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**22 February 2021**

Dear Member

## **Council – 24 February 2021**

I am now able to enclose, for consideration at the next meeting of the **Council**, the following reports that were unavailable when the agenda was printed.

- Minutes of the Scrutiny Committee held on 15 February 2021
- Minutes (and reports with recommendations) of the special meeting of the Cabinet held on 18 February 2021

Yours sincerely

**Sally Gabriel**  
**Member Services Manager**

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## MID DEVON DISTRICT COUNCIL

**MINUTES** of a **MEETING** of the **CABINET** held on 18 February 2021 at 6.00 pm

### **Present**

#### **Councillors**

R M Deed (Leader)  
R J Chesterton, R Evans, D J Knowles,  
B A Moore, C R Slade, Ms E J Wainwright  
and Mrs N Woollatt

### **Also Present**

#### **Councillor(s)**

S J Clist, L J Cruwys, Mrs C P Daw, F W Letch and  
B G J Warren

### **Also Present**

#### **Officer(s):**

Andrew Jarrett (Deputy Chief Executive (S151)), Jill May (Director of Business Improvement and Operations), Maria De Leiburne (Legal Services Team Leader), Andrew Busby (Corporate Manager for Property, Leisure and Climate Change), Dean Emery (Corporate Manager for Revenues, Benefits and Recovery), Lisa Lewis (Corporate Manager for Business Transformation and Customer Engagement), Simon Newcombe (Corporate Manager for Public Health, Regulation and Housing), Mike Lowman (Building Services Operations Manager), Matthew Page (Corporate Manager for People, Governance and Waste), Stephen Bennett (Building Surveyor), Claire Fry (Housing Services Operations Manager), Catherine Yandle (Operations Manager for Performance, Governance and Health & Safety), Fiona Wilkinson (Principal Revenues & Benefits Officer) and Sally Gabriel (Member Services Manager)

### 319. **APOLOGIES (00-03-16)**

There were no apologies.

### 320. **PROTOCOL FOR REMOTE MEETINGS (00-03-24)**

The protocol for remote meetings was **NOTED**.

### 321. **PUBLIC QUESTION TIME**

The Chairman read a statement on behalf of Mr Quinn:

Concerning Agenda Item 5 - Minutes of the Last Meeting

The minutes of the last meeting of Cabinet, on 4 February 2021, correctly record that I asked two questions regarding the £5,000 retention payment made to the Deputy Chief Executive.

The minutes also show that answers would not be provided until that item was discussed in the meeting.

I was made to wait, for four hours, before the Leader read out a pre-prepared statement about the payment.

However, this statement did not give the answers to the questions asked. So, please, will you give me a specific answer to each of the questions I asked at the last meeting:

- a) How many retention payments were made to other staff over this period?
- b) Can the Business Case, used to substantiate the award of this payment, be made available to the public?

The Chairman indicated that answers would be provided under Item 5 on the agenda.

#### **322. DECLARATIONS OF INTEREST UNDER THE CODE OF CONDUCT (00-05-11)**

Members were reminded of the need to make declarations of interest when appropriate.

#### **323. MINUTES OF THE PREVIOUS MEETING (00-05-25)**

The minutes of the previous meeting were approved as a correct record.

The Chairman provided answers to the question posed in public question time:

With regard to the number of retention payments made to staff – just the one that was highlighted at the previous meeting.

With regard to the business case being made available to the public – this was sensitive information relating to an individual and therefore the business case would not be made available to the public.

#### **324. RESOURCE AND WASTE MANAGEMENT STRATEGY FOR DEVON AND TORBAY (00-06-58)**

Following consideration of a \*report of the Operations Manager for Street Scene, the Environment Policy Development Group had made the following recommendation that: the draft Resource and Waste Management Strategy for Devon and Torbay be approved and proceed to public consultation.

The Cabinet Member for the Environment outlined the contents of the report stating that the draft strategy provided a basis for the management of local authority collected waste across Devon and Torbay to 2030. Its objectives were aimed at reducing waste, reducing the carbon impact of managing waste and conserving natural resources and that by working together, the local authorities, their partners and the public would help to ensure a sustainable future for waste management across the county.

Consideration was given to the significance of the figures in the tables on page 112 of the agenda pack.

**RESOLVED** that the recommendation of the Policy Development Group be approved.

(Proposed by Cllr C R Slade and Cllr R J Chesterton)

**Reason for the decision:** to ensure that the Council has a Resource and Waste Management Strategy which proceeds to public consultation

Note: \*Report previously circulated, copy attached to minutes.

