherence with council safeguarding policies, by the providers of home – school transport and the measures taken by the Council to monitor this and provide a comprehensive report for the Executive. To also examine whether changes to the Personal Transport Assistance Budget impacted on parental choice in relation to home – school provision.
- To provide parents and guardians with a dedicated point of contact for raising any safeguarding concerns that they may have in relation to home – school transport.

12.6

Children's Services – Our Number One Priority

To be moved by: Councillor Susan Hinchcliffe
Seconded by: Councillor Sue Duffy

The murder of Star Hobson and the suffering inflicted on her was shocking and deeply upsetting. The Council, the Police and Health partners have all come together to say how sorry we are for her death and have agreed that we let down Star and the people who loved her.

The Bradford Partnership (all agencies in the district involved in the protection of children) has commissioned an independent Local Child Safeguarding Practice Review which is due to be published soon. It is essential that all agencies, including the council, immediately implement any improvements set out in the review so that children are kept safe now and into the future.

The Council therefore resolves to:

- Commit to immediately implementing all recommendations from the Safeguarding Practice Review once published.
- Be resolute in our determination to accelerate improvements to services for our children and to ensure that every child and young person in the Bradford district receives the excellent care and support they need and deserve.
- Work with Government, the Commissioner and the Government Chair of the Improvement Partnership to ensure that improvements are made quickly in Children's Services.
- Fully support the Director of Children's Services with the speedy implementation of the new Improvement Plan for Children's Services which, when achieved, will mean that:

1. Children and Young People will recognise the Council and its partners as good corporate parents
2. Caseloads across all teams continue to reduce
3. Retention and progression opportunities for foster carers will reduce the use of Independent Fostering Agencies
4. An effective Edge of Care Strategy results in fewer Children in Care
5. The workforce plan increases retention and progression
6. Sufficiency Strategy is effective and responsive to changes/needs
7. Leaders have greater understanding of the quality of social work practice.

- Make sure that social workers in the Bradford district are supported to do their best work here.
- Continue to commit the resources required to enable Children's Services to deal effectively with the growing demographic and cost pressures.
- Work closely with our partners to improve our practices, data sharing and communication to ensure effective, efficient and compliant processes are in place.
- Ensure that all assessments are centred on the risks to the child or young person notwithstanding the protected characteristics of the adults involved, recognising that child abuse can happen in every part of society.
- Enable and encourage professional curiosity in our staff at all times.

12.7

Bradford – Britain's Biggest Levelling Up Opportunity

To be moved by: Councillor Susan Hinchcliffe
Seconded by: Councillor Alex Ross-Shaw

Council notes:

Bradford is Britain's biggest levelling up opportunity. We are a young, entrepreneurial and globally connected district, ripe with potential for exponential growth – subject to the right level of national investment to match our ambition. For the country to truly level up, it depends on Bradford levelling up.

We have a high quality, deliverable plan. At the heart of that plan is a new city centre through station on Northern Powerhouse Rail within the Southern Gateway – a vision for Britain's largest clean growth development zone with over 1 million sq ft of work space.

A new Bradford city centre rail station has the potential to deliver 27,000 jobs and £30bn in economic benefits to the district over the next decade, whilst bringing 6.7 million people and an area of over £167bn of annual economic output to within a 35-minute journey of central Bradford.

The Prime Minister and his government have repeatedly promised to deliver Northern Powerhouse Rail in full, in line with our vision. The Government's Integrated Rail Plan (IRP) downgraded the PM's original ambition to line upgrades.

Bradford cannot take 'no' for an answer. We will hold government to account to deliver on its promises to the people and businesses of our district.

Our Mayor, Tracy Brabin, as well as other Mayors and Leaders from across the Country and across the political divide have spoken up for Bradford and agree with us that we should be a stop on NPR.

Council resolves to:

Continue the delivery of our ambitious vision for the district's transformational growth, which includes plans for a city centre stop on Northern Powerhouse Rail.

Proceed with the Bradford Development Framework as well as the sister development frameworks for our four principal towns, Keighley, Ilkley, Shipley and Bingley. This will create a framework for unlocking the development, clean growth and decarbonisation opportunities across the district.

Continue delivery of our district's ambitious regeneration schemes and our plans for greater economic development as part of our vision to become Britain's leading clean growth city, which would be accelerated by the new city centre station.

Council calls on government to:

Hear the voice of the North – its people, businesses and leaders across the political spectrum – and urgently reconsider the Integrated Rail Plan.

Deliver on its promise to build the new line for Northern Powerhouse Rail – including a new Bradford city centre through-station to accelerate the massive regeneration benefits the district needs

Work with us in Bradford and regionally to achieve our objectives of levelling up and ensure that the people of our district can have the same great opportunities to fulfil their potential as anyone else in the country.

12.8

Gambling

To be moved by: Councillor Sarah Ferriby
Seconded by: Councillor David Green

The Council notes that over the past 18 months Corporate Overview & Scrutiny Committee has looked into the issue of gambling-related harm as part of an informal review process.

Whilst we note that much of the gambling industry is regulated at a national level we also note that there is more that we can do to address the issue of gambling-related harm at a regional and local level. We therefore make recommendations to the Government via our MPs regarding national policy as well as making recommendations for action at a local level. Whilst the date of the formal national call for evidence in the gambling review has expired we feel that it is important that our district's MPs are aware of the views of the Council.

We therefore ask the Executive to instruct the Chief Executive to write to the District MPs and relevant Minister requesting that consideration be given to the following recommendations as part of the ongoing review of national regulations:

i. The Government should publish a White Paper setting out its next steps by the end of the year.
ii. Gambling should be considered a public health issue. Current approaches targeting affected individuals substantially underestimate the harms of gambling. Public health approaches to reduce harms related to gambling should encompass a range of population based approaches

supported by regulation, legislation and funding.

iii. Consider a mandatory levy to fund prevention and treatment of gambling-related harm and independent research into the issue. Funding must be spent independently of the companies and exclusively focused on reducing gambling related harm.
iv. The Government amend the definition of gaming in section 6 of the Gambling Act 2005 to regulate loot boxes as gambling.
v. To end all gambling advertising, sponsorship and promotion including bonus inducements and VIP schemes; and any exposure of gambling products likely to be viewed by children.
vi. All new gambling products to be licensed and classified according to a series of harm indicators.
vii. Introduce limits/caps for online betting, and measures to reduce stakes and speed of play.
viii. To consider a national membership scheme for those wishing to gamble in person or online.
ix. Simplify and improve self-exclusion schemes and measures from gambling premises and online sites, enforcing industry adherence and protecting gamblers from harm

Locally the committee asks that the council and its partners:

a. Carries out further work to establish the nature and level of gambling at elevated risk in the district, and use its links across Yorkshire and the Humber to develop data and insights on gambling-related harm.
b. Works across Yorkshire and the Humber to produce training and information materials for frontline services to improve the identification of gambling-related harm for those who come into contact with agencies such as social services, mental health and the police.
c. Uses local mechanisms to communicate the reality of gambling activity and related harms (including lived experience), and amplifies regional messaging to raise awareness, reduce stigma and encourage early help-seeking for those directly affected by gambling and affected others.
d. Establish an officer group on reducing gambling-related harms aligned with the Directors of Public Health, Yorkshire and the Humber and the NHS Gambling Addiction Centre in Leeds.
e. Promote the educational tools that are available to schools and other organisations to engage and raise awareness of gambling-related harm with young people, and use these as a basis for developing programmes that meet the needs of our community and add to local insight.
f. Work with community groups and workplaces to address gambling-related harms, particularly with at-risk groups.
g. Collaborate to develop a public health approach to gambling-related harm across Yorkshire and the Humber, to support local plans self-exclusion, planning, licensing and education.

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City of BRADFORD
METROPOLITAN DISTRICT COUNCIL

Report of the Director of Finance to the meeting of the Governance and Audit Committee to be held on 25th March 2021

AD

Subject:

Treasury Management Strategy 2021-22

Summary statement:

This report shows the Council's 2021-22 Treasury Strategy

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Portfolio:
Corporate Services

Overview & Scrutiny Area:
Corporate Services

1 INTRODUCTION

1.1 Background

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

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

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

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.

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."*

Revised reporting was required from the 2019-20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy has been reported separately and approved by Executive in February 2021.

