Runnymede BOROUGH COUNCIL

Overview and Scrutiny Select Committee

Thursday 4 February 2021 at 7.30pm

This meeting will be held remotely via MS Teams with audio access to the public for the items via registered dial-in only

Members of the Committee

Councillors J Furey (Chairman), T Gracey (Vice-Chairman), A Alderson, M Brierley, J Broadhead, S Dennett, R Edis, L Gillham and S Mackay.

In accordance with Standing Order 29.1, any Member of the Council may obtain remote access via MS Teams to the meeting of this Committee, but may speak only with the permission of the Chairman of the Committee, if they are not a member of this Committee.

(N.B. PLEASE NOTE, THIS MEETING WILL COMMENCE UPON THE CONCLUSION OF THE CRIME AND DISORDER COMMITTEE MEETING WHICH COMMENCES AT 7.30.P.M.)

AGENDA

Notes:

1) Any report on the Agenda involving confidential information (as defined by section 100A(3) of the Local Government Act 1972) must be discussed in private. Any report involving exempt information (as defined by section 100I of the Local Government Act 1972), whether it appears in Part 1 or Part 2 below, may be discussed in private but only if the Overview and Scrutiny Select Committee so resolves.

2) The relevant 'background papers' are listed after each report in Part 1. Enquiries about any of the Agenda reports and background papers should be directed in the first instance to **Mr J Gurmin, Democratic Services Section, Law and Government Business Centre, Runnymede Civic Centre, Station Road, Addlestone (Tel: Direct Line: 01932 425624). (Email: john.gurmin@runnymede.gov.uk).**

Continued……..

3) Agendas and Minutes are available on a subscription basis. For details, please ring Mr B A Fleckney on 01932 425620. Agendas and Minutes for all the Council's Committees may also be viewed on www.runnymede.gov.uk.

4) If you wish to hear the debate for the items on this Agenda by audio via MS Teams you must register by 10.00 am on the day of the meeting with the Democratic Services Team by emailing your name and contact number to be used to dial-in to democratic.services@runnymede.gov.uk

5) **Audio-Recording of Meeting**

As this meeting will be held remotely via MS Teams, you may only record the audio of this meeting. The Council will not be recording any remote meetings.

LIST OF MATTERS FOR CONSIDERATION

PART I

Matters in respect of which reports have been made available for public inspection

Matters involving Exempt or Confidential Information in respect of which reports have not been made available for public inspection.

a) Exempt Information

(No reports to be considered under this heading)

b) Confidential Information

(No reports to be considered under this heading)

1. **NOTIFICATION OF CHANGES TO COMMITTEE MEMBERSHIP**

2. **MINUTES**

To confirm the Minutes of the meeting of the Committee held on 26 November 2020 attached at Appendix 'A'. As this meeting is being held remotely, the Chairman will ask Members of the Committee if they approve these Minutes which will then be signed when this is physically possible.

(To resolve)

Background papers

None

Runnymede Borough Council

OVERVIEW AND SCRUTINY SELECT COMMITTEE APPENDIX 'A'

26 November 2020 at 7.30.p.m. via MS Teams

Members of the Committee present:	Councillors J Furey (Chairman), T Gracey (Vice-Chairman), A Alderson, J Broadhead, S Dennett, R Edis and L Gillham.
Members of the Committee absent:	Councillors M Brierley and S Mackay.

Councillors R King, J Olorenshaw, N Prescot, J Sohi, M Willingale and J Wilson also attended.

339 MINUTES

The Minutes of the meeting of the Committee held on 1 October 2020 were confirmed as a correct record. As the meeting was being held remotely using MS Teams, the Chairman would sign these minutes when this was physically possible.

At this meeting the Committee had been advised that it was now expected that investment income for 2020/21 would be £87,000 which was down nearly £300,000 on that estimated at the start of the year. A Member of the Committee asked whether the estimate for investment income for 2020/21 had changed since the Committee's meeting on 1 October 2020. (The Committee was advised by email after the meeting of the latest position regarding the estimate for investment income for 2020/21).

340 TREASURY MANAGEMENT MID YEAR REPORT 2020/2021

The Committee noted the Treasury Management Mid Year Report 2020/21 which summarised the Council's treasury management activity for the first six months of the 2020/21 financial year. It was noted that this report had been considered by the Corporate Management Committee at its meeting on 19 November 2020. The Committee noted an economic update and outlook for interest rates that had been provided by the Council's Treasury Management Consultants, Link Asset Services. No Increase in the Bank Rate was expected within the forecast horizon ending on 31 March 2023 as economic recovery was expected to be gradual and prolonged.

The Council's Treasury Management operation ensured that cash flow was adequately planned with cash being available when required. Surplus monies were invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidly initially before considering investment return. The Council was making investments at a time of economic and fiscal uncertainty created by Covid, with various support packages being made available by the Government to businesses who had been and continued to be either unable to operate at all or unable to operate at full capacity as a result of the coronavirus.

The Council held £70m of investments as at 30 September 2020 and the investment activity during the first six months of the year was noted by the Committee. Approximately £109m of new investments had been made in this period. The Runnymede average rate of interest was 0.61% which compared favourably with the Council's benchmark rates. The Committee congratulated treasury management officers on this excellent result. The drop in rates that were available was illustrated by a chart taken from the Council's ICD Money Market Fund Portal.

As a result of slippage in the Capital Programme there had been no need to borrow so far in 2020/21. Due to the increase in Public Works Loan Board (PWLB) margins over gilt yields in October 2019, and the subsequent consultation on these margins by HM Treasury- which ended on 31 July 2020 – officers had not undertaken new long term PWLB borrowing. However, the Committee was advised that there had been an announcement on 26 November 2020 that PWLB rates had been lowered but with strict conditions. Officers would be reviewing whether or not the PWLB should be used for further borrowing for regeneration schemes in the light of this announcement.

The CIPFA Code on Treasury Management required the Council to approve a set of treasury management indicators by which the Council could measure its exposure to risk. During the financial year to date, the Council had operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

There had been no loss of principal in any of the investments that the Council had made. The Committee noted that there had been a reduction in interest received on loans to RBC companies. It was explained that this was because a loan had not been made in respect of some of the flats in the Addlestone One development. The Committee also noted that an advance loan deal refinancing an existing loan at a rate of 2.88% with Phoenix Life Limited was not included within the list of borrowings as at 30 September 2020. It was explained that the advance loan would commence in the new financial year when the existing PWLB loan would drop off. It was noted that the rate of 2.88% was fixed and that this loan deal had been entered into when rates were in the region of 2.9% in order to provide certainty for the Council's Egham Gateway regeneration scheme.

The Committee noted that recent changes made by the Government in response to the Covid pandemic, including the imposition of a second lockdown in England that would finish on 2 December 2020 and be replaced by a tier system, had not caused officers to change their estimates for investment income set out in the mid-year report. Going forward it was clear that the Council would be receiving less investment income but the extent of the reduction from 2021/22 onwards could not be forecast with any accuracy at this stage as it depended on the speed of the recovery from Covid and on future decisions to be taken by the Government, neither of which could be predicted yet with any certainty. It was noted that a report would be submitted to the next meeting of the Corporate Management Committee which provided a Medium Term Financial Strategy update which would set out the Council's latest financial position.

341 REVIEW OF THE PLANNING SERVICE UPDATE

The Committee received a report updating them on action being taken following the scrutiny review of the Council's Planning service.

At its meeting on 6 February 2020 the Committee had recommended to the Planning Committee that recommendations adopted by it should also be adopted by the Planning Committee, that its comments on those recommendations should be considered and that a report from the Planning Committee should be submitted to the 1 October 2020 meeting of the Overview and Scrutiny Select Committee which would provide an update on progress in implementing the action agreed by the Planning Committee arising from the recommendations.

The Committee noted that its recommendations had been intended to be presented to the Planning Committee on 25 March 2020, but that meeting had been cancelled due to the national Covid lockdown that had started on 23 March 2020. The recommendation to report back to the Committee at its meeting on 1 October 2020 had been set prior to the Covid pandemic and, because of the need to support the Council's Covid response efforts, work towards this deadline had been paused. Further to discussion between the Chairmen of both the Planning Committee and the Overview and Scrutiny Select Committee, a report on the Committee's recommendations had been considered by the Planning Committee at its meeting on 4 November 2020.

At its meeting on 4 November 2020, the Planning Committee had noted the recommendations and the Committee's comments on the recommendations. It had also noted the guidance of Officers within the Development Management and Policy and Economic Development Teams as to how best to progress the recommendations. This guidance was noted by the Overview and Scrutiny Select Committee. Due to the work of officers and the passage of time, a number of the recommendations had been in place for some time and some were currently progressing. Other recommendations might need adapting as a result of coronavirus or were affected by loss of budgetary growth.

In the light of the officer guidance provided, the Planning Committee had agreed that the Corporate Head of Development Management and Building Control and the Corporate Head of Planning Policy and Economic Development would return to the Planning Committee at a future date to be confirmed with a report detailing how each of the recommendations had been implemented so far and setting out progress on recommendations which were not completed (including a revised potential timeline for delivery) and detailing ones that potentially could not be progressed fully in the recommended form. The Chairman and the Vice-Chairman of the Planning Committee were discussing with these two Corporate Heads a suitable date for the submission of this report to the Planning Committee. It was noted that this further report to the Planning Committee would be submitted in tabular form which would show the position on each recommendation.

The Overview and Scrutiny Select Committee noted the reasons for the delay in the recommendations being considered by the Planning Committee but was of the view that it had still taken too long for the Planning Committee to receive a report on the recommendations. The Committee was also concerned that there was no agreed deadline for the Planning Committee to receive the further report referred to above. It agreed that it should receive an interim report as soon as possible so that the Council's residents, some of whom had called for a review of the Council's Planning Service a long while ago, could see what progress had been made in implementing the recommendations. The Committee agreed that the interim report should be in tabular form showing for each recommendation what action had been completed, what action was planned to be done and what action was outstanding, It was agreed that it was not necessary for timelines for the various actions to be included within the interim report.