### 325. **CONDITION AND FUTURE USE OF COUNCIL OWNED GARAGES (00-12-21)**

Following consideration of a \*report of the Corporate Manager for Public Health, Regulation and Housing, the Homes Policy Development Group had made the following recommendation that: the adoption of a 6 yearly planned garage maintenance programme by bringing forward budgeted funds from future years be approved.

The Cabinet Member for Housing and Property Services outlined the contents of the report stating that this was an update on the current garage stock situation, with plans for modernisations and opportunities for change of use/redevelopment and the adoption of a 6 year rather than the existing 12 year planned maintenance programme. He outlined the number of units currently occupied and the number of voids, the opportunities available and the condition of the garage stock.

Consideration was given to:

- Discussions that had taken place at the meeting of the Policy Development Group with regard to the potential for various sites
- Whether the Ford Road, Tiverton site could be used for parking spaces rather than change of use
- The flexibility of the package before Members and that the request (above) be noted.
- Occupancy rates and the need to modernise some of the stock to fit the modern day car
- Whether Ward Members would continue to be consulted on the opportunities available
- The inspection programme for the stock.

**RESOLVED** that the recommendation of the Policy Development Group be approved.

(Proposed by Cllr R B Evans and seconded by Cllr C R Slade)

**Reason for the decision:** the need to agree the adoption of a 6 yearly planned garage maintenance and modernisation programme by bringing forward budgeted funds from future years.

Note: \*Report previously circulated, copy attached to minutes.

**326. GRASS VERGES ON HRA LAND WORKING GROUP REPORT WITH RECOMMENDATIONS TO THE CABINET (00-26-38)**

Following consideration of a report of the Corporate Manager for Public Health, Regulation and Housing, the Homes Policy Development Group had made the following recommendations:

- a) The procedure shown at Appendix A which is designed to ensure that the conflicting needs of stakeholders are taken into account when residents make requests regarding different maintenance arrangements/agreements relating to the upkeep of grass verges and other grassed areas on the housing estate.
- b) An increase in the Environmental Improvement Budget to £10,000 and a review of the procedures relating to it to ensure that it can be better used to support initiatives designed to encourage greater biodiversity.

The Cabinet Member for Housing and Property Services outlined the contents of the report highlighting the work of the Task and Finish Group that had made recommendations to the Homes Policy Development Group. He informed the meeting that there were many strands associated with the service delivery in relation to grounds maintenance in general and grass cutting on housing estates and that the process map attached to the report considered the variety of requests for grass-cutting and how this would be progressed.

Consideration was given to:

- Health and safety and biodiversity issues
- The need to explore this work as part of the Climate Action Plan
- The work of the Neighbourhood Officers
- A review would take place in 12 months.

**RESOLVED** that the recommendations of the Policy Development Group be approved.

(Proposed by Cllr R B Evans and seconded by Cllr C R Slade)

**Reason for the decision:** In order for a policy/procedure to be in place which provides a decision making framework for officers within the Estates team to use when considering requests made by different stakeholders.

Note: \*Report previously circulated, copy attached to minutes.

**327. SINGLE EQUALITIES POLICY AND EQUALITY OBJECTIVES (00-35-39)**

Following consideration of a report of the Operations Manager for Performance, Governance and Health & Safety, the Community Policy Development Group had recommended that the Single Equalities Scheme and Equality Objectives be approved.

The Cabinet Member for Community Well-Being outlined the contents of the report stating that under the Equality Act 2010 local authorities had a duty to have due regard to:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

He also reiterated the equality objectives as outlined in the report.

Consideration was given to:

- Motion 564 to Council with regard to equalities
- Ensuring equality in procurement and commissioning
- Mental health issues and the recommendation from the Menopause Working Group with regard to well-being ambassadors being put in place.
- The processes that would take place to achieve the vision within the scheme

**RESOLVED** that the recommendation of the Policy Development Group be approved.

(Proposed by Cllr D J Knowles and seconded by Cllr Mrs N Woollatt)

**Reason for the Decision** – To ensure that the Council fulfils its statutory duties under the Equality Act 2020

Note: \*Report previously circulated, copy attached to minutes

### 328. **CORPORATE RECOVERY POLICY (00-42-31)**

Following consideration of a report of the Deputy Chief Executive (S151), the Corporate Manager of Revenues, Benefits & Recovery and the Principal Revenues and Benefits Officer, the Audit Committee had recommended that the updated Corporate Recovery Policy be approved.