1.2 Reporting requirements

1.2.1 Capital Strategy

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

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

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

1.2.2 Treasury Management reporting

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

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
    - the capital plans, (including prudential indicators);
    - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
    - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
    - an investment strategy, (the parameters on how investments are to be managed).

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

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

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

1.3 Treasury Management Strategy for 2021-22

The strategy for 2021-22 covers two main areas:

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

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;

- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training.

The requirement for training also applies to the members responsible for scrutiny. Training was undertaken by members on the 14th March 2019. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

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

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

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

2 CAPITAL PRUDENTIAL INDICATORS

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

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1: Capital Plan Expenditure

	2019-20 Actual £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Non-HRA	81.0	134.8	252.9	260.7	65.3
HRA	0.0	1.7	2.0	8.0	10.7
Total	**81.0**	**136.5**	**254.9**	**268.7**	**76.0**

Table 2 below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2: Capital funding

	2019-20 Actual £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Total Capital Spend	81	137	255	268	76
Capital Spend not funded from borrowing	52	71	134	141	41
Capital spend funded from borrowing	**29**	**66**	**121**	**127**	**35**

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

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

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

The 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 currently has £163m of such schemes within the CFR.

Table 3: Capital Financing Requirement

	2019-20 Actual £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Capital Financing Requirement	**711**	**753**	**845**	**939**	**936**
Movement in CFR		**+42**	**+92**	**+94**	**-3**
Net financing need for the year (above)		66	121	127	35
Less MRP/VRP and other financing movements		-24	-29	-33	-38
Movement in CFR		**42**	**92**	**94**	**-3**

2.3 Minimum revenue provision (MRP) policy statement

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

It is a statutory requirement for Full Council to set the Minimum Revenue Provision (MRP) policy each year. As noted, it is a technical term but refers to the rules governing how much funding is set aside from successive Revenue Estimates each year to repay debt.

The overall purpose of the policy is to charge the costs of capital schemes to current and future years in proportion to the amount of service benefit delivered in each year. The aim is to allocate costs between time periods and different generations in a fair and reasonable way. This means:

- Costs are charged only when schemes are in operation and not in the construction phase.
- Costs are generally allocated over the expected timespan in which any scheme is operational.
- The policy only relates to the repayment of borrowing: the elements of schemes funded directly, for example by grants, do not cause any future funding pressures on the Revenue Estimates.

The policy, as approved by Executive 16 February 2021, is set out in Appendix 2. Compared to previous years, the only change to the policy is an update for the Council's proposed new Housing Revenue Account. This allows funding to repay debt to be redirected to investment in the housing stock, providing that sufficient upkeep and improvement on the buildings is delivered.

The main elements of the policy set out in Appendix 2 are set out below:

- Pre 2008 debt, which cannot be distinguished against specific assets, is being repaid over 50 years on an equal instalment basis.
- Some debt taken out between 2008 and 2012 is currently being repaid on an annuity basis. This reflects policy and regulations during this period.
- Funding set aside for debt repayments within the HRA is calculated on a depreciation charge.

- All other debt is repaid on an equal life basis: as determined by the expected lifespan of each individual asset.
- The policy also provides some discretion to the Section 151 officer in determining debt repayments. However, this is subject to the relevant scheme meeting targets.

3 BORROWING

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

3.1 Current portfolio position

The overall treasury management portfolio as at 31st March 2020 and as at 31st January 2021 are shown below for both borrowing and investments.

Table 4: Treasury Portfolio

	Actual 31 March 2020 £m	Actual 31 March 2020 %	Current 31 January 2021 £m	Current 31 January 2021 %
Treasury Investments				
Banks	36.3	38	67.8	54
Building Societies	0	0	3.0	2
DMADF (H M Treasury)	53.8	57	56.5	44
Treasury Bills	5.0	5	0	0
Total Treasury Investments	**95.1**		**127.3**	
Treasury External Borrowing				
Local Authority	10.0	3	0	0
PWLB	299.644	87	297.828	89
LOBOs	36.2	10	36.2	11
Total external borrowing	**345.844**		**334.028**	
Net Treasury Investments / (borrowing)	**(250.744)**		**(206.728)**	

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

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

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.

Table 5: Borrowing Projection

	2019-20 Actual £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
External Debt					
Debt at 1 April	312.0	345.9	352.9	422.9	536.9
Expected change in Debt	33.9	7.0	70.0	114.0	7.0
Borrowing as at 31 March	**345.9**	**352.9**	**422.9**	**536.9**	**543.9**
Other long-term liabilities (OLTL)	165.9	158.5	150.7	142.4	134.1
Expected change in OLTL	-7.4	-7.8	-7.7	-8.3	-7.9
Total gross debt at 31 March	**504.4**	**503.6**	**565.9**	**671.0**	**670.1**
The Capital Financing Requirement	710.7	753.0	845.0	939.0	936.0
Under / (over) borrowing	**206.3**	**249.4**	**279.1**	**268.0**	**265.9**

3.2 Treasury Indicators: limits to borrowing activity

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

Table 6: Operational Boundary

	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Total	758	850	944	941

The authorised limit for external debt is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal 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.

Table 7: Authorised limit

	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Total	760	852	946	943

3.3 Interest rate forecasts

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 9th March 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Table 8 Interest Rate Forecast

Link Group Interest Rate View 8.3.21	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10yrPWLB	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

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 subsequently left Bank Rate unchanged at its subsequent meetings, including its last meeting on 4th February 2021, although some forecasters had suggested that a cut into negative territory coul PWLB d happen. However, at that last meeting, we were informed that financial institutions were not prepared for implementing negative rates. The Monetary Policy Committee (MPC), therefore, requested that the Prudential Regulation Authority require financial institutions to prepare for such implementation if, at any time in the future, the MPC may wish to use that as a new monetary policy tool. The MPC made it clear that this did not in any way imply that they were about to use this tool in the near future.

As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as it is unlikely that inflation will rise sustainably above 2% during this period so as to warrant increasing Bank Rate.

Gilt yields / PWLB rates

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. What has most unsettled financial markets has been US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic. However, this is in addition to the $900bn support package passed in December. Financial markets have been alarmed that the two packages could cause an excess of demand in the economy which could unleash inflationary pressures and force the FOMC to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation and saying that increases were unlikely in the next few years.

A further concern in financial markets is when will the Fed end QE purchases of treasuries and how they will gradually wind it down. These purchases are currently acting as downward pressure on treasury yields. Nonetheless, during the last week of February and the first week of March yields rose sharply. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards there will invariably impact and influence financial markets in other countries. It is noticeable that gilt yields have moved higher through February and that international factors have been combining with domestic factors to this effect.

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 six years were negative during most of the first half of 2020-21; they jumped up after the Monetary Policy Report of 4th February 2021. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

On 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps 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)

The Council's treasury advisor's long-term forecast for Bank Rate is 2.00%, and all PWLB currently near or below 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 near to historic lows. The Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Although short-term interest rates are cheapest, 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 Council will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a *cost of carry*, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position (Table 5). 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 Director of Finance & IT 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.

- 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 Governance and Audit Committee at the next available opportunity.

3.5 Policy on borrowing in advance of need

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

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

3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

If rescheduling was done, it will be reported to the Governance and Audit Committee, at the earliest meeting following its action.

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

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and Non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time)

The Council’s treasury advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy and Investment Strategy, (separate reports to Executive in February 2021).

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 places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

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

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

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

4. This Council has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in 4.2 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 20%.

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 its investments which are invested for longer than 365 days, (see paragraph 4.4).

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

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

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance & IT will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

Table 9: Investment Counterparties

Institution	**Amount**	**Time limit**	**To qualify as a "specified investment"**	**Non-UK Country**	**Short term Investment rating**	**Long Term investment rating**
Bank /Building Society	£30m	2yrs	Less than 1 year	AA-	Requires if available Fitch F1 S & P A-1 Moody's P-1	Moody's Aa3 or Fitch AA- if not available.
Bank /Building Society	£20m	1yr	Less than 1 year	AA-	Requires if available Fitch F1 S&P A_1 Moody's P_1w	Moody's A1 or Fitch A1 if not available
Bank/Building Society	£7m	100 days	Less than 1 year	AA-	Either F1 or S&P A_1	Either Moody's A1
Nat West Bank	£20m	1yr	Less than 1 year	AA-	Council bank/part Government owned	n/a
Treasury Bill/DMO	No limit	1yr	Less than 1 year		n/a	UK Gov. rating
Money Market Fund	£20m	Instant access	Less than 1 year		n/a	Either Moody's AAA Fitch AAA or S&P AAA
Local Authority	£20m	1yr	Less than 1 year	AA-	n/a	n/a

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

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

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

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

4.3 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 treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 20% of the total treasury management investment portfolio.