(The meeting ended at 8.06.p.m.) Chairman

3. **APOLOGIES FOR ABSENCE**

4. **DECLARATIONS OF INTEREST**

If Members have an interest in an item, please record the interest on the form circulated with this Agenda and e-mail it to the Legal Representative or Democratic Services Officer by 5.00 p.m. on the day of the meeting. **Members are advised to contact the Council's Legal section prior to the meeting if they wish to seek advice on a potential interest.**

Members are reminded that a non-pecuniary interest includes their appointment by the Council as the Council's representative to an outside body and that this should be declared. Membership of an outside body in their private capacity as a director, trustee, committee member or in another position of influence thereon **should be regarded as a disclosable pecuniary interest, as should an appointment to an outside body by the Council as a trustee.**

Members who have previously declared interests which are recorded in the Minutes to be considered at this meeting need not repeat the declaration when obtaining remote access to the meeting. Members need take no further action unless the item in which they have an interest becomes the subject of debate, in which event the Member must withdraw from the meeting if the interest is a disclosable pecuniary interest or if the interest could reasonably be regarded as so significant as to prejudice the Member's judgement of the public interest.

5. **INTERIM REPORT ON THE REVIEW OF THE PLANNING SERVICE (PLANNING POLICY AND ECONOMIC DEVELOPMENT – RACHEL RAYNAUD/ DEVELOPMENT MANAGEMENT AND BUILDING CONTROL – ASHLEY SMITH)**

Synopsis of report: **To update the Committee on progress or intended actions relating to the scrutiny review of the Council's Planning service.**

Recommendation: **For information.**

1. **Context of report**

1.1 At its meeting on 6 February 2020 this Committee recommended to the Planning Committee that recommendations adopted by it following the scrutiny review of the Council's Planning service should also be adopted by the Planning Committee, that its comments on those recommendations should be considered and that a report from the Planning Committee should be submitted to the 1 October 2020 meeting of the Overview and Scrutiny Select Committee which would provide an update on progress in implementing the action agreed by the Planning Committee arising from the recommendations.

1.2 Further to discussion between the Chairmen of both the Planning Committee and the Overview and Scrutiny Select Committee, a report on the Committee's recommendations was considered by the Planning Committee at its meeting on 4 November 2020. At this meeting, the Planning Committee noted the recommendations and the Overview and Scrutiny Select Committee's comments on the recommendations. It also noted the guidance of Officers within the Development Management and Policy and Economic Development Teams as to how best to progress the recommendations. Due to the work of officers and the passage of time, a number of the recommendations had been in place for some time and some were currently progressing. Other recommendations might need adapting as a result of coronavirus or were affected by loss of budgetary growth.

1.3 The Planning Committee noted that a further report would be submitted to it which would show the position on each recommendation. The Planning Committee would at that stage note further progress and decide if any outstanding actions should still be progressed or if they were no longer necessary in the form suggested or should be adapted, particularly given the passage of time since the publication of the original report and due to the significant progress in the Planning department in progressing matters and updating practices.

1.4 At the Overview and Scrutiny Select Committee meeting on 26 November 2020, Members of the Committee agreed that this Committee should receive an interim update as soon as possible so that the Council's residents could see what progress had been made in implementing the recommendations. The Committee agreed that the interim report should be in tabular form showing for each recommendation what action had been completed, what action was planned to be done and what action was outstanding. It was agreed that it was not necessary for timelines for the various actions to be included within the interim report.

2. **Report**

2.1 Progress to date against each of the recommendations is set out at Appendices 'B' and 'C' attached. The table at Appendix 'B' attached shows progress to date against each of the recommendations made by the Planning Advisory Service (PAS). The table at Appendix 'C' attached shows progress to date against each of the recommendations drafted following representations made by local residents.

(For information)

Background papers

None

	PAS RECOMMENDATIONS	PANEL RECOMMENDATION (XX.1.20)	O&S RECOMMENDED DATE TO BE ACHIEVED IF ADOPTED BY PLANNING COMMITTEE	UPDATE FROM CHPP&ED & CHDMBC (JAN 2021)
1	Refresh the corporate plan after the next elections to set out a clear corporate vision and priorities, including a clear narrative on growth and planning	That the Corporate Head of Planning Policy and Economic Development provide an update to Planning Committee when they consider these recommendations noting how the new Plan from 2020 will meet PAS' recommendations	Before end of this municipal year - on or before May 2020	**Action completed**. The Corporate Business Plan for 2021-2025 has been drafted. The plan provides a clear narrative on growth and planning including support for: the delivery of the Borough's housing target across a range of tenures as set out in the Local Plan; improvements to the Borough's infrastructure; enhancements to the environment and preserving our heritage and open spaces; support for the redevelopment of Longcross Garden Village and consideration of possibilities for further regeneration opportunities.
2	Allocate a strong councillor champion for the local plan and the delivery agenda to work within the Council, with external partners and across the region.	Further to assurances by officers of the role of the Chair of Planning Committee & Chair of the External Relations & Infrastructure Member Working Group that address PAS' concerns, no recommendations are made.	Ongoing	
3	Focus and align key management responsibilities to corporate priorities including the plan examination and planning performance, including the housing delivery test.	That the Corporate Head of Planning Policy and Economic Development provide an update to Planning Committee when they consider these recommendations noting how the new Plan from 2020 will meet PAS' recommendations	Before end of this municipal year - on or before May 2020	**Action completed.** The Local Plan review will begin in 2021. Members of the Planning Committee approved a new Local Development Scheme at the Planning Committee of 2 September 2020 following adoption of the Runnymede 2030 Local Plan in July 2019. This project will be managed by the Local Plans team with oversight from the Corporate project office. The Local Plan contains a monitoring framework at Appendix A. This contains a number of indicators which are monitored and reported on annually in the Council's Annual Monitoring Report. A number of these indicators are concerned with the delivery of housing in the Borough (see objective 2 in the monitoring framework). In relation to the Housing Delivery Test itself, a report is due to be taken to the 24th March Planning Committee setting out how the Council has performed in the 2020 Housing Delivery Test. Runnymede's Performance against the Housing Delivery test is the best in Surrey.
4	Ensure all councillors are effectively engaged and aware of the ongoing challenges of planning, housing and infrastructure delivery and are able to give a consistent "council" message on these key issues, supporting them to communicate the Council's strategy and local plan and help the public to engage in the planning process as community leaders, representatives and conduits of information.	1. That the Chair of Planning Committee and Corporate Heads of Planning seek sufficient funding be secured via Corporate Management Committee to ensure that a yearly programme of suitable training be established and continue until further notice. 2. That bite sized briefings on forthcomings issues/applications continue to be offered/arranged further to discussion between Chair of Planning Committee and Heads of Service in Planning on an ongoing basis. 3. That the Corporate Heads of Planning ensure Intranet access to all members (not just planning members) for all training notes to refer to throughout municipal year, and 4. That the Chair of Planning Committee meet with both Corporate Heads of Planning and the Head of Communications to ensure that all Members are effectively engaged to give a consistent council message to local residents with help of both the Planning and Comms Departments.	Before end of this municipal year - on or before May 2020	A briefing was held for members on the new Local Plan. The need for further briefings will be discussed on an ongoing basis with the Chair of Planning and will be discussed at the forthcoming MWG on the 15 March when high level principles for a new communications strategy to support the review and update of the Runnymede 2030 Local Plan will also be discussed. 3. Training notes are circulated by email. **Action 4 is outstanding** and will be undertaken by the end of themunicipal year. This issue will also be discussed with the MWG on 15 March.
5	Consider the Council's corporate priorities and define the Council's role in external projects and partnerships.	That the Corporate Head of Planning Policy and Economic Development provide an update to Planning Committee when they consider these recommendations noting how the new Plan from 2020 will meet PAS' recommendations	Before end of this municipal year - on or before May 2020	**Action ongoing.** The Council's role in external projects and partnerships will change over time depending on the project/partnership. Members have recently been updated on progress with the A320 works by officers from RBC/SCC and will be updated as the project develops. The Council's role in the River Thames Scheme was recently discussed at the Environment & Sustainability Committee and updates will be also be brought to MWG as necessary. The role and work programme of Transport for the South East was presented to MWG before Christmas and Members will be updated on any relevant consultations/strategies at future MWG meetings. Updates will also be provided to relevant Working Groups/committees on other external projects/partnerships including the work of Surrey Futures (including the Surrey 2050 Place Ambition), the Enterprise Zone at Longcross and the HSPG as and when appropriate.