Following discussion it was **AGREED** that this item be **deferred** to the next meeting of the Cabinet so that the latest guidance available could be included.

### 329. **DRAFT INTERIM DEVON CARBON PLAN (00-43-16)**

The Cabinet had before it a \* report of the Corporate Manager for Property, Leisure and Climate Change providing Members with a copy of the Interim Devon Carbon Plan that was out for public consultation.

The Cabinet Member for Climate Change outlined the contents of the report by way of presentation providing the following information:

- The background to the plan which identified the evidence gathering that had taken place, the consultation period, the proposed citizens assembly and the production of the final plan
- How the plan was designed for everybody, which created a roadmap for Devon and outlined barriers and opportunities
- The themes within the plan
- The 8 main objectives of the plan
- Details of how might MDDC be well placed to contribute to the plan and the opportunities that would work within Mid Devon
- The feedback that would be provided to the Carbon Plan team

Consideration was given to:

- Farming initiatives
- The pros and cons of anaerobic digesters which included transport issues and the impact of those on the climate
- The costs of achieving the plan
- How the Cabinet Member for Climate Change could liaise with other groups to further her work
- How supermarkets in Cornwall were working with local producers to sell local products
- The continued use of plastics on supermarket products

**RESOLVED** that the feedback from the Environment Policy Development Group on the Interim Devon Carbon Plan be **AGREED** and that feedback be submitted to the Devon Climate Emergency Partnership.

(Proposed by Cllr B A Moore and seconded by Cllr Miss E Wainwright)

**Reason for decision** – to provide feedback as part of the consultation process

Note: \*Report previously circulated, copy attached to minutes)

### 330. **TREASURY MANAGEMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY (1-04-00)**

The Cabinet had before it a \*report of the Deputy Chief Executive (S151) requesting approval of the proposed Treasury Management Strategy and Annual Investment Strategy for 2021/22.

The Cabinet Member for Finance outlined the contents of the report stating that the Council was required to operate a balanced budget which meant that cash raised during the year would meet cash expenditure; part of the treasury management operation was to ensure that cash flow was adequately planned with cash being available when it was needed and surplus monies invested. The counterparty limits set out in the report were to enable the continued administration of Covid-19 grants to businesses and to allow for the administration of future emergency grants as required.

The Deputy Chief Executive (S151) stated that the strategy was heavily prescribed by CIPFA with regard to whom monies could be lent to and that there was always a focus on the security of any investment.



Consideration was given to the acronyms within the report and an explanation of those and different types of credit ratings.

**RECOMMENDED** to Council that:

1. The proposed Treasury Management Strategy and Annual Investment Strategy for 2021/22, including the prudential indicators for the next 3 years and the Minimum Revenue Provision Statement (Appendix 1), be approved.
2. The new limit on the Council's bank account be approved as per the table of counterparty limits in paragraph 5.2.6, and narrative in section 5.3, to enable the continued administration of Covid-19 grants to businesses and to allow for the administration of future emergency grant funds should they arise.

(Proposed by Cllr B A Moore and seconded by Cllr C R Slade)

**Reason for decision** – there is a need for the Council to approve the Treasury Management Strategy and Annual Investment Strategy for 2021/22.

Note: \*Report previously circulated, copy attached to minutes

### 331. **CAPITAL STRATEGY (1-13-55)**

The Cabinet had before it a \* report of the Deputy Chief Executive (S151) requesting Cabinet to recommend to Council the proposed Capital Strategy 2021/22.

The Cabinet Member for Finance outlined the contents of the report stating that the strategy underpinned the budget and focussed on the management of capital expenditure and treasury management decisions.

The Deputy Chief Executive (S151) stated that the majority of the strategy was prescriptive aimed to direct stakeholders to the relevant documents relating to treasury decisions, asset management and the capital programme for the coming years.

**RECOMMENDED** to Council that:

The proposed Capital Strategy for 2021/22 is approved.

**Reason for decision** – there is a need for the Council to approve the Capital Strategy.

(Proposed by Cllr B A Moore and seconded by Cllr R B Evans)

Note: \*Report previously circulated, copy attached to minutes.