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 A1 for the UK and AA- for the rest of the world from Fitch or equivalent. The list of countries that qualify using these credit criteria as at the date of this report are shown in Appendix 4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment strategy

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

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

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

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

Table 10: Investment earnings rates

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 both domestically and its potential effects worldwide.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative investment rates
While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in February 2021 stated that financial institutions would not be ready to implement negative rates for six months, some deposit accounts were offering negative rates for shorter periods prior to this latest announcement. 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 fallen near to zero. Some managers have 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.

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

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

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

Table 11: Upper limit for principle sums invested for longer than 365 days

£m	2021-22 £m	2022-23 £m	2023-24 £m
Principal sums invested for longer than 365 days	£20m	£20m	£20m

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

4.5 Investment performance / risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, LBID. The investment average return up to the end of January was 0.15% with average investment balance of £108m.

4.6 End of year investment report

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

5. Other considerations

5.1 None

6. Financial and Resources Appraisal

6.1 The financial implications are set out in section 1,2,3 and 4 of this report

7. Risk Management and Governance Issues

7.1 The principal risks associated with treasury management are:

Risk: Loss of investments as a result of failure of counterparties.
Mitigation: Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties.

Risk: That the Council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible additional costs or new borrowing (Liquidity risk).
Mitigation: Ensuring that a minimum proportion of investments are held in short term investments for cash flow purposes.

Risk: Increase in the net financing costs of the Council due to borrowing at high rates of interest.
Mitigation: Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking mostly long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).

Risk: Higher interest rates increase borrowing making it more difficult to self-finance capital schemes. Debt servicing becomes less affordable and less sustainable and crowds out revenue spend.
Mitigation: To pause, delay or defer capital schemes. Also review opportunities to borrow in the future at current interest rates.

Risk: Return on non-treasury investments lower than expected.
Mitigation: Review and analysis of risk prior to undertaking non-treasury investments.

Risk: Coronavirus. The level of uncertainty in the future path of economic growth, unemployment, fiscal and monetary policy make it very difficult to accurately assess the impact on investments, capital spend and borrowing for the Council. The scale of impact will depend on the length of any lockdown and the depth of any recessionary impact.
Mitigation: Cash investments will be mainly held short term due to the uncertainties caused by the virus and we will continue to monitoring the situation and report any changes in the next Treasury report.

Risk: The Council's Minimum Revenue Policy charges an insufficient amount to the Revenue Estimates to repay debt.
Mitigation: Align the Minimum Revenue Policy to the service benefit derived from the Council's assets.

Risk: Associated with cash management, legal requirements and fraud.
Mitigation: These risks are managed through:

- Treasury Management Practices covering all aspects of Treasury management procedures including cash flow forecasting, documentation, monitoring, reporting and division of duties.
- All Treasury management procedures and transactions are subject to inspection by internal and external auditors. The council also employs external financial advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.

The Council also employs external financial advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.

Risk: Anticipated borrowing is lower than expected because the 2021-22 capital programme is underspent. This is explained in more detail below, together with the actions being taken to reduce these risks:

Mitigation: The Council is required to set a balanced budget for its revenue estimates; so in broad terms, income received will match expenditure over the 2021-22 financial year. The 2021-22 revenue estimates cause only temporary cash flow differences, for example when income is received in a different month to when the expenditure is incurred.

However, the 2021-22 capital budget will cause a cash flow shortfall in the long term, which generates a borrowing requirement. While some of the capital budget is funded immediately, mainly with Government grants, other elements are not funded initially, leading to the cash flow deficit that requires borrowing.

Managing borrowing is part of the Treasury Management role. To help in its management, the Treasury Strategy identifies the element within the capital budget that is not funded straightaway, to anticipate the Council's borrowing requirement.

However, when the capital budget is underspent, the Council has a lower borrowing requirement than anticipated. This risk is managed in practice because the Council only borrows when there is an actual cash flow shortage. The uncertainty around spend against the capital budget makes cash flow management more difficult. For example, it is less likely that the Council would take advantage of a short-term fall in interest rates, without more certainty around the timing of any borrowing need. Actions that have taken place to manage the risks relating to this uncertainty in the timing of capital spend are: Councillor and Officer challenge sessions on the capital budget; increased scrutiny of the capital forecasts in the quarterly monitoring, and the collection of additional documentation around the critical paths of individual schemes.

8. Legal Appraisal

8.1 Any relevant legal considerations are set out in the report

9. Other Implications

9.1 Equality & Diversity – no direct implications
9.2 Sustainability implications – no direct implications
9.3 Green house Gas Emissions Impact – no direct implications
9.4 Community safety implications – no direct implications
9.5 Human Rights Act – no direct implications
9.6 Trade Unions – no direct implications
9.7 Ward Implications – no direct implications
9.8 Implication for Corporate Parenting – no direct implications
9.9 Issues arising from Privacy Impact Assessment– no direct implications

10. Not for publications documents
10.1 None

11. Options
111.1 None

12. Recommendations
12.1 That the report be noted by the Governance and Audit Committee and passed to full Council for adoption.

11. Appendices
Appendix 1 Prudential and Treasury Indicators
Appendix 2 MRP Policy

Appendix 3 Economic Background
Appendix 4 Approved countries for investments
Appendix 5 Treasury management scheme of delegation
Appendix 6 The treasury management role of the section 151 officer

12. Background Documents
Treasury Management Schedules
Treasury Management Practices
Treasury Policy

Appendix 1 Prudential & Treasury Indicators

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2021-22 – 2023-24

To facilitate the decision making process and support capital investment decisions, the Prudential Code requires the Council to approve and monitor a minimum number of prudential indicators. These indicators are mandatory and cover affordability, prudence, capital expenditure, external debt and treasury management.

The indicators are purely for internal use by the Council and are not intended to be used as comparators between councils. In addition to this in-year indication, the benefit from monitoring arises from following the movement in indicators over time and the year-on-year changes.

Capital expenditure

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.

Capital expenditure

	2019-20 Actual £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Non-HRA	81.0	134.8	252.9	260.7	65.3
HRA	0.0	1.7	2.0	8.0	10.7
Total	**81.0**	**136.5**	**254.9**	**268.7**	**76.0**

Estimates of Capital Financing Requirement

	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Opening Capital Financing Requirement	**711**	**753**	**845**	**939**
Increase in borrowing	66	121	127	35
Less MRP and other financing movements	-24	-28	-33	-38
Closing Capital Financing Requirement	**753**	**845**	**939**	**936**

Affordability 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.

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.

	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
MRP, excluding PFI	19.7	23.9	28.9	33.7
MRP PFI, finance lease	4.5	4.5	4.5	4.5
Old West Yorkshire Waste debt	0.2	0.2	0.2	0.2
Interest on external borrowing	16.3	16.8	18.0	18.5
Interest on PFI	16.2	15.6	15.0	14.3
Premium on debt repayment	0.3	0.3	0.3	0.3
Investment income	-0.5	-0.5	-0.5	-0.5
Total Capital Financing Costs	**56.6**	**60.8**	**66.4**	**71.0**
Projected Net Revenue Stream	391.3	391.3	391.3	391.3
Ratio to Net Revenue Stream	**14.5%**	**15.5%**	**17.0%**	**18.1%**
Invest to Save element of Total Capital Financing Costs	6.7	8.1	11.3	13.9
Invest to Save contribution to Ratio to Net Revenue Stream	**2.1%**	**1.9%**	**1.5%**	**1.3%**

The Prudential Code requires that financing costs of private finance initiative schemes and other finance arrangements are included within this indicator, even though the Council is not incurring borrowing costs directly on these issues. Also borrowing for self-financing schemes is being funded from services and these are shown separately in the table above.

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

Prudence indicators

- Gross debt and the capital financing requirement

The Prudential Code requires the calculation of the capital financing requirement (CFR). This figure represents the Council's underlying need to borrow for a capital purpose and the change year-on-year will be influenced by the capital expenditure in the year.