6	Communicate the local plan examination process to communities to facilitate constructive participation.	Further to implementing the recommendations set out below (7), that both Corporate Heads ensure that the next meeting of the CPP (when discussion as to changes to it and how to incorporate Neighbourhood Forums into with CPP will be considered) raises PAS' recommendation with local residents and seeks their views as to whether the CPP or newsletters would be the best way of communicating the local plan examination process in future.	On or before December 2020	**Action planned.** Work will begin on reconvening the CPP in March 2021. The updated SCI (which subject to the relevant Committee approvals will be adopted in March 2021) will also set out how the community will be consulted on planning policy matters. The Policy team will write to all Residents Associations in the Borough to offer them a free copy of the Runnymede 2030 Local Plan and provide more information about the Community Planning Panel to gauge their interest in sitting on the panel. Prior to this letter being sent out, all Councillors will be contacted with a list of Residents Associations and Community Groups and will be asked to contact any other groups they are aware of not on the list to inform them of the CPP and how to join. As mentioned in q.4, high level principles for a communications strategy for the review and update of the Runnymede 2030 Local Plan will be presented at the MWG on 15 March.
7	Engage communities to help them understand government policy and agree communication methods in the future.	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development meet with the Head of Communications to review the current Statement of Community Involvement and identify potential improvements to the way that national planning policy and the Council's emerging Local Plan can be communicated to local residents. 2. That a report be brought to the Local Plan Member Working Group identifying the outcome of those discussions and any changes identified by officers (to include the Chair and Deputy Chair of Planning Committee). 3. That the Local Plan Member Working Group forward its recommendations to the Planning Committee at their earliest opportunity in the new municipal year and that Planning Committee approve any proposed changes (and if necessary seeking budgetary support from Corporate Management Committee)	On or before December 2020	**Action ongoing/planned.** The Statement of Community Involvement (SCI) was approved for public consultation in September with public consultation finishing on 29 November. A report is scheduled to go to the Planning Committee on 10 February 2021. At this meeting, the Planning Committee will be asked to recommend to Full Council that they formally adopt the SCI at their meeting of 4th March. The Community Planning Panel will also be used as a mechanism to engage with communities to help them understand government policy. Also see response to point 6 above.
8	Try to work proactively with established key residents groups and others going forward and aid their development through offers of training to help keep them informed.	1. That the composition of the Community Planning Panel be reviewed and made as open to local residents group to join as practicable. 2. That the Corporate Head of Planning Policy review with the Head of Communications how to ensure that local residents are aware of the existing of the CPP, its works and composition throughout the municipal year. 3. That the Local Plan Member Working Group consider the current plans for review (noted above) and how new Neighbourhood Forums could be part of any new group. 4. That the Local Plan Member Working Group make any recommendations to improve the CPP to Planning Committee at its	On or before December 2020	**Action planned.** See response to 6 above.
9	Work with developers to engage with communities at early and ongoing stages.	Noting good work with Design South East, seek ways of working with them (or adopting their positive approach to engage with both developers and communities) moving forward via the CPP.	On or before December 2020	High level of current engagement with pre-app, number of PPAs signed. CHDMBC and the Planning committee have both been actively encoraging developers to carry out thorough consultation. As previously mentioned, the CPP will be reconvened in 2021 as will the Developers Forum.
10	Move forward with the production of the Council's CIL, in parallel to Section 106s process, to maximize the positives from growth and aid community buy in.	Further to assurances by officers of the report to be considered by Planning Committee as to the Council's draft Infrastructure Delivery & Prioritisation SPD that address PAS' concerns, no recommendations are made.	Completed	A report is being taken to Full Council on 9th Febraury . At this meeting, Full Council will be asked to adopt a CIL charging schedule for the Borough with an implementation date of 1st March 2021.

11	Have clear service priorities with the new delivery agenda and challenges – including a review of the service to scope areas for efficiency (time) savings and possibly deprioritising of other tasks.	That the Corporate Heads of Development Management & Planning Policy and Economic Development provide an update to Planning Committee when they consider these recommendations noting how the new Corporate Plan from 2020 will meet PAS' recommendations and whether any department Plan is requirement to implement PAS's recommendation.	Before end of this municipal year - on or before May 2020	**Action completed.** The Development Management and Building Control Business Unit Plan and Planning Policy and Economic Development Business Unit Plan were approved at Planning Committee on 25 November.
12	Change the layout of the planning committee: public facing, clearly signed, clear introductions of the key people and the process, introduce webcasting.	Further to assurances by officers of the changes already implemented, no recommendations are made.	Ongoing	Complete. Recommendation is also defunct at the moment due to meetings happening over MS Teams.
13	Review application delegation requirements – particularly if volume of major applications increase and ensure a maximum 2 hours sitting for the Planning Committee	1. That a report to the Constitutional Member Working Group be brough by the Corporate Heads of Development Management and Planning Policy setting out the findings of officer's comparison across neighbouring Surrey local planning authorities and any recommended changes, outlining the pros and cons to these changes. 2. Further to consideration of that report, that the Constitutional Member Working Group set out their recommendations to Planning Committee to consider prior to any proposed changes being considered by Corporate Management Committee in the new municipal year.	On or before December 2020	Paper going to Constitution Working group in March.
14	Develop a more supportive working relationship between councillors and planning officers	That the Corporate Heads of Development Management and Planning Policy & Economic Development meet with the Chair and Deputy Chair of Planning & Chairs of the Local Plan and External Relations & Infrastructure Member Working Groups to identify and review potential improvements to the way that all members engage with Planning officers and whether the Member Working Groups can be used to build that improved relationship moving forward.	Before end of this municipal year - on or before May 2020	**Officers consider from the feedback received by members that this has been achieved.**
15	Scope with members "bite size" briefings on issues members request using local practical examples and discussions to build collective understanding and positive engagement	This is covered by Recommendation (4) above	Before end of this municipal year - on or before May 2020	See response to Q.4 above.
16	Work with the political groups to make sure that committee members and substitutes are clearly aware of their role as a planning committee member; representing the organisation and whole council area, rather than a ward councillor.	A note to all Party leaders from the Chair of O&SSC & Chief Executive will be sent following publication of O&SSC report reminding each political group of this particular recommendation and what is expected of them to implement it.	As soon as practicable after the final O&SSC report is published and to be sent again at the beginning of the new municipal year in May 2020.	Training on probity in plannign and roles of Councillors in planning process was held in January 2021.
17	Give strong and consistent corporate leadership on major projects, working collaboratively with partners to shape and deliver across the sub-region, building relationships on both managerial and political levels	That the Corporate Head of Planning Policy and Economic Development provide an update to Planning Committee when they consider these recommendations noting how the new Corporate Plan from 2020 will meet PAS' recommendations	Before end of this municipal year - on or before May 2020	**Action ongoing see 5 above. Key members and portfolio holders have indicated that they are happy with progress and leadership shown on these prjects.**

18	Recognise and work effectively and actively to support critical partners that are facing resourcing challenges	That the Chief Executive, Corporate Heads of Planning Policy and Economic Development provide an update to Planning Committee when they consider these recommendations noting how the new Corporate Plan from 2020 will meet PAS' recommendations	Before end of this municipal year - on or before May 2020	**Action ongoing see 5 above.**
19	Improve constructive working relationship with key infrastructure providers.	Recommendation (18) above addresses this.	Before end of this municipal year - on or before May 2020	**Action completed.** Constructive working relationships exist between the CHPPED/Council officers and key infrastructure providers such as: SWT/Network Rail, HAL, SCC, TfSE, the EM3LEP, Homes England and Highways England.
20	Plan how the authority will manage the delivery challenge; building on RBC's present housing delivery and report housing delivery as a new performance measure.	Further to assurances by officers of the changes already implemented, no recommendations are made.	Ongoing	**Action ongoing/planned:** A report on the Housing Delivery Test is scheduled to go to the 24 March Planning Committee. In addition Objective 2 of the Monitoring Framework in the Local Plan sets out a range of indicators to measure housing delivery/affordable housing. See response to point 3 above for more information. Runnymede's Performance against the Housing Delivery test is the best in Surrey.
21	Maintain the present housing delivery data and work with key developers to collect data to predict any on-going delivery challenges in the future.	Further to assurances by officers of the steps taken to ensure PAS' recommendation is met, no recommendations are made.	Ongoing	**See Q. 20**
22	Recognise the specific skills required to support the management of delivery that working with developers will require, building on your present development management approach and local plan engagement	Further to assurances by officers of the steps taken to ensure PAS' recommendation is met, no recommendations are made.	Ongoing	Ongoing.
23	Work closely and collaboratively with external key partners around the delivery of the major projects such as the garden village of Longcross.	Further to assurances by officers of the steps taken to ensure PAS' recommendation is met, no recommendations are made.	Ongoing	**Action ongoing.** A Steering Group meets regularly to review progress on the Garden Village. An Enterprise Zone Programme Steering Group meets to review progress on the Enterprise Zone and is chaired by EM3 LEP.

	LOCAL RESIDENT RECOMMENDATIONS	PANEL RECOMMENDATION (6.2.20)	O&S RECOMMENDED DATE TO BE ACHIEVED IF ADOPTED BY PLANNING COMMITTEE	UPDATE FROM CHPP&ED or CHDMBC (JAN 2021)
1	Ways of Improving residents understanding of the national planning context and role of RBC in implementing planning policy at local level; * Such as providing an executive style briefing for residents before the next Local Plan is produced as well as finding better ways to engage with residents so that they understand how the Local Plan process works	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development meet with the Head of Communications to review the current Statement of Community Involvement and identify potential improvements to the way that national planning policy and the Council's emerging Local Plan can be communicated to local residents. 2. That a report be brought to the Local Plan Member Working Group identifying the outcome of those discussions and any changes identified by officers (to include the Chair and Deputy Chair of Planning Committee). 3. That the Local Plan Member Working Group forward its recommendations to the Planning Committee at their earliest opportunity in the new municipal year and that Planning Committee approve any proposed changes (and if necessary seeking budgetary support from Corporate Management Committee)	On or before December 2020	**Action ongoing/planned.** See response to Q.6 & 7 in the PAS recommendations.
2	Ways of securing more effective engagement/communication/responsiveness of all Councillors with local residents on planning issues	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development agree a list of suitable questions with the Chair/Deputy Chair of Planning Committee to be sent to all current Members by way of a survey to see if they are happy with the current ways of engagement and communication with the Planning Department. 2. Further to the responses received, that the Local Plan Member Working Group be invited to identify any deliverable changes and seek officer guidance as to any resourcing issues posed by such changes. 3. That the Local Plan Member Working Group make such recommendations to Planning Committee, so that the Committee may decide what to implement and how to resource any proposed changes (and if necessary seeking budgetary support from Corporate Management Committee).	On or before December 2020	**Action ongoing/planned. See response to Q.6 & 7 in the PAS recommendations. Please note:** The Planning White Paper published in 2020 sets out proposed significant changes to the planning system including consultation/communication and in particular the use of digital methods etc. The Council's response to the consultation was considered by the Planning Committee in September and Members of the Planning Committee will be kept informed of any updates. Any resource issues that might arise from Government changes to the planning system will be included in future business unit plans.
3	Ways of improving RBC communication on planning matters to residents: * particularly using hard copy methods, such as the newly instituted 'Talks' magazine, in addition to web- based methods, and * Assisting residents to understand how to set up alerts via the Planning Portal for progress on specific planning applications, * Provide a forum for updating residents on key legislative changes to ensure that they understand changes that may affect new developments that may have been previously unlawful, to ensure comprehensive engagement	Steps outlined above at Point 1 address these issues.	On or before December 2020	Action Ongoing.

4	Provision of large Planning related documents in a more accessible user- friendly format and style (e.g. Executive Summaries)	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development review if any other local planning authorities seek executive summaries from developers of larger schemes. 2. That a report be brought to the Local Plan Member Working Group identifying the outcome of those enquiries along with any officer recommendations as to how to improve the accessibility of voluminous or complex planning applications. 3. That the Local Plan Member Working Group forward its recommendations to the Planning Committee at their earliest opportunity in the new municipal year and that Planning Committee approve any proposed changes (and if necessary seeking budgetary support from Corporate Management Committee)	On or before December 2020	**Action outstanding.**
5	Ways of informing complainants of progress on enforcement cases and managing expectations (e.g. enforcement progress schedule on website or monthly update reports, such as those provided to local ward Members)	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development review how neighbouring local planning authorities seek to keep compianants updated as to the progress of ongoig investigations. 2. Further to that review, that both Corporate Heads report back to the Chair and Deputy Chair of Planning Committee with their findings and any recommendations to change the current approach. 3. That this issue and any propsoed recommendations be discussed at the earliest CPP held after steps 1&2 above are resolved in the new municpal year so that local residents may offer further comments on their concerns and if any propsoed changes address them. 4. Further to any agreement reached at CPP, that recommendations be brought before the Planning Committee for review and approval as soon as practicable in the new municpal year.	On or before December 2020	Action outstanding .
6	Review composition of Community Planning Panel to reflect new boundary wards and permit greater attendance than currently permitted	1. That the composition of the Community Planning Panel be reviewed and made as open to local residents group to join as practicable. 2. That the Corporate Head of Planning Policy review with the Head of Communications how to ensure that local residents are aware of the existing of the CPP, its works and composition throughout the municipal year. 3. That the Local Plan Member Working Group consider the current plans for review (noted above) and how new Neighbourhood Forums could be part of any new group. 4. That the Local Plan Member Working Group make any recommendations to improve the CPP to Planning Committee at its earliest opportunity n the new municipal year.	On or before December 2020	**Action ongoing/planned.** See response to Q.6 & 7 in the PAS recommendations.
7	Review of Delegation arrangements to ensure: *proportionate amount of time is allowed for consideration of major planning applications, whilst still allowing time for consideration of some of the smaller developments which generate public interest, and * Consider reviewing what would be a reasonable trigger for residents to invite Planning Committee to consider an application rather than officers where there is sufficient public interest;	1. That a report to the Constitutional Member Working Group be brought by the Corporate Heads of Development Management and Planning Policy setting out the findings of officer's comparison across neighbouring Surrey local planning authorities and any recommended changes, outlining the pros and cons to these changes. 2. Further to consideration of that report, that the Constitutional Member Working Group set out their recommendations to Planning Committee to consider prior to any proposed changes being considered by Corporate Management Committee in the new municipal year.	On or before December 2020	Paper going to Constitution Working group in March.

8	Review RBC Policy on publicising names and addresses of objectors to planning applications to encourage community engagement free from fear of being subject to harassment and/or threatening behaviour by applicants;	Further to assurances by officers of a suitable change to the Council's policy that address residents' concerns, no recommendations are made.	On or before December 2020	Completed. Development management now also removes correspondence from the website relating to applictions shortly after they are determined. Partly for this reason and also to help with GDPR compliance.
9	Ways of explaining to residents the reasoning/justification for making a planning decision which they disagree with.	1. That the Corporate Heads of Development Management and Planning Policy & Economic Development review the current way officer reports are written and consider if there are ways of explaining the reasons given for or against any particular plannng applications in more accessible ways. 2. That this be discussed at CPP with consideration of any changes that might help. 3. That the outcome of CPP's review of this issue be reported to the earliest Planning Committee in the new municipal year for their review and any necessary decisisons required to implement any proposed changes.	On or before December 2020	Detailed officer reports are prepared for all application types. New sections have been added to reports. A newcommittee report template is being launched at February Planning committee which is clearer and more accessible. CHDMBC proactively responds to resident queries from residents either directly or via Councillors whereresidents need further explanation.

6. **2021/22 TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY, PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS AND MINIMUM REVENUE PROVISION STATEMENT (FINANCE – PAUL FRENCH)**

Synopsis of report:

The report sets out the Treasury Management Strategy, Prudential and Treasury Management Indicators, and Minimum Revenue Provision Statement for 2021/22.

Recommendations to Full Council on 9 February 2021:-

i) The proposed 2021/22 Treasury Management Strategy encompassing the Annual Investment Strategy attached at Appendix 'D' be approved;

ii) The Council adopts the UK Money Markets Code;

iii) The Prudential and Treasury Management Indicators for 2021/22 set out in Appendix 'E' be approved;

iv) The authorised limit for external borrowing by the Council in 2021/22, be set at £759,704,000 (this being the statutory limit determined under Section 3 (1) of the Local Government Act 2003); and

v) That there be no change to the previously adopted MRP policy as set out in paragraph 3.5 of this report.

1. Context of report

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

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

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

1.4 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council's Corporate

Business Plan, Medium Term Financial Strategy, Capital Strategy and Treasury Management Strategy.

1.5 CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cashflows, 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."

1.6 The Council has adopted both the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition (the TM Code) and the Prudential Code (the Code) and this report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the relevant CIPFA Codes and MHCLG Guidance on Local Authority Investments. (MHCLG Investment Guidance)

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

- Prudential and Treasury Indicators and Treasury Management Strategy (this report)
- A mid year Treasury Management Report
- An annual Treasury Report

1.8 The Treasury Management Strategy (TMS) sets out the framework each year for the Council's treasury operations. It covers two main areas:

Capital Issues:

- the capital expenditure plans and the associated prudential indicators
- the Minimum Revenue Provision (MRP) policy
- Treasury management issues
- Policy on the use of external service providers
- The economy and prospects for interest rates
- The current treasury position
- Borrowing strategy
- Policy on borrowing in advance of need
- Debt restructuring
- Annual investment strategy
- Treasury indicators which limit the risk and activities of the Council
- Other treasury matters (required under MHCLG Investment Guidance)

1.9 The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Corporate Management Committee, which considered this report at its meeting on 21 January 2021 and for the execution and administration of treasury management decisions to the Assistant Chief Executive, who will act in accordance with the Council's Treasury Policy Statement and Treasury Management Practices (TMP).

1.10 These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by this Committee.

1.11 A glossary of treasury terms has been included at Appendix 'F' to assist Members with some of the terms covered in this report.

2 Capital Strategy

2.1 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

2.2 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.

2.3 The Capital Strategy is reported separately from the Treasury Management Strategy Statement to ensure the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercial investments usually driven by expenditure on an asset. The Capital Strategy shows:

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

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

2.5 If the Council borrows any money to fund non-financial investments that may be contrary to the MHCLG Investment Guidance and CIPFA Prudential Code, there will also be an explanation of why borrowing was required and why there has not been adherence to the MHCLG Investment Guidance and CIPFA Prudential Code.

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

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

Minimum Revenue Provision (MRP) Policy Statement

3.1 When a Council funds capital expenditure by borrowing, the costs are charged to the Council Tax payer in future years, reflecting the long-term use of the assets. Unlike a mortgage where amounts of principal are repaid each month, the borrowing undertaken by a Council is usually repayable on maturity at an agreed future date. The interest on borrowing is charged in the year it is payable.

3.2 To reflect this, the Council is required to pay off an element of the accumulated General Fund capital spend each year 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). The MRP exists as a charge to revenue each year in order to have sufficient monies set aside to meet the future repayment of principal on any borrowing undertaken. There is not an earmarked reserve for MRP, it is represented in the accounts as increased cash.

3.3 There is no requirement on the HRA to make MRP.

3.4 Revised statutory guidance has been issued by the MHCLG which local authorities are required to have regard to which requires the full Council to approve an MRP Statement in advance of each year. The aim of the MHCLG Investment Guidance is to ensure that debt is repaid over a period that is commensurate with that over which the capital expenditure provides benefits. The guidance recommends 4 options for calculating a prudent MRP as follows:

1. Regulatory Method
2. CFR Method
3. Asset Life Method (repayment over the useful life of the asset on an asset life basis)
4. Depreciation Method (cost less estimated residual value)

Options 1 and 2 should normally only be used for Government-supported borrowing with options 3 and 4 being used for self-financed borrowing.

3.5 In December 2014 the Council set an MRP Statement to relate to prudent provisions and the relevant useful lives of assets. These will be unique to each asset borrowed against and as such will not affect the overall method chosen for calculating MRP. There are therefore no plans to amend the statement at the present time. The Council's MRP statement for 2020/21 will therefore be as follows:

"The Council will use the asset life method as its main method for calculating MRP.

In normal circumstances, MRP will be set aside from the date of acquisition. However, in relation to capital expenditure on property purchases and/or development, we will start setting aside an MRP provision from the date that the asset becomes operational and/or revenue income is generated. Where schemes require interim financing by loan, pending receipt of an alternative source of finance (for example capital receipts) no MRP charge will be applied".

3.6 A change introduced by the revised MHCLG Investment Guidance was the allowance that any charges made over the statutory MRP, VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, the Council's MRP policy must disclose the cumulative overpayment made each year. Up until the 31 March 2021 the Council had made no such VRP overpayments.

4 Treasury Management Strategy (TMS)

<u>Treasury management consultants and training</u>

4.1 The Council recognises that there is value in employing external providers of treasury management services in order to secure access to specialist skills and resources. Link Asset Services (Link) provide this service to the Council, although responsibility for final decision making remains with the Council and its officers at all times.

4.2 The quality of this service is controlled by the Assistant Chief Executive assessing the quality of advice offered and other services provided by Link. In particular, the Assistant Chief Executive holds regular meetings with Link (normally 3 to 4 times a year) where, in addition to discussing treasury strategy, the performance of the consultants is reviewed.

4.3 The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Relevant training courses, seminars and conferences are provided by a range of organisations including Link and CIPFA.

4.4 The CIPFA Code requires the Assistant Chief Executive to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Member training was last carried out by Link to 22 Members in November 2017. Further training was planned for November 2020 but due to other commitments this has been deferred until 2021.