In order to ensure that over the medium term gross debt will only be for capital purposes, the Council must ensure that 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 the current and next two financial years. In cases where the CFR is reducing over the period, the Code allows the CFR at its highest point to be used in this calculation.

The Council had no difficulty meeting the previous calculation in 2019-20, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report and is shown in the table over.

	2019-20 Actual £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
External Debt					
Debt at 1 April	312.0	345.9	352.9	422.9	536.9
Expected change in Debt	33.9	7.0	70.0	114.0	7.0
Borrowing as at 31 March	**345.9**	**352.9**	**422.9**	**536.9**	**543.9**
Other long-term liabilities (OLTL)	165.9	158.5	150.7	142.4	134.1
Expected change in OLTL	-7.4	-7.8	-7.7	-8.3	-7.9
Total gross debt at 31 March	**504.4**	**503.6**	**565.9**	**671.0**	**670.1**
The Capital Financing Requirement	710.7	753.0	845.0	939.0	936.0
Under / (over) borrowing	**206.3**	**249.4**	**279.1**	**268.0**	**265.9**

External debt indicators

Operational boundary

	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Total	758	850	944	941

Authorised limit

	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Total	760	852	946	943

Treasury Management indicators

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 2021-22		
	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years to 20 years	0%	90%
20 years to 30 years	20%	90%

30 years to 40 years	20%	90%
40 years to 50 years	20%	90%
Maturity structure of variable interest rate borrowing 2021-22		
	Lower	Upper
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	20%
5 years to 10 years	0%	20%
10 years and above	0%	20%

Upper limit for principle sums invested

£m	2021-22 £m	2022-23 £m	2023-24 £m
Principal sums invested for longer than 365 days	£20m	£20m	£20m

Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4

Appendix 2: Minimum Revenue Policy 2021-22

1.1 The Local Government Act 2003 requires the Council to make a provision for the repayment of borrowing used to finance its capital expenditure, known as the Minimum Revenue Provision (MRP).

1.2 The MRP is the amount of principal capital repayment that is set aside each year in order to repay the Capital Financing Requirement (CFR) based on the requirement of statutory regulation and the Council's own accounting policies.

1.3 The Council is required to state as part of its budget process the policy for determining its MRP. The method for calculating the MRP on each category of debt is outlined below:

a) The policy for charging MRP on historic supported borrowing is on the asset life method calculated on an equal instalment basis over 50 years.

b) Unsupported or prudential borrowing MRP is based on the Asset Life method – that is, the expenditure financed from borrowing is divided by the expected asset life. For schemes funded before 31st March 2012 the MRP is calculated on the annuity basis and for schemes funded after 1st April 2012 the MRP is calculated on an equal instalment basis. This means no change to existing policy.

c) Since 2009-10 the appropriate financing costs for the Council's Building Schools for the Future (BSF) Private Finance Initiative (PFI) schemes have been included in MRP calculations. In 2018-19 the MRP policy for PFI assets was brought into line with the main MRP Policy and the charge of the principal to the revenue account is now over the life of the school building assets.

d) Asset lives are reviewed on an ongoing basis to match the MRP charge to the Revenue Estimates with the service benefit derived from the asset.

e) Where the Council has made property investments [or an invest to save investment] during or after 2018-19, the Section 151 Officer may choose to repay debt over the asset life using the annuity method. This is subject to an in house valuation that the investment property has retained or increased in value. Further it is subject to the condition that the in-year yield is above that average for Treasury Investments and this is expected to continue into the future.

1.4 The CFR represents the amount of capital expenditure that has been financed from borrowing, less any amounts that the Council has set aside to repay that debt through the MRP. Borrowing may come from loans taken from the Public Works Loan Board (PWLB) or commercial banks, finance leases (including PFI) or from the use of the Council's own cash balances.

1.5 External debt can be less than the CFR. External debt cannot exceed the CFR (other than for short term cash flow purposes or cash flow management.)

1.6 There is an International Financial Reporting Standards requirement that assets funded from finance leases (including PFI deals) are brought onto the balance sheet. This also includes the liability as well as the asset. Therefore, the term borrowing does not just include loans from the Public Works Loan Board and banks, but also the liability implicit in PFI and other finance leases.

1.7 The CIP will need to be reviewed through the planning cycle to ensure it remains affordable within revenue resources and to take account of the actual implementation of capital schemes.

1.8 Loans to third parties for a capital purpose can be repaid with the repayments providing the following conditions are met: the capital scheme is self-financing; that there is overall confidence that the loan will be repaid; that the third party adheres to the agreed repayment schedule.

1.9 The funding to be set aside for the repayment of debt within the Housing Revenue Account will be equal to the depreciation charge, as calculated over 60 years. Further an amount equal to the set-aside will be used to fund capital expenditure on the housing stock.

Appendix 3

ECONOMIC BACKGROUND

UK. The Bank of England's Monetary Policy Committee (MPC) kept **Bank Rate** and quantitative easing (QE) unchanged on 4th February. However, it revised its economic forecasts to take account of a third national lockdown which started on 5th January, which is obviously going to delay economic recovery and do further damage to the economy. Moreover, it had already decided in November to undertake a further tranche of quantitative easing (QE) of £150bn, to start in January when the previous programme of £300bn of QE, announced in March to June 2020, finished. As only about £16bn of the latest £150bn tranche had been used towards the end of January, it felt that there was already sufficient provision for QE - which would be made to last to the end of 2021. This implied that the current rate of purchases of £4.4bn per week would be slowed during the year.

Although its short-term forecasts were cut for 2021, the medium-term forecasts were more optimistic than in November, based on an assumption that the current lockdown will be gradually eased after Q1 as vaccines are gradually rolled out and life can then start to go back to some sort of normality. The Bank's main assumptions were:

- The economy would start to **recover strongly** from Q3 2021.
- **£125bn of savings** made by consumers during the pandemic will give a significant boost to the pace of economic recovery once lockdown restrictions are eased and consumers can resume high street shopping, going to pubs and restaurants and taking holidays.
- The economy would still recover to reach its **pre-pandemic level** by Q1 2022 despite a long lockdown in Q1 2021.
- **Spare capacity** in the economy would be eliminated in Q1 2022.
- The Bank also expects there to be **excess demand** in the economy by Q4 2022.
- **Unemployment** will peak at around 7.5% during late 2021 and then fall to about 4.2% by the end of 2022. This forecast implies that 0.5m foreign workers will have been lost from the UK workforce by their returning home.
- **CPI inflation** was forecast to rise quite sharply towards the 2% target in Q1 2021 due to some temporary factors, (e.g. the reduction in VAT for certain services comes to an end) and given developments in energy prices. CPI inflation was projected to be close to 2% in 2022 and 2023.
- The Monetary Policy Report acknowledged that there were **downside risks** to their forecasts e.g. from virus mutations, will vaccines be fully effective, how soon can tweaked vaccines be devised and administered to deal with mutations? There are also issues around achieving herd immunity around the world from this virus so that a proliferation of mutations does not occur which prolong the time it takes for the global economy to fully recover.
- The Report also mentioned a potential **upside risk** as an assumption had been made that consumers would only spend £6bn of their savings of £125bn once restrictions were eased. However, the risk is that that consumers could spend a lot more and more quickly.
- The Bank of England also removed **negative interest rates** as a possibility for at least six months as financial institutions were not yet ready to implement them. As in six months' time the economy should be starting to grow strongly, this effectively means that negative rates occurring are only a slim possibility in the current downturn. However, financial institutions have been requested to prepare for them so that, at a future time, this could be used as a monetary policy tool if

deemed appropriate. (**Gilt yields and PWLB rates** jumped upwards after the removal of negative rates as a key risk in the short-term.)