<u>The economy and prospects for interest rates</u>

4.5 The Council has appointed Link as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table and paragraphs gives Link's view on interest rates and the ecomony (as at November 2020) and are based on an assumption of a reasonable Brexit agreement being reached on trade negotiations between the UK and the EU by 31 December 2020:

Link Group Interest Rate View	Now	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
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%
5yr PWLB Rate	0.81%	0.80%	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%	0.90%	0.90%	0.90%	1.00%
10yr PWLB Rate	1.11%	1.10%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.30%	1.30%	1.30%	1.20%
25yr PWLB Rate	1.66%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
50yr PWLB Rate	1.49%	1.30%	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%	1.50%	1.50%	1.50%	1.60%

Link Group Interest Rate View	Now	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
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%
3 Month LIBID	-0.09%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
6 Month LIBID	-0.09%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
12 Month LIBID	-0.01%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%

4.6 Bank rates are forecast to stay at 0.1% during the forecast period. Gilt yields have continued to fall as it becomes increasingly likely that the UK will exit the Brexit transition period with no EU trade deal as differences remain, although talks are continuing. On top of that, there has been a seismic move on coronavirus restrictions as much of the South East moved into a new Tier 4, effectively locking those areas down, with Christmas easing withdrawn totally and severely restricted elsewhere. The resurgence of the virus is a set back for the economy. Countries around the world have imposed restrictions on travel from the UK due to fears over the new variant of coronavirus, and with borders shutting, no lorries or ferry passengers will be able to sail from the ports of Dover, this can have a ripple effect on supply and demand in our shelves and the fragile state of the economy.

4.7 The Bank of England's Monetary Policy Committee kept Bank Rate unchanged in November. However, it revised its economic forecasts to take account of a second national lockdown from 5 November to 2 December which is going to put back economic recovery and do further damage to the economy. Furthermore, the tier system has been maintained as the only tool to combat the current pandemic with the South East of England set on Tier 4. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".

4.8 The Bank's forecasts appear to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expects there to be excess demand in the economy by Q4 2022.
- CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

4.9 However, the minutes did contain several references to downside risks. The MPC reiterated that the recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside. It also said, "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2 December, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31 March 2021 will limit the degree of damage done.

4.10 Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC still remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

4.11 Public borrowing is now likely to increase by about £30bn to around £420bn (21.7% of GDP) as a result of the new lockdown. In normal times, such an increase in 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. It is also quite possible that the Bank of England will do more QE in 2021 to support the economy, although negative interest rates could also be a usable tool in the tool box later on in 2021.

4.12 While Link's Bank Rate forecast contains no increase up to June 2023, it is quite possible that Bank Rate may not increase for some time further out than then as it is going to take a considerable time for the economy to recover lost capacity and momentum. Link do not think that inflation will pose a threat requiring increases in Bank Rate as there is likely to be spare capacity in the economy for a considerable time.

<u>The current treasury position and prospects for investment rates</u>

4.13 The Council's treasury portfolio position as at 30 November 2020 comprised of:

	31 Mar 20 £'000	**30 Nov 20 £'000**
Borrowing		
Fixed Rate - PWLB	627,292	622,292
Fixed Rate - Money Market	5,000	5,000
TOTAL BORROWING	**632,292**	**627,292**
Specified Investments		
Banking sector	15,500	11,000
Building societies	5,000	5,000
Local Authorities	24,000	28,000
Money Market Funds	30,600	24,650
Unspecified Investments		
Pooled Funds & Collective Investment Schemes	4,000	4,000
Funding Circle	461	471
TOTAL INVESTMENTS	**79,561**	**73,121**
NET	**552,731**	**554,171**

4.14 Investment returns are likely to remain low during 2021/22 and the same with little/no increase in the following few years. However, as major progress has been made with an agreed Brexit, then there is upside potential for earnings. As the UK and EU have agreed a Brexit deal including the terms of trade, then Bank Rate is forecast to remain steady over the next few years on 0.10% to quarter 1 of 2024. Based on this agreed Brexit and existing money market rates which are hovering around 0.01%, the probable investment earnings rates for returns on investments over the next few years can be expected to mirror the base rate at 0.10%.

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

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

4.17 All investments are made with reference to the Council's core balances and cash flow requirements which are derived from the annual budget, the Medium Term Financial Strategy, the Capital Programme and Capital Strategy, 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, 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.

4.18 It is important that the Council manages its treasury management activities to maximise investment income and reduce debt interest, whilst managing its exposure to risk and maintaining appropriate liquidity to meet its needs. Based on the above forecasts, the 2020/21 estimate for investment income and debt interest split between the General Fund and Housing Revenue Account (HRA) is as follows:

	General Fund £'000	HRA £'000	Total £'000
Gross external investment income	91	0	91
Interest on loans to RBC companies	1,477	0	1477
Dividend income	120	0	120
Interest paid on deposits and other balances	(2)	0	(2)
Net Investment Income	**1686**	**0**	**1,686**
Debt Interest	(15,097)	(3,426)	(18,523)
Management Expenses	(50)	0	(50)
Net Investment Income / (Debt interest)	**(13,461)**	**(3,426)**	**(16,877)**

4.19 The estimate is based on achieving the assumed investment returns set out in paragraph 4.14, using the level of revenue and capital reserves for 2020/21 as set out in the latest capital and revenue budgets contained in the Medium-Term Financial Strategy.

Policy on charging interest to the Housing Revenue Account (HRA)

4.20 The Council operates a two-pooled approach to its loans portfolio, which means we separate HRA and General Fund long-term loans. Interest payable and other costs or income arising from long-term loans (for example premiums and discounts on early redemption) are charged or credited to the respective revenue account.

4.21 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. We will calculate an average balance for the year and interest will be transferred between the General Fund and HRA at the Council's weighted average return on all its investments, adjusted for credit risk. This credit risk adjustment reflects the risk that any investment default will be a charge to the General Fund regardless of whether it was HRA cash that was lost. The figures in the above table indicate no investment income for the HRA in 2021/22. This is due to investment rates currently being at or close to zero. Deducting a credit risk percentage reduces any potential investment rates to zero or below.

Borrowing Strategy

4.22 In general the Council will borrow for one of two purposes – to finance cash flow in the short term or to fund capital investment over the longer term. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

4.23 A key aim of the Treasury Management Strategy is to minimise the cost of the Council's loan portfolio whilst ensuring that the obligation to repay the loan is spread over a period of time. This reduces the impact on the revenue budget of interest payments.

4.24 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which the funds are required. Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Assistant Chief Executive will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

4.25 The Council's strategy for long term borrowing is currently as follows:

Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- *Public Works Loan Board (PWLB)*
- *any institution approved for investments*
- *any other bank or building society approved by the Financial Conduct Authority*
- *UK public and private sector pension funds and Insurance Companies (except the Surrey Pension Fund)*
- *Capital market bond investors*
- *UK Municipal Bond Agency plc and other special purpose companies created to enable joint local authority bond issues.*

Debt instruments

Borrowing will be arranged by one of the following debt instruments:

- *fixed term loans at fixed or variable rates of interest, subject to the limits in the treasury management indicators*
- *bonds*

4.26 Any proposed borrowing will only be undertaken on a phased basis in accordance with agreed plans and requirements at that time. The borrowing of money purely to invest or lend-on to make a return is unlawful.

Policy on Borrowing in Advance of Need

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

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

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the merits and demerits of alternative forms of funding.

4.29 The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be no more than six months, although the Council does not link particular loans with particular items of expenditure.

Debt restructuring

4.30 From time to time there may be potential opportunities to generate savings by switching from long term debt to short term debt and vice versa. Any such debt restructuring will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

4.31 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.32 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

4.33 All rescheduling will be reported to the Council, at the earliest meeting following its action.

PWLB Lending Criteria

4.34 In November 2020 the Government issued revised guidance following consultation on the future of PWLB lending. Specifically, Government has made it evident that if there is any part of a capital programme that is deemed to be commercial in nature and falling under the "asset for yield" category, no PWLB loans of any type can be borrowed. "Commercial" does not mean a scheme cannot deliver a profit, but the primary purpose of the scheme has to be something else: for example, economic regeneration or the provision of housing.

4.35 If an authority wishes to borrow from the PWLB it needs to submit a high-level description of its capital spending and financing plans for the following three years including the expected use of PWLB borrowing facilities. In order to borrow in the future, the Council needs to submit:

- How much they plan to spend in each year in each of a set of categories which between them cover all acceptable capital activity
- A short description of the main projects in each of these categories covering at least 75% of the spending in that category
- An assurance from the section 151 officer that the local authority is not borrowing in advance of need (assumed to be for commercial spend, rather than the Prudential Code definition), and does not intend to buy investment assets primarily for yield.

4.36 The Government guidance goes on to state that an authority must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans and that local authorities should expect that their auditors will review their internal decision making processes around borrowing and investment, including the assessment of whether their plans are compliant with the lending terms of the PWLB.

4.37 The Treasury has the ultimate sanction to ask for full repayment of any PWLB loans borrowed with premium, in cases where there is clear breach of the rules.

Annual Investment Strategy

4.38 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 are held for two purposes, to generate income and to meet a strategic priority. These are entered into outside of normal treasury management activities, but nevertheless the TMS comes into play in their financing. The Council recognises that investment in other financial investments taken for non-treasury management purposes, requires careful investment management and all such investments are covered in the Capital Strategy.

4.39 Local authorities must draw up an "Annual Investment Strategy" for the following financial year. This strategy may be revised at any time, but full Council must approve the revisions. Both the TM Code and the MHCLG Investment Guidance place a high priority on the management of risk and require the Council to invest its funds prudently. This approach is inherent in our treasury management strategy.

4.40 In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration of risk.

4.41 The MHCLG Investment Guidance requires local authorities to cover a number of issues in their Annual Investment Strategy and the Council's strategy fully complies with these requirements. The Council approved its Annual Investment Strategy for 2020/21 in March 2020 and an updated Strategy for 2021/22 is set out at Appendix 'D'.