- Prior to 4th February, the **MPC's forward guidance** outlined that the sequencing of a withdrawal of monetary policy support would be that Bank Rate would be increased first, and only once it had reached a certain level, 'around 1.5%', before a start would be made on winding down the stock of asset purchases made under QE. However, the MPC decided at the February meeting that this policy should be reviewed as to whether a start should be made first on **winding down QE** rather than raising Bank Rate.
- The MPC reiterated its previous guidance that Bank Rate would not rise until inflation was sustainably above 2%. This means that it will tolerate inflation running above 2% from time to time to balance out periods during which inflation was below 2%. This is termed **average inflation targeting.**

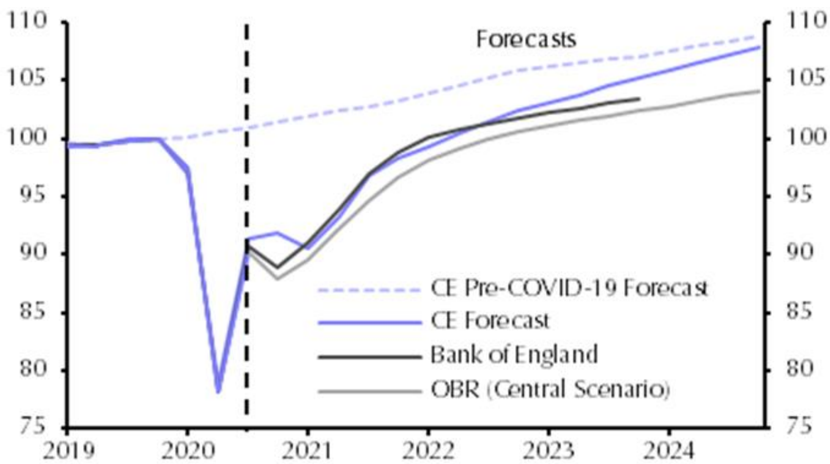
- **There are two views in respect of Bank Rate beyond our three-year time horizon:**
  1. The MPC will be keen to raise Bank Rate as soon as possible in order for it to be a usable tool when the next economic downturn comes along. This is in line with thinking on Bank Rate over the last 20 years.
  2. Conversely, that we need to adjust to the new post-pandemic era that we are now in. In this new era, the shift to average inflation targeting has set a high bar for raising Bank Rate i.e. only when inflation is demonstrably sustainably above 2%. In addition, many governments around the world have been saddled with high levels of debt. When central bank rates are low, and below the average GDP growth rate, the debt to GDP ratio will gradually fall each year without having to use fiscal tools such as raising taxes or austerity programmes, (which would depress economic growth and recovery). This could therefore result in governments revising the setting of mandates to their national central banks to allow a higher rate of inflation linked to other economic targets. This is the Capital Economics view – that Bank Rate will not rise for the next five years and will probably then struggle to get to 1% within 10 years.

- **Public borrowing** was forecast in November 2020 by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE 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. It is now likely that total borrowing will probably reach around £420bn due to further Government support measures introduced as a result of further restrictions and the third national lockdown.

- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. While the one month second national lockdown that started on 5th November caused a further contraction of 5.7% m/m in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level. However, a strong recovery from a further contraction during quarter 1 2021 is expected in the second half of 2021 and is likely to mean that the economy recovers to its pre-pandemic level during Q1 2022.

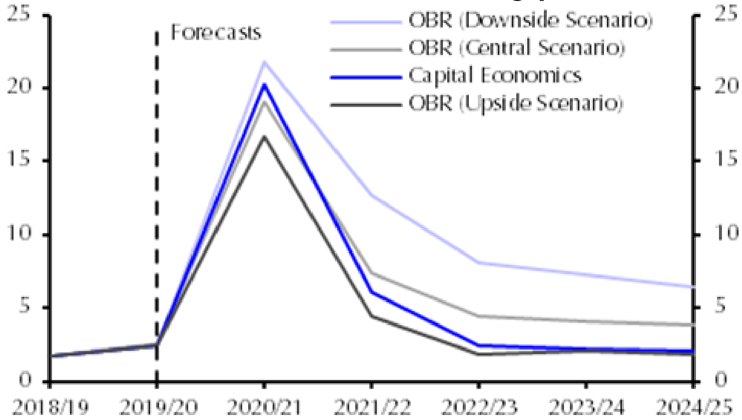
- **Vaccines – the game changer.** The Pfizer announcement on 9th November of a successful vaccine has been followed by approval of the Oxford University/AstraZeneca and Moderna vaccines. The Government has set a target to vaccinate 14 million people in the most at risk sectors of the population by 15th February; it has made good, and accelerating progress in hitting that target. The aim is also for every adult in the country to get their first vaccine shot by 31st July with over 50s receiving theirs by April 15th. This means that the national lockdown starting in early January, could be replaced by regional tiers of lighter restrictions, beginning possibly in Q2. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines have radically improved the economic outlook so that it may now be possible for GDP to recover to its pre-virus level as early as Q1 2022. These vaccines have enormously boosted confidence that **life could largely return to normal during the second half of 2021**. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for when life returns to normal.
- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that **in the second half of this decade**, the economy may be no smaller than it would have been if COVID-19 never happened. The major concern though, is that new mutations of the virus might defeat the current batch of vaccines. However, work is already advanced to produce what may well become annual revaccinations each autumn with updated vaccines. In addition, countries around the world have ramped up vaccine production facilities and vastly improved testing regimes; they are therefore now much better equipped to deal effectively with any new outbreaks of mutations of this virus.

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 around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts in the graphs above and below, assumed 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)



- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a **reversal of globalisation** as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, **digital services** are one area that has already seen huge growth.
- **Brexit.** The final agreement of a trade deal on 24.12.20 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. However, it is evident from problems with trade flows at ports in January and February, that work needs to be done to smooth out the issues and problems that have been created by complex customs paperwork, in order to deal with bottle necks currently being caused.
- **Fiscal policy.** In December, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March to the end of April.
  - The Budget on 3.3.21 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).
- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down the 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. Following elections for two senate seats in January, the Democrats now have a majority in the House of Representatives and a very slim majority in the Senate based on the vice president's casting vote. A $900bn fiscal stimulus was passed in December which will help the economy gain more traction in early 2021. The Democrats are hopeful that a much bigger $1.9bn fiscal stimulus will get through both houses. Financial markets have been alarmed that the two packages could cause an excess of demand in the economy which could unleash inflationary pressures and force the FOMC to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation and saying that increases were unlikely in the next few years.

- The rapid roll out of vaccines is well on course to vaccinate nearly the entire population by the end of the summer; this will help to underpin a strong economic recovery in 2021 after the economy wilted during Q4 2020 as more restrictions were imposed to contain the pandemic.
- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and in 2020), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that under this new regime of average inflation targeting, that officials expected to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. Where the Fed has led in changing its monetary policy to one based on average inflation targeting in response to the damage that this pandemic has done to the economy, there was much expectation that other major central banks would also follow suit.
- Subsequent meetings of the Fed have projected that **inflation** will not get back sustainably to above 2% for some years and so the vast majority of Fed officials expect the Fed funds rate to still be at near-zero until 2024 or later. The key message is that policy will remain unusually accommodative – with near-zero rates and asset purchases continuing for several more years. This is likely to result in keeping Treasury yields lower than might otherwise be expected, although treasury yields have increased somewhat due to financial markets adjusting to expectations of higher rates of inflation.

- **EU.** The economy was recovering well from the first lockdowns towards the end of Q2 and during Q3 after a sharp drop in GDP. However, a second wave of the virus has caused a renewed fall back in growth during Q4. The slow role out of vaccines during Q1 2021 will delay economic recovery. In Q2 of 2020, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth contracted by another 0.7% in Q4 and is likely to at least stagnate during Q1 of 2021, as a second wave of the virus has seriously affected many countries. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With **inflation** expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer once the EU can get a comprehensive vaccination scheme up and running, although growth will struggle before later in quarter 2 of 2021.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in the rest of 2020; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone. However, on the negative side, it has also been struggling - despite huge monetary and fiscal stimulus - to get out of a deflation trap for many years and to achieve consistent, significant GDP growth. Moreover, it has not consistently managed to raise inflation up to its target level of 2% and it is making little progress on fundamental reform of the economy.

- **World growth.** World growth has been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half. 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 and the pace of recovery 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.

INTEREST RATE FORECASTS

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is now probably more to the upside but is subject to major uncertainty due to the virus - both domestically and its potential effects worldwide.
- There is relatively little domestic risk of increases or decreases in Bank Rate in the near-term, nor significant changes in shorter-term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates anytime soon but 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).

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

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, resulting in further national lockdowns or severe regional restrictions.
- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand and the pace of recovery of 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.
- **UK / EU trade arrangements** – if there was a major impact on trade flows due to complications with customs paperwork or lack of co-operation in sorting out significant issues. A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Italy, Spain, Austria, Sweden, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- **UK -** a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within

the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

Appendix 4

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (A1 for the UK), and have banks operating in sterling markets

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.