4.42 There are no changes to the proposed strategy for next year. However, as a consequence of setting aside MRP, cash balances will increase over time as that money is set aside awaiting repayment of the loan. The knock-on effects of this is that there is more money to invest until the principal sums borrowed mature which means the Council will need to increase its counterparty limits and/or seek additional investment vehicles for its money. Estimated cumulative MRP balances built up over the next four years are anticipated to be as follows:

	MRP cumulative balance at 31 March £'000
2020/21	12,473
2021/22	16,445
2022/23	20,577
2023/24	24,874

4.43 A close eye will be kept on the limits for each counterparty to ensure that the increasing balances held as a result of setting aside MRP can be adequately catered for and any required amendments will be brought back to this Committee for approval.

5 UK Money Markets Code

5.1 The requirement to report in accordance with the CIPFA TM Code, and the MHCLG Investment Guidance is incorporated within this report. CIPFA also recommends the

UK Money Markets Code to its members as good practice to which they should adhere.

5.2 The UK Money Markets Code (April 2017) is a voluntary code of practice which was introduced to help re-establish trust in financial markets and is endorsed by the Money Markets Committee (MMC), and has been developed to demonstrate that market participants meet the minimum standards of professionalism in their market activities, to ensure a fair and effective market.

5.3 The Code applies to all those who transact in any of the unsecured deposit, repo or the securities lending markets. In particular, any market participant who actively places their excess cash in wholesale bank deposits or invests in Certificates of Deposit or Commercial Paper should consider themselves within scope – Runnymede is one such participant. Importantly, the concept of proportionality is embedded throughout the Code, enabling market participants such as the Council to adopt only those elements appropriate for their business

5.4 The Code is based on the following underpinning principles in order to promote an open, fair and effective market:

- ***Ethics***: behave in an appropriate and professional manner.
- ***Governance***: have an appropriate senior management governance framework.
- ***Risk Management***: maintain an effective risk control environment.
- ***Information Sharing and Confidentiality***: communications between market participants should be clear, accurate, professional, and meet all appropriate confidentiality standards.
- ***Execution, and Settlement***: Exercise appropriate skill and care when negotiating, executing and settling trades.
- Have in place ***effective and efficient processes*** to promote the secure, smooth and timely settlement of trades, which includes never intentionally allowing a trade to fail.

5.5 Why sign up to the Code? Encouraging all participants to adhere to the Code raises the bar for good practice across the entire market. The code is also a valuable resource:

- when setting up or reviewing the activities undertaken by a treasury function;
- as a guide to good practice;
- to develop internal audit programmes for Treasury.

5.6 As proportionality is embedded throughout the Code, instead of having to adhere to all the technical specifications, participants can use their judgement about what is appropriate and consistent with the principles of the Code. Adherence to the Code can be affirmed by a standard statement of commitment to the principles underlying the Code which can be demonstrated by appearing on the Public Register.

5.7 Officers believe that the Council already meets the relevant criteria in the code for the activities it carries out so there is no additional burden on the Council or its officers in formally adopting the code. A recommendation to adopt the code has therefore been added to this report and the TMPs will be amended to reflect the adoption should Members agree.

6 Treasury Management Risks

6.1 Treasury management activity involves risks which cannot be eliminated but need to be managed. Treasury management risks could be defined as: the ongoing activity of adjusting the authority's treasury exposures due to changing market or domestic circumstances, in order to manage risks and achieve better value in relation to the authority's objectives. The effective identification and management of these risks are integral to the Council's treasury management objectives. All treasury activity needs to be managed to maximise investment income and reduce debt interest whilst maintaining the Council's exposure to risk.

6.2 Overall responsibility for treasury management risk remains with the Council at all times. None of the regulations or guidance prescribes any particular treasury management strategy for local authorities to adopt. The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year to minimise future risks.

6.3 The MHCLG issued revised statutory guidance on Local Government Investments in 2018, the MHCLG Investment Guidance, and this forms the structure of the Council's policies. The key intention of the MHCLG Investment Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. This means that first and foremost the Council must ensure the security of the principal sum invested (i.e. ensure the full investment is returned), then ensure that we have the liquidity we need (i.e. ensure we have the funds available when we need them), and only then should the yield on return be considered. In order to facilitate this objective, the MHCLG Investment Guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition) (TM Code). The Council adopted the TM Code in March 2018 and applies its principles to all investment activity.

6.4 In accordance with the TM Code, the key treasury risks are discussed in detail in the Council's Treasury Management Practices (TMPs) and in the Council's Statement of Accounts both of which can be found on the Council's website. The key risks are as follows:

- Credit and counterparty risk management
- Liquidity Risk Management
- Interest Rate Risk Management
- Exchange Rate Risk Management
- Inflation Risk Management
- Refinancing Risk Management
- Legal and Regulatory Risk Management
- Fraud, error and corruption, and contingency management
- Price / Market risk management

7. Prudential and Treasury Management Indicators 2021/22

7.1 The Code requires all local authorities to look at capital expenditure and investment plans in light of the overall organisational strategy and resources and make sure that decisions are being made with sufficient regard to the long run financial implications and potential risks to the authority. The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

7.2 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council's Strategic Business Plan, Medium Term Financial Strategy, Capital Strategy and Treasury Management Strategy.

7.3 In setting or revising their prudential indicators, local authorities must have regard to:

- Service objectives e.g. strategic planning for the authority
- Stewardship of assets e.g. asset management planning
- Value for money e.g. option appraisal
- Prudence and sustainability e.g. implications for external borrowing
- Affordability e.g. implications for Council Tax and balances
- Practicality e.g. achievability of the forward plan.

7.4 To demonstrate that these objectives are being fulfilled the Code operates through the provision of prudential indicators which highlight particular aspects of capital expenditure planning. Each indicator is annually updated as part of the budget process and projected forward for the next three years. The Code requires that the Council approves certain mandatory prudential indicators.

7.5 Prudential Indicators are designed to support and record local decision making. They are not performance indicators and are not comparable between authorities, all of whom will have differing policies and debt positions. In addition, the indicators should not be taken individually; the benefit from monitoring will arise from following the movement in indicators and the year on year changes over time.

7.6 Both the Code and the TM Code set definitions for the terms used and the method of calculating the indicators. A complete set of all indicators, which are a mix of estimated and actual figures, ratios, and limits, is set out in Appendix 'E'.

8 Legal Implications

8.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2003) and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code and the MHCLG Investment Guidance when carrying out their treasury management functions.

8.2 Part 1 of the LGA 2003 established the legislative framework for the prudential capital finance system for local authorities.

8.3 The LGA 2003 requires each Council to set an affordable borrowing limit. The Full Council must carry out this duty; it cannot be delegated. Having set this limit the Council may not exceed it except for specified temporary purposes. However, the Council can make a new limit at any time.

8.4 Regulations require local authorities to have regard to The Prudential Code when carrying out their duties under Part 1 of the LGA 2003. The Code requires that all prudential indicators are set, and revised, only by the Full Council. This is because the need for Members to approve prudential indicators for capital finance is regarded as an important part of the governance responsibilities of a local authority.

8.5 The LGA 2003 provides the Government with reserve powers to set borrowing limits for local authorities that override their locally determined limits. This could be in the form of a national limit – this can only be imposed for national economic reasons – or a specific limit to prevent an individual authority borrowing more than it could afford.

8.6 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) state:

"A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent."

9. Environmental/Sustainability/Biodiversity implications

9.1 Ethical or Sustainable investing directs investment capital to companies that seek to combat climate change, environmental destruction, while promoting corporate responsibility. In the past, such investments were thought of as a lower-return strategy, investing for people who wanted to put morals above profits. But now evidence suggests that companies which embrace low-carbon technology for example, are more likely to be future proofed and therefore more attractive for investors.

9.2 For the Council, the types of treasury investments it can make in this regard are limited. There are currently a small, but growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products. However, the types of products we can invest in are constrained to those set out in our Investment Strategy which is driven by investment guidance, both statutory and from CIPFA, making it clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities.

10. Conclusions

10.1 The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in light of the Council's Corporate Business Plan, Medium Term Financial Strategy, Capital Strategy and Treasury Management Strategy.

10.2 We remain in a very difficult investment environment with several unknowns. Whilst counterparty risk appears to have eased, market sentiment has still been subject to bouts of, sometimes, extreme volatility and economic forecasts abound with uncertainty. You only need to look to 2020 to show just how quickly circumstances can change.

10.3 With interest rates currently close to, or actually returning, negative rates, it is easy to forget recent history, ignore market warnings and search for that extra return to ease revenue budget pressures. Any option in which an investor hopes to generate an elevated rate of return will almost always introduce a greater level of risk. This strategy ensures that any such risks are minimised and appropriately managed.

(To recommend to Full Council on 9 February 2021)

Background Papers

None stated

Annual investment strategy
for the 2021/22 financial year

Introduction

1. The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments (3rd Edition) ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (2017 Edition) ("the TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

2. This strategy applies to both in-house and externally managed funds. Where used, managers of External funds must confirm the acceptability of a counterparty before an investment is made.

3. The Council approved the Annual Investment Strategy for 2020/21 in March 2020.

Investment Policy

4. In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of these reflected in the eyes of each agency. Using our treasury advisers ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

5. Further, the Council's Officers recognise that ratings should not be the sole determinant of the quality of an institution and that 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 this end the Council will engage with its advisers to maintain and monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

7. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration of risk.

8. The intention of the strategy is to provide security of investment and minimisation of risk.

Creditworthiness Policy

9. 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 the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; 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.

10. The Assistant Chief Executive 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 that are considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

11. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies and one meets the Council's criteria, and the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Link Asset Services, the Council's treasury advisers, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to Officers almost immediately after they occur and this information is considered before dealing.

12. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies 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, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Investment criteria and limits

13. The Guidance defines specified investments as those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The Guidance defines specified investments as those:

    - denominated in pounds sterling,
    - due to be repaid within 12 months of arrangement,
    - not defined as capital expenditure by legislation, and
    - invested with one of:
        - the UK Government,
        - a UK local authority, parish council or community council, or
        - a body or investment scheme of "high credit quality".

    The Council defines the following as being of "high credit quality" (as per the Guidance), subject to the monetary and time limits shown.