Appendix 5 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full board/council

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

(ii) Governance and Audit Committee

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;

(iii) Internal Audit

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

Appendix 6 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

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

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management). These include:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments 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.*

Report of the Director of Finance & IT to the meeting of Governance and Audit to be held on 25 November 2021

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Subject:

Treasury Management Mid-Year Review up to 30 September 2021

Summary statement:

This report shows the Council's Treasury Mid-Year Review up to 30 September 2021.

Chris Chapman
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Leader of the Council and Corporate

Overview & Scrutiny Area:
Corporate

Treasury Management Review up to 30th September 2021

Background

1.1 Treasury management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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

Accordingly, treasury management is defined as:

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

1.2 Introduction

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

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-Year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Governance and Audit Committee.

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

- An economic update for the first half of the 2021/22 financial year.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators.
- A review of the Council's investment portfolio for 2021/22.
- A review of the Council's borrowing strategy for 2021/22.
- A review of any debt rescheduling undertaken during 2021/22.
- A review of compliance with Treasury and Prudential Limits for 2021/22.

2. Economics and interest rates

2.1 Economics update

- The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.
- There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.
- So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.
- Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

- The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
    2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
    3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.
- **COVID-19 vaccines.** These have been the game changer which have enormously boosted confidence that life in the UK could largely return to normal during the summer after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.
- **US.** See comments below on US treasury yields.
- **EU.** The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.
- German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.
- **China.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **Japan.** 2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.

- **World growth.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is 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, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **Supply shortages**. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. In September there were major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

2.2 Interest rate forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 29th September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View 29.9.21	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	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

Forecasts for Bank Rate

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- 1.6 million people came off furlough at the end of September; how many of these will not have jobs and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

As the interest forecast table for PWLB certainty rates on the previous page shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

Gilt and treasury yields

Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden's, and the Democratic party's determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020 under President Trump. This was then followed by additional Democratic ambition to spend further huge sums on infrastructure and an American families plan over the next decade which are caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus, which is much bigger than in other western economies, was happening at a time in the US when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy had already been growing strongly during 2021.

3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour and supply bottle necks is likely to stoke inflationary pressures more in the US than in other countries.
4. And the Fed was still providing monetary stimulus through monthly QE purchases.

These factors could cause an excess of demand in the economy which could then unleash stronger and more sustained inflationary pressures in the US than in other western countries. This could then force the Fed to take much earlier action to start tapering monthly QE purchases and/or increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that some Fed members have moved forward their expectation of when the first increases in the Fed rate will occur in recent Fed meetings. In addition, more recently, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of strong monthly jobs growth figures could be enough to meet the threshold set by the Fed of "substantial further progress towards the goal of reaching full employment". However, the weak growth in August, (announced 3.9.21), has spiked anticipation that tapering of monthly QE purchases could start by the end of 2021. These purchases are currently acting as downward pressure on treasury yields. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards in the US will invariably impact and influence financial markets in other countries. However, during June and July, longer term yields fell sharply; even the large non-farm payroll increase in the first week of August seemed to cause the markets little concern, which is somewhat puzzling, particularly in the context of the concerns of many commentators that inflation may not be as transitory as the Fed is expecting it to be. Indeed, inflation pressures and erosion of surplus economic capacity look much stronger in the US than in the UK. As an average since 2011, there has been a 75% correlation between movements in 10-year treasury yields and 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

There are also possible DOWNSIDE RISKS from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going <u>above</u> a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.

- The Bank of England has also amended its target for monetary policy so that inflation should be ‘sustainably over 2%’ and the ECB now has a similar policy.
- For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion***.***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

2.3 Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2021/22 was approved by this Council on 25 March 2021 (Governance & Audit Committee). There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

2.4 The Council’s Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council’s capital expenditure plans.
- How these plans are being financed.
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow.
- Compliance with the limits in place for borrowing activity.

2.4.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The revised estimate is based on increased scrutiny of the schemes and budget profiles within the capital programme that took place at Quarter 1.

Capital Expenditure by Service	2021/22 Original Estimate £m	Current Position 30 Sept 2021 £m	2021/22 Revised Q2 Estimate £m
Total capital expenditure	254.9	37.0	139.4

2.4.2 Changes to the Financing of the Capital Programme

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

Capital Expenditure	2021/22 Original Estimate £m	2021/22 Revised Q2 Estimate £m
Total capital expenditure	**254.9**	**139.4**
Financed by:		
Capital receipts	4.0	1.9
Capital grants	125.0	68.0
Capital reserves	3.9	2.1
Revenue	1.0	1.0
Total financing	**133.9**	**73.0**
Borrowing requirement	**121.0**	**66.4**

Projected changes to the Capital Programme have resulted in a reduced new borrowing requirement of £66.4m.

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

The table over shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The CFR is 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 the underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The reduced borrowing requirement has reduced the CFR estimate.

The table over also shows the expected debt position over the period, which is termed the Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed.

	2021/22 Original Estimate £m	2021/22 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
Total CFR	845	741
Net movement in CFR		**-104**
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	707	707
Other long term liabilities*	143	143
Total debt (year-end position)	**850**	**850**

** On balance sheet PFI schemes and finance leases etc.*

2.4.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2021/22 Original Estimate £m	Current Position 30 Sept 2021 £m	2021/22 Revised Estimate £m
Borrowing	422.9	344.2	354.0
Other long term liabilities	143.0	143.0	143.0
Total debt	565.9	487.2	497.0
CFR (year-end position)	845.0		741.0

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

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

Authorised limit for external debt	2021/22 Original Indicator	2021/22 Revised Indicator
Borrowing	709.0	709.0
Other long term liabilities	143.0	143.0
Total	852.0	852.0

2.4.5 Borrowing

The Council's capital financing requirement (CFR) for 2021/22 is expected to be below the original forecast of £845m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has current long term borrowings of £477m and has utilised cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

The capital programme is being kept under regular review due to the effects of coronavirus and shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

£5.5m of loans are due to mature in January 2021 with an average rate of interest of 9.25%. To date no new borrowing has been undertaken this year. Based on current capital spend forecasts it is anticipated that borrowing will be undertaken during this financial year.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2021

Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September.

The 50 year PWLB target certainty rate for new long-term borrowing started 2021/22 at 1.90%, rose to 2.00% in May, fell to 1.70% in August and returned to 2.00% at the end of September after the MPC meeting of 23rd September.

- The current PWLB rates are set as margins over gilt yields 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)

2.4.6 Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

2.4.7 Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22. The Director of Finance & IT reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

2.5 Annual investment strategy

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, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