Specified investments				
	Paragraph (where applicable)	**Fitch Long term Rating (or equivalent)**	**£ Limit**	**Duration**
Banks 1	16	A+ A A-	£5.0m £4.0m £3.0m	364 days 189 days 98 days
Banks 2 (Part nationalised)	17	N/A	£3.0m	364 days
Banks 3 (Council's own bankers)	18	N/A	£1.0m	1 day
Building Societies	19	A+ A A-	£5.0m £4.0m £3.0m	364 days 189 days 98 days
UK Central Government (DMADF – Debt Management Agency Deposit Facility)		UK sovereign rating	Unlimited	189 days
Local, Police, Fire, Civil Defence & Transport Authorities		N/A	£5.0m	364 days
Money Market Funds (CNAV / LVNAV)	20	AAA	£10.0m	Liquid
Government bonds (gilts) and treasury bills	21	N/A	No limit	364 days
Multinational Development Banks		AAA	£1.0m	364 days

14. Investments in any parent and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that parent or its subsidiaries.

15. With the exception of investments with the UK Government, no investment with any one provider/organisation will exceed £6m in total.

Banks

16. **Banks 1** – Banks will be regarded as having high credit quality if they meet the following criteria:

    i) are UK banks (no country limit will apply to investments in the UK, irrespective of the sovereign credit rating); and/or
    ii) are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA or AA+

    and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

    i) Short term – F1 / P-1 / A-1
    ii) Long term – A- / A3 / A-

17. **Banks 2** – Part nationalised UK banks. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

18. **Banks 3** – The Council's own banker for transactional purposes if the bank falls below the above criteria. This is because it is needed to facilitate short term liquidity requirements (overnight and weekend) and to provide business continuity.

Building societies

19. The Council will use all building societies with assets in excess of £1bn which meet the ratings for banks outlined above.

Money market funds

20. Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. The Council will only use Money Market Funds with a Constant or Low Volatility Net Asset Value (CNAV / LVNAV).

Government bonds (gilts) and treasury bills (T-bills)

21. Conventional gilt is a liability of the Government which guarantees to pay the holder of the gilt a fixed cash payment (coupon) every six months until the maturity date, at which point the holder receives the final coupon payment and the return of the principal.

22. T-Bills are short term securities issued by HM Treasury on a discount basis. For example, a £100 coupon will be issued below its value to the investor and on maturity the investor will receive £100. The difference will be the capital gain received. The security can also be cashed before maturity in the active secondary market giving the lending party more freedom to cash in the T-bill before maturity date.

Foreign countries

23. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch. This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.

24. Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 (paragraph 17) above and will be limited to a maximum of £1 million to be placed with any non-UK country at any time;

25. Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Non-specified investments

26. Any investment not meeting the definition of a specified investment (see paragraph 13) is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any with low credit quality bodies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement.

27. The limit on the amount that may be held in non-specified investments, these being long-term investments only, at any time in the financial year is £3 million (excluding any accrued interest).

28. The advice of our treasury management consultants will be sought prior to making any long-term investment as to the appropriateness of the investment.

Non Specified investments				
	Paragraph (where applicable)	**Fitch Long term Rating (or equivalent)**	**£ Limit**	**Duration**
Any bank or building society (including forward deals in excess of one year from inception to repayment).	37	AAA AA+ AA AA-	£1.0m £1.0m £1.0m £1.0m	3 years 3 years 3 years 2 years
Gilt edged securities.	37	N/A	£1.0m	3 years
Supranational bonds greater than 1 year to maturity a) Multilateral development bank bonds b) A financial institution that is guaranteed by the United Kingdom Government	30, 37	AAA N/A	£1.0m £1.0m	3 years 3 years
Short Dated Bond Funds / Enhanced Cash Funds	30, 37	N/A	£2.0m per fund £6m in total	2 years
Pooled Funds and Collective Investment Schemes	31	N/A	£2.0m per fund £6m in total	N/A
UK Small & Medium Sized Enterprises via the Funding Circle	32	N/A	£5,000 per organisation (subject to an overall limit of £0.5m)	N/A
Investment in Property	33	Subject to the limits set out in the Capital Strategy		

Supranational bonds

29. The Council will invest in two types of bonds:

a) **Multilateral development bank bonds** are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).

b) **A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}). The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

Short Dated Bond Funds / Enhanced Cash Funds

30. Short dated Bond Funds / Enhanced Cash Funds are pooled investment vehicles with an average duration of between 3 months and 2 years with a variable net asset value (NAV) meaning their values can go down as well as up. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager and should be looked at as short to medium term investments.

Pooled Funds and Collective Investment Schemes

31. The Council will use pooled funds, for example pooled bond, equity and property funds that offer enhanced returns over the longer term but are potentially more volatile over the shorter term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council's investment objectives will be monitored regularly.

UK Small & Medium Sized Enterprises via the Funding Circle

32. The Council will make loans for periods of up to three years to small and medium sized enterprises (SME) in the UK that have been independently assessed as being of suitable credit quality. This will be done via the Funding Circle peer-to-peer lending platform. Nevertheless, it is anticipated that such companies will, on occasion, fail to repay the money lent. The Council will therefore ensure that the interest rate secured on such loans is high enough to cover the cost of defaults in all but the most exceptional circumstances.

Non-Treasury Investments

33. In addition to traditional treasury investments, the Council may also invest in property and make loans and investments for financial return and/or for service or policy purposes. Such investments will be subject to the Council's normal approval processes for revenue and capital expenditure and controls around their use are included in the Council's Capital Strategy and therefore do not comply with this Treasury Management Strategy.

Liquidity Management

34. Liquidity is defined by the CIPFA Treasury Code of Practice as "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable the Council at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives"

35. The proportion of the in-house portfolio that may be held in short-term and long-term investments will vary at any one time dependant on the cash flow position of the Council. The Council uses a manual cash book and spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

36. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

37. The amount of investments (both managed in house and externally) that may be held in long-term investments will be, measured on a rolling basis, at any point in time:

- No more than £1 million of outstanding investments are to be over 3 years until maturity, and
- No more than £3 million of outstanding investments are to be over 1 year until maturity.

38. The maximum term of any one investment is 3 years with the exception of those loans invested via the Funding Circle (see paragraph 32).

Planned Investment Strategy for 2021/22

39. 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). The cash flow forecast will be used to divide surplus funds into three categories:
    - Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
    - Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
    - Long-term – cash not required to meet cash flows and used primarily to generate investment income.

40. Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

41. Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks; this may be achieved by the use of suitable medium-term money market funds. Deposits with lower credit quality names will be made for shorter periods only, while deposits with higher quality names can be made for longer durations.

42. Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio. The Council will consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments.

Forward deals up to one year

43. Forward deals may be entered into with banks and building societies that meet the appropriate credit rating criteria for specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is less than one year.

Annex A

Credit ratings and definitions

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default.

Table A: Comparison of long-term credit ratings		
Moody's	**S&P**	**Fitch**
Investment grade		
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Speculative grade		
Ba1	BB+	BB+
Ba2	BB	BB
Ba3 and below	BB- and below	BB- and below

<u>(Negative) Rating Watch – Fitch Ratings</u>
Rating Watches indicate that there is a heightened probability of a rating change and the likely direction of such a change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or affirmed. However, ratings that are not on Rating Watch can be raised or lowered without being placed on Rating Watch first, if circumstances warrant such an action.

<u>Review for possible downgrade – Moody's (Standard & Poor's is very similar)</u>
Moody's uses the 'Watchlist' to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (UPG), on review for possible downgrade (DNG), or more rarely with direction uncertain (UNC). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

<u>(Negative) Rating Outlook – Fitch Ratings (Moody's and Standard & Poor's are similar)</u>
Rating Outlooks indicate the direction a rating is likely to move over a one- to two-year period. They reflect financial or other trends that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue. The majority of Outlooks are generally Stable, which is consistent with the historical migration experience of ratings over a one- to two-year period. Positive or Negative rating Outlooks do not imply that a rating change is inevitable and, similarly, ratings with Stable Outlooks can be raised or lowered without a prior revision to the Outlook, if circumstances warrant such an action. Occasionally, where the fundamental trend has strong, conflicting elements of both positive and negative, the Rating Outlook may be described as Evolving.

APPENDIX 'E'

CAPITAL & AFFORDABILITY RELATED INDICATORS

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

1 **Capital Expenditure –** This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements which have been updated in line with the phased borrowing requirements of the new property investment plans. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	**2019/20 Actual £000s**	**2020/21 Probable £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**	**2023/24 Estimate £000s**
Housing Revenue Account	3,753	4,280	7,916	10,900	8,500
General Fund	14,355	34,341	67,367	16,580	33,906
Non-Financial Investments	-	-	-	-	-
- Investment Properties	45,342	8,116	470	-	-
- Capital Loans	-	-	14,431	-	-
Total	**63,450**	**46,737**	**90,184**	**27,480**	**42,406**
Financed by:					
Capital Receipts	4,301	5,134	20,049	8,071	2,744
Earmarked Reserves	2,806	4,182	1,238	1,229	935
Capital Grants & Contributions	424	571	545	535	535
Revenue	1,294	3,965	6,716	10,148	8,192
Total	**8,825**	**13,852**	**28,548**	**19,983**	**12,406**
Net financing need for the year	**54,625**	**32,885**	**61,636**	**7,497**	**30,000**

* Non-financial Investments relate to areas such as capital expenditure on Investment Properties, Loans to third parties etc. The net financing need for non-financial investments included in the above table against expenditure is shown below:

Non-financial Investments	**2019/20 Actual £000s**	**2020/21 Probable £000s**	**2021/22 Estimate £000s**	**2022/23 Estimate £000s**	**2023/24 Estimate £000s**
Capital Expenditure	45,342	8,116	14,901	-	-
Financing costs met	-	-	14,431	-	-
Net financing need for the year	**45,342**	**8,116**	**470**	**-**	**-**
Percentage of total net financing need	83%	25%	1%	0%	0%

2 **The Council's borrowing need (the Capital Financing Requirement)** – The Council's Capital Financing Requirement (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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes.