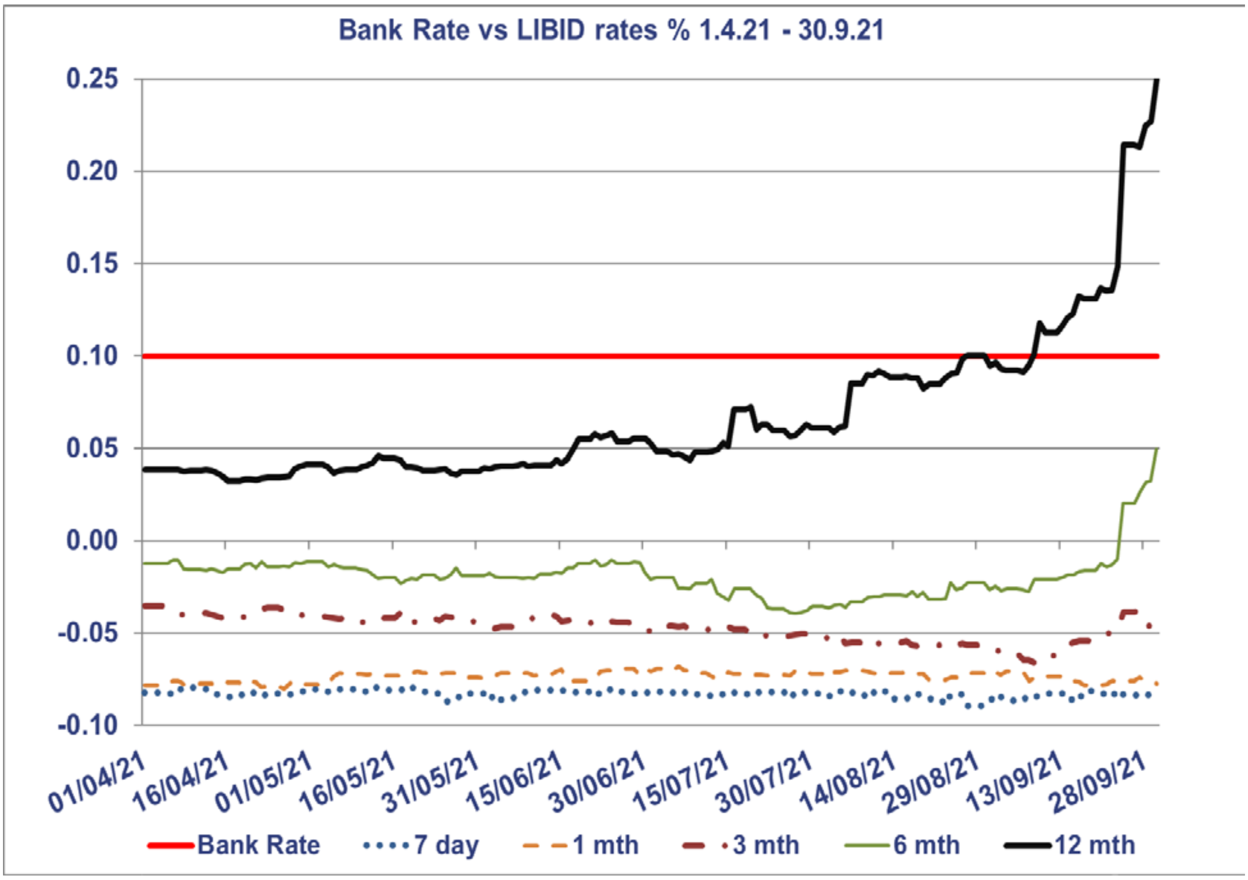
As shown by the interest rate forecasts in section 2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before the second half of 2023, investment returns are expected to remain low.

Creditworthiness.
Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

Investment Counterparty criteria
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function

Investment balances
The Council held £158.9m of investments as at 30th September 2021 (£133.3m at 31st March 2021) and the investment portfolio yield for the first 6 months of the year is 0.08% against a benchmark of -0.07%.

Investment rates during period ended 30th September 2021
As highlighted earlier in this report, the levels shown below use the traditional market method for calculating LIBID rates – i.e., LIBOR – 0.125%. Given the ultra-low LIBOR levels this year, this produces negative rates across some periods.



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	-0.08	-0.07	-0.04	0.05	0.25
High Date	01/04/2021	09/04/2021	06/07/2021	01/04/2021	30/09/2021	30/09/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.03
Low Date	01/04/2021	27/08/2021	26/04/2021	08/09/2021	27/07/2021	16/04/2021
Average	0.10	-0.08	-0.07	-0.05	-0.02	0.07
Spread	0.00	0.01	0.01	0.03	0.09	0.22

As illustrated, the Council outperformed the benchmark by 0.154 bps. The Council's budgeted investment return for the year to date is expected to be below budget.

Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period ended 30th September 2021.

2.6 Other areas for consideration

2.6.1 None

3. Other Issues

New source of borrowing.

A new potential source of borrowing is now available for Local Authorities the UK Infrastructure Bank. The Bank lends to Councils for Infrastructure and climate change schemes with a value of over £5million at a rate of gilts plus 60bp.

With this in mind the Council wishes to add the UK Infrastructure Bank to its list of approved sources of borrowing.

4. Financial and Resources Appraisal

4.1 The financial implications are set out in section 2 of this report.

5. Risk Management and Governance Issues

5.1 The principal risks associated with treasury management are:

Risk: Loss of investments as a result of failure of counterparties.
Mitigation: Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties.

Risk: That the Council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible additional costs or new borrowing (Liquidity risk).
Mitigation: Ensuring that a minimum proportion of investments are held in short term investments for cash flow purposes.

Risk: The level of investments and surplus cash is higher than needed to fund short term timing differences.
Mitigation: Cash flow forecasting and capital expenditure monitoring.

Risk: Increase in the net financing costs of the Council due to borrowing at high rates of interest.
Mitigation: Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking mostly long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).

Risk: Higher interest rates increase borrowing making it more difficult to self-finance capital schemes. Debt servicing becomes less affordable and less sustainable and crowds out revenue spend.
Mitigation: To pause, delay or defer capital schemes. Also review opportunities to borrow in the future at current interest rates.

Risk: Return on non-treasury investments lower than expected.
Mitigation: Review and analysis of risk prior to undertaking non-treasury investments.

Risk: The Council's Minimum Revenue Policy charges an insufficient amount to the Revenue Estimates to repay debt.
Mitigation: Align the Minimum Revenue Policy to the service benefit derived from the Council's assets.

Risk: Associated with cash management, legal requirements and fraud.
Mitigation: These risks are managed through:

- Treasury Management Practices covering all aspects of Treasury management procedures including cash flow forecasting, documentation, monitoring, reporting and division of duties.
- All Treasury management procedures and transactions are subject to inspection by internal and external auditors. The Council also employs external financial advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.

Risk: Anticipated borrowing is lower than expected because the 2021-22 capital programme is underspent. This is explained in more detail below, together with the actions being taken to reduce these risks:
Mitigation: The Council is required to set a balanced budget for its revenue estimates; so in broad terms, income received will match expenditure over the 2021-22 financial year. The 2021-22 revenue estimates cause only temporary cash flow differences, for example when income is received in a different month to when the expenditure is incurred.

However, the 2021-22 capital budget will cause a cash flow shortfall in the long term, which generates a borrowing requirement. While some of the capital budget is funded immediately, mainly with Government grants, other elements are not funded initially, leading to the cash flow deficit that requires borrowing.

Managing borrowing is part of the Treasury Management role. To help in its management, the Treasury Strategy identifies the element within the capital budget that is not funded straightaway, to anticipate the Council's borrowing requirement.

However, when the capital budget is underspent, the Council has a lower borrowing requirement than anticipated. This risk is managed in practice because the Council only borrows when there is an actual cash flow shortage. The uncertainty around spend against the capital budget makes cash flow management more difficult. For example, it is less likely that the Council would take advantage of a short-term fall in interest rates, without more certainty around the timing of any borrowing need. Actions that have taken place to manage the risks relating to this uncertainty in the timing of capital spend are: Councillor and Officer challenge sessions on the capital budget; increased scrutiny of the capital forecasts in the quarterly monitoring, and the collection of additional documentation around the critical paths of individual schemes.

Risk: Coronavirus. The level of uncertainty in the future path of economic growth, unemployment, fiscal and monetary policy make it very difficult to accurately assess the impact on investments, capital spend and borrowing for the Council. The scale of impact will depend on the effects of the virus over the coming months and the depth of any recessionary impact.
Mitigation: Cash investments will be mainly held short term due to the uncertainties caused by the virus and we will continue to monitoring the situation and report any changes in the next Treasury report.

6. Legal Appraisal

6.1 Any relevant legal considerations are set out in the report

7. Other Implications

7.1 Equality & Diversity – no direct implications
7.2 Sustainability implications – no direct implications
7.3 Green house Gas Emissions Impact – no direct implications
7.4 Community safety implications – no direct implications
7.5 Human Rights Act – no direct implications
7.6 Trade Unions – no direct implications
7.7 Ward Implications – no direct implications
7.8 Implication for Corporate Parenting – no direct implications
7.9 Issues arising from Privacy Impact Assessment– no direct implications

8. Not for publications documents

8.1 None

9. Options

9.1 None

10. Recommendations

10.1 That the details in paragraph 3 be noted by the Governance and Audit Committee and passed to Full Council on the 14 December for adoption.