The Council is asked to approve the CFR projections below:

	2019/20 Actual £000s	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
CFR at start of year: – HRA	101,956	101,956	100,000	100,000	100,000
– General Fund	91,695	100,684	126,339	172,677	179,760
– Non-financial investments	398,825	441,171	446,537	457,862	454,144
Total CFR at start of the year	**592,476**	**643,811**	**672,876**	**730,539**	**733,904**
Net financing need for the year	**54,625**	**32,885**	**61,636**	**7,497**	**30,000**
Less MRP/VRP and other financing movements	(3,289)	(3,820)	(3,973)	(4,132)	(4,297)
CFR at end of year (31 March)	**643,812**	**672,876**	**730,539**	**733,904**	**759,607**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in section 1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

3 **Core funds and expected investment balances** – The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances based on assumed cash movements in the MTFS and Capital Programme.

	2019/20 Actual £000s	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
General Fund (GF) Balance	12,368	6,733	3,161	(305)	(2,544)
HRA Balances	30,657	33,673	33,661	31,661	27,238
GF Earmarked reserves	14,177	11,049	6,342	5,944	6,050
Capital Receipts Reserve	6,806	12,216	9,889	15,338	20,246
Capital Grants Unapplied	2,210	1,105	0.00	0.00	0.00
Other	14,102	17,923	21,897	26,030	30,362
Expected investments at year end	**80,320**	**82,699**	**74,950**	**78,668**	**81,352**

4 **Affordability Prudential Indicators –** The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

5 **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. The net revenue stream is a term used to describe the amount in the General Fund to be met from Government grant and local taxpayers. For the HRA it is the total HRA income shown in the accounts i.e. rent and other income.

	2019/20 Actual %	2020/21 Probable %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
General Fund	93.67	153.16	334.12	279.07	308.37
HRA	46.12	46.02	46.03	46.03	46.03

The General Fund increase is due to additional borrowing to fund the Property Investment Strategy and ongoing property developments. These costs are fully met by additional revenue income rather than Government grant and local taxpayers hence the sharp increase in the percentage, however this income is not allowed to be included in this calculation. Including the income generated by the Property Investment Strategy in the calculations turns the General Fund figure into a negative figure (a net contributor).

6 **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 upper limit for principal sums invested for longer than 365 days is set at:

	2019/20 Actual £000s	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
Principal sums invested for longer than 365 days	0	3,000	3,000	3,000	3,000

7 **Investment risk benchmarking** - The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 3, 6 or 12 month LIBID (The London Interbank Bid Rate – the rate at which a bank is willing to brrow from other banks).

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

9 **Current Portfolio Position** – The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	2019/20 Actual £000s	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
External Debt					
Debt at 1 April	571,546	632,574	660,431	720,111	727,608
Expected change in debt	61,028	27,857	59,680	7,497	30,000
Actual gross debt at 31 March	**632,574**	**660,431**	**720,111**	**727,608**	**757,608**
CFR	**643,812**	**672,876**	**730,539**	**733,904**	**759,607**
Under / (over) borrowing	**11,238**	**12,445**	**10,428**	**6,296**	**1,999**

The positive balances show that the Council is under borrowing (i.e. borrowing internally using cash balances).

Within the above figures the level of debt relating to non-financial investment is:

	2019/20 Actual £000s	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
Non-financial investment debt at 1 April	571,546	632,574	660,431	720,111	727,608
Percentage of total external debt	70%	70%	68%	63%	62%

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

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

10 **The Operational Boundary** – This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational Boundary	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
General Fund	558,221	619,857	627,354	657,354
HRA	101,956	100,000	100,000	100,000
Other / Temporary Borrowing	16,500	18,000	18,200	18,900
Total Operational Boundary	**676,677**	**737,857**	**745,554**	**776,254**

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

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

Authorised limit	2020/21 Probable £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
General Fund	558,221	619,857	627,354	657,354
HRA (set at old HRA debt cap)	103,647	103,647	103,647	103,647
Other / Temporary Borrowing	33,100	36,200	36,600	38,100
Total Authorised Limit	**694,968**	**759,704**	**767,601**	**799,101**

This limit includes a "cushion" to allow for the non repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing).

12 **Treasury Management Limits on Activity**

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- 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:

Interest rate exposure UPPER limits	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
on fixed interest rates based on net debt	690,907	695,086	723,902
on variable interest rates based on net debt	0	0	0

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit) less Fixed Term investments. The Council heavily uses Money Market Funds whose rates change on a daily basis therefore it has been assumed that of the Expected Investments balance shown above, £10m will be invested at variable rates, the rest as fixed term investments.

As the Council does not borrow at variable interest rates, the upper limit on this type of debt will always be nil.

Maturity structure of interest rate borrowing 2020/21				
	FIXED interest		VARIABLE interest	
	Lower	Upper	Lower	Upper
Under 12 months	0%	25%	0%	0%
12 months to 2 years	0%	25%	0%	0%
2 years to 5 years	0%	25%	0%	0%
5 years to 10 years	0%	50%	0%	0%
10 years and above	0%	100%	0%	0%
20 years to 30 years	0%	100%	0%	0%
30 years to 40 years	0%	100%	0%	0%
40 years to 50 years	0%	100%	0%	0%

This indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding in respect of borrowing.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. If it is not clear whether an instrument should be treated as fixed or variable rate, then it is treated as variable rate.

The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. This will still allow a proportion of the debt to be taken as variable as fixed term investments maturing within one year are classified as variable for the purposes of this indicator.

GLOSSARY OF TREASURY TERMS

APPENDIX 'F'

Term	Definition
Basis Point	1/100th of 1%, i.e. 0.01%
Call Accounts	Deposit accounts with banks and building societies that provide same day access to invested balances. Interest paid is usually linked to the level of the official base rate.
CFR – Capital Financing Requirement	The underlying need to borrow for capital purposes
CDs – Certificates of Deposit	Negotiable time deposits issued by banks and building societies which can pay either fixed or floating rates of interest. They can be traded on the secondary market, enabling the holder to sell the CD to a third party to release cash before the maturity date.
CPI – Consumer Price Index	This is a measure of the general level of price changes for consumer goods and services but excludes most owner occupier housing costs such as mortgage interest payments, council tax, dwellings insurance, rents etc.
Corporate bonds	Corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments. The key difference between corporate bonds and government bonds is the risk of default.
Cost of Carry	Costs incurred as a result of an investment position, for example the additional cost incurred when borrowing in advance of need, if investment returns don't match the interest payable on the debt.
Counterparties	These are the organisations responsible for repaying the Council's investment upon maturity and making interim interest payments.
CDS – Credit Default Swaps	A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
DMADF – Debt Management Agency Deposit Facility	An investment facility run by part of the HM Treasury taking deposits at fixed rates for up to 6 months.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded.
DMO – Debt Management Office	An Agency of HM Treasury whose responsibility includes debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

GLOSSARY OF TREASURY TERMS

ECB – European Central Bank	Sets the central interest rates in the European Monetary Union area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%
EIP – Equal Instalments of Principal	A repayment method whereby a fixed amount of principal is repaid at regular intervals with interest being calculated on the principal outstanding.
Fixed Deposits	These are loans to banks, building societies or other local authorities which are for a fixed period and at a fixed rate of interest.
FRN – Floating Rate Notes	Debt securities with payments that are reset periodically against a benchmark rate, such as the three month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.
Gilts / Gilt Edged Securities	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest. At the end of the set period the investment is repaid (at face value) by the Government. However, during the life of a gilt it will often be traded (bought and sold) at a price decided by the market.
LIBID – London Interbank BID Rate	The interest rate at which London banks are willing to borrow from one another.
LIBOR – London Interbank Offer Rate	The interest rate at which London banks offer one another. Fixed every day by the British Bankers Association to five decimal places.
Maturity loans	A repayment method whereby interest is repaid throughout the period of the loan and the principal is repaid at the end of the loan period.
MMF – Money Market Funds	Externally managed pooled investment schemes investing in short term cash instruments.
MRP – Minimum Revenue Provision	The minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing.
MPC – Monetary Policy Committee	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Multilateral Investment banks	International financial institutions that provide financial and technical assistance for economic development.
Municipal Bonds Agency	An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.
Pooled Funds	Investments made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

GLOSSARY OF TREASURY TERMS

Prudential Code	A governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice.
PWLB – Public Works Loans Board	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow to finance capital spending from this source.
Repo – Reverse Repurchase Agreements	An agreement to purchase a security from a counterparty, typically a bank, and then sell the security back to the bank on a predetermined date for the principal amount plus interest. The security is collateral to be used in the event of a default by the counterparty.
Supranational Bonds	These are very similar in nature to gilts except that rather than being issued by the UK Government they are issued by supranational bodies supported by more than one national government such as the European Investment Bank which is supported by all of the EU member states.
Treasury Bills	Tradable debt securities issued by the UK Government with a short term maturity (3 months to 1 year) issued at a discount. The income from these is in the form of a capital gain rather than interest income.
TMP – Treasury Management Practices	Schedule of treasury management functions and how those functions will be carried out.
TMS – Treasury Management Schedules	More detailed schedules supporting the TMP at a detailed operational level specifying the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions
VRP - Voluntary Revenue Provision	A voluntary amount charged to an authority's revenue account and set aside towards repaying borrowing.
Working Capital	Timing differences between income and expenditure (debtors and creditors).

7. **TRANSPORT FOR THE SOUTH EAST**

To receive a report for information on Transport For The South East (to follow).

8. **EXCLUSION OF PRESS AND PUBLIC**

OFFICERS' RECOMMENDATION that –

the press and public be excluded from the meeting during discussion of the following report (s) under Section 100A(4) of the Local Government Act 1972 on the grounds that the report (s) in question would be likely to involve disclosure of exempt information of the description specified in appropriate paragraphs of Schedule 12A of the Act.

(To resolve)

PART II

Matters involving Exempt or Confidential Information in respect of which reports have not been made available for public inspection

a) Exempt Information

(No reports to be considered under this heading)

b) Confidential Information

(No reports to be considered under this heading).