11. Appendices

Appendix 1 Prudential and Treasury Indicators as at 30 September 2021
Appendix 2 Borrowing Rates
Appendix 3 Approved Countries for Investment as at 30/09/21

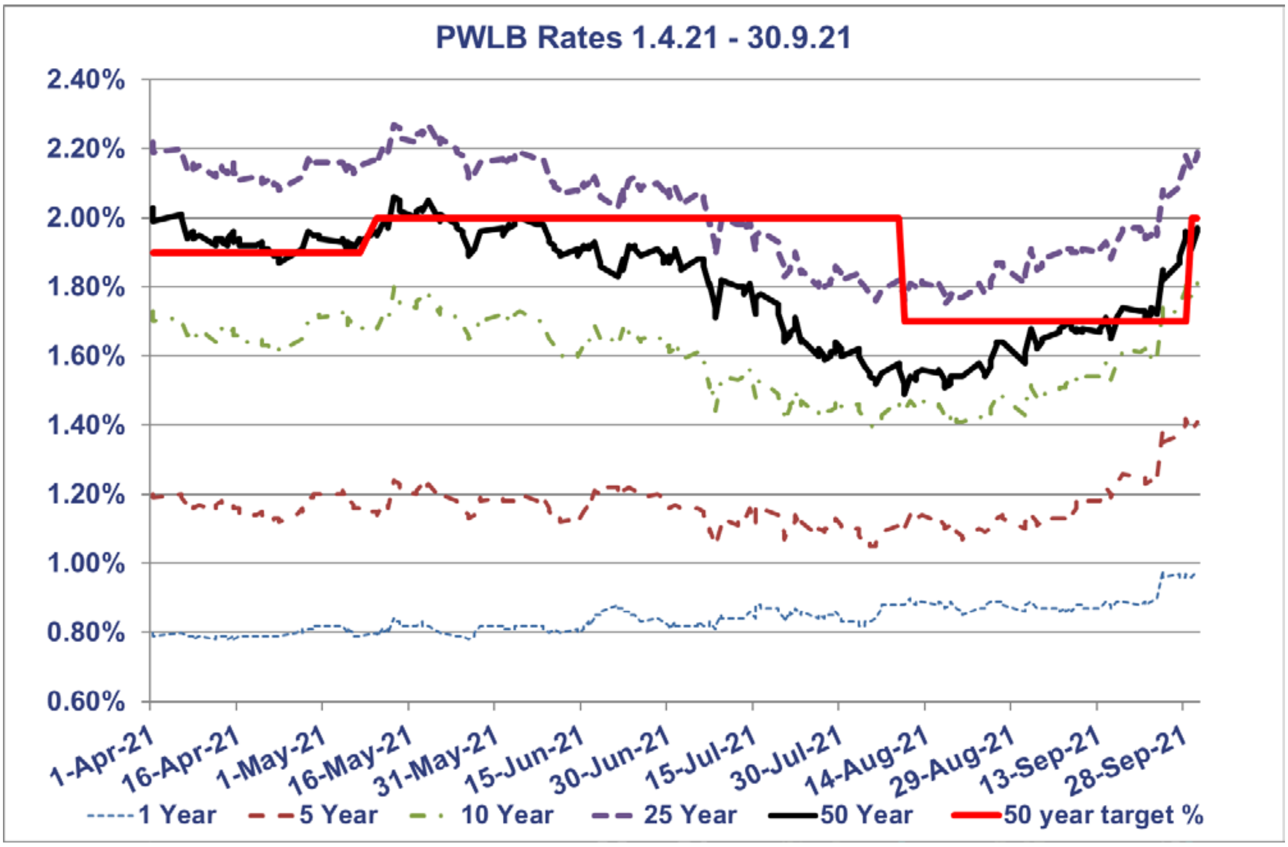
APPENDIX 1: Prudential and Treasury Indicators as at 30th September 2021

Treasury Indicators	**2021/22 Budget £m**	**(Apr - Sept) Actual £m**
Authorised limit for external debt	£850m	£850m
Operational boundary for external debt	£852m	£852m
Gross external debt	£565.9m	£487.2m
Upper limit for principal sums invested over 365 days	£20m	£0m

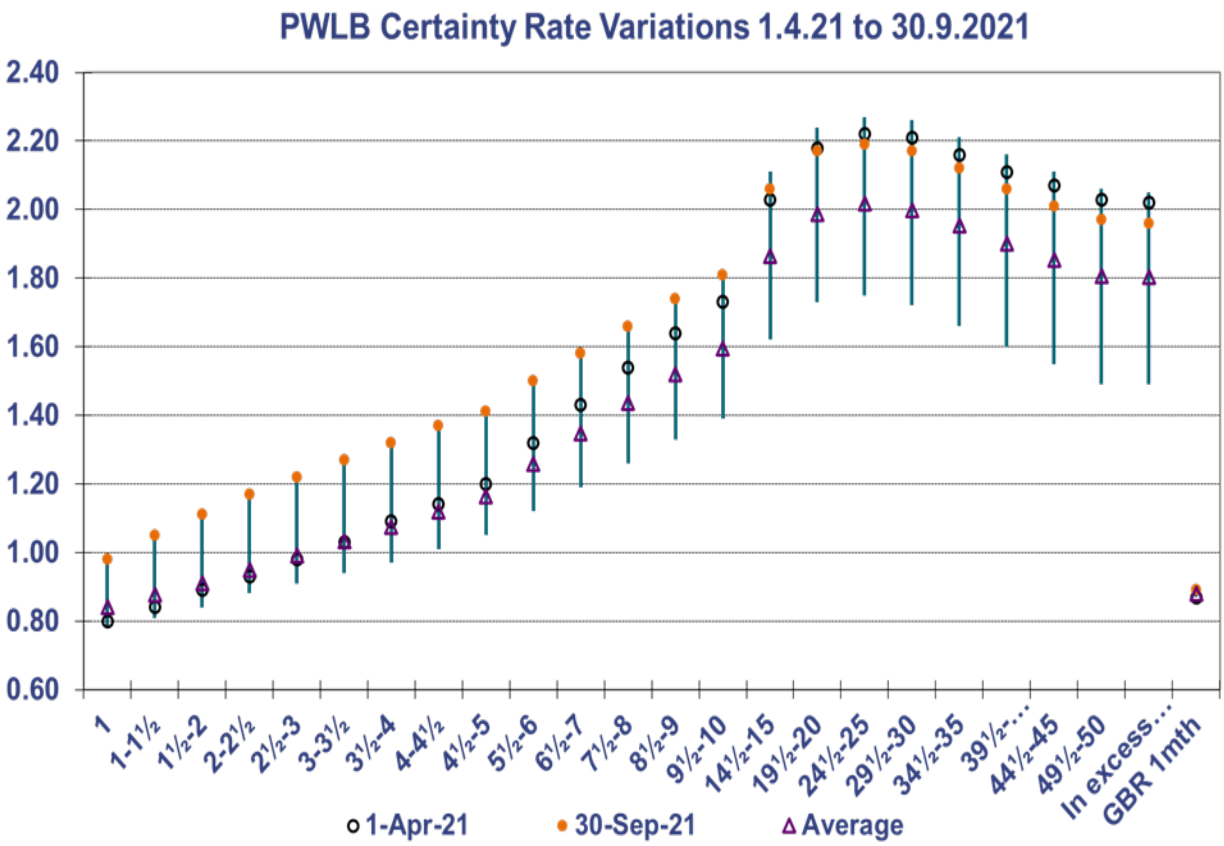
Maturity structure of fixed rate borrowing -	**Upper Limit**	**(Apr-Sept) Actual**
Under 12 months	20%	2%
12 months to 2 years	20%	5%
2 years to 5 years	50%	7%
5 years to 10 years	75%	21%
10 years and above	90%	65%

Prudential Indicators	**2020/21 Q2 Budget £m**	**2020/21 Revised Estimate £m**
Capital expenditure (Revised Q2 Budget)	£139.4m	£121.3m
Capital Financing Requirement (CFR)	£845.0	£741.0
Ratio of financing costs to net revenue stream	15.5%	14.7%

APPENDIX 2: Borrowing rates



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.05%	1.39%	1.75%	1.49%
Date	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
High	0.98%	1.42%	1.81%	2.27%	2.06%
Date	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
Average	0.84%	1.16%	1.60%	2.02%	1.81%
Spread	0.20%	0.37%	0.42%	0.52%	0.57%


PWLB Certainty Rate Variations 1.4.21 to 30.9.2021
2.40
2.20
2.00
1.80
1.60
1.40
1.20
1.00
0.80
0.60
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-...
44½-45
49½-50
In excess...
GBR 1mth
1-Apr-21
30-Sep-21
Average

APPENDIX 3: Approved countries for investments as at 30th September 2021

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- France

AA-

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