332. **EXTERNAL PAINTING AND REPAIRS BEFORE PAINTING OF COUNCIL HOMES 2021-26 (1-18-51)**

The Cabinet had before it a \* report of the Building Services Operations Manager advising Members on the results for the tendering of the External Painting and Repairs of the Council's homes for the next five years (2021-2026) and confirm award of the contract.

The Cabinet Member for Housing and Property Services outlined the contents of the report highlighting the standard process for the results of the tender process.

Consideration was given to whether the ability to deal with local businesses was part of the tender process.

**RESOLVED** that the contract for works required to decorate the Council's homes for 2021-2026 be awarded to Contractor 5.

(Proposed by Cllr R B Evans and seconded by Cllr D J Knowles)

**Reason for decision** - there was a need to confirm the award of the tender so that the specified work could be progressed.

Note: \*Report previously circulated, copy attached to minutes.

333. **PERFORMANCE AND RISK**

The Cabinet had before it and **NOTED** a \* report of the Operations Manager for Performance, Governance and Health & Safety providing Members with an update on the performance against the Corporate Plan and local service targets.

Consideration was given to the 'Build Council Houses' target and that a target would be set in the next financial year.

Note: \*Report previously circulated, copy attached to minutes.

(The meeting ended at 7.25 pm)

**CHAIRMAN**

**Cabinet**  
**18 February 2021**

**Treasury Management Strategy Statement**  
**Minimum Revenue Provision Policy Statement and Annual Investment Strategy**  
**2021/22**

**Cabinet Member:** Councillor Andrew Moore, Cabinet Member for Finance  
**Responsible Officer:** Andrew Jarrett, Deputy Chief Executive (S151)

**Reason for Report:** To agree the proposed Treasury Management Strategy and Annual Investment Strategy for 2021/22.

**RECOMMENDATION(S):**

1. That the proposed Treasury Management Strategy and Annual Investment Strategy for 2021/22, including the prudential indicators for the next 3 years and the Minimum Revenue Provision Statement (Appendix 1), be approved.
2. That the new limit on the Council's bank account be approved as per the table of counterparty limits in paragraph 5.2.6, and narrative in section 5.3, to enable the continued administration of Covid-19 grants to businesses and to allow for the administration of future emergency grant funds should they arise.

**Relationship to the Corporate Plan:** Maximising our return from all associated treasury activities enables the Council to support current levels of spending in accordance with our Corporate Plan.

**Financial Implications:** Good financial management and administration underpins the entire strategy.

**Legal Implications:** Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

**Risk Assessment:** The S151 Officer is responsible for the administration of the financial affairs of the Council. Implementing this strategy and the CIPFA Code of Practice on Treasury Management manages the risk associated with the Council's treasury management activity.

**Equality Impact Assessment:** No equality issues identified for this report.

**Impact on Climate Change:** There are no direct impacts from the content of this report.

## 1.0 Background

- 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 service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 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 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 1.5 CIPFA defines treasury management as:  
*"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

## 2.0 Reporting requirements

### 2.1 Capital Strategy

- 2.1.1 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; and
  - the implications for future financial sustainability.

- 2.1.2 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.
- 2.1.3 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:
- the corporate governance arrangements for these types of activities;
  - any service objectives relating to the investments;
  - the expected income, costs and resulting contribution;
  - the debt related to the activity and the associated interest costs;
  - the payback period (MRP policy);
  - for non-loan type investments, the cost against the current market value and
  - the risks associated with each activity.
- 2.1.4 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.
- 2.1.5 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.
- 2.1.6 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.
- 2.1.7 To demonstrate the proportionality between the treasury operations and the non-treasury operations, high-level comparators are shown throughout this report.

## **2.2 Treasury Management reporting**

- 2.2.1 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.
- a. Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
- the capital plans (including prudential indicators);
  - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
  - the treasury management strategy (how the investments and borrowings are to be organised), including treasury indicators; and
  - an investment strategy (the parameters on how investments are to be managed).

- b. A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- c. An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**2.2.2 Scrutiny.** The above reports are required to be adequately scrutinised before being recommended to the Council. The Cabinet undertakes this role.

## **2.3 Treasury Management Strategy for 2021/22**

**2.3.1** The strategy for 2021/22 covers two main areas:

### **2.3.2 Capital issues**

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

### **2.3.3 Treasury management issues**

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy; and
- The policy on the use of external service providers.

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

## **2.4 Training**

**2.4.1** The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training requirements will be reviewed in 2021/22 and training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

## **2.5 Treasury management consultants**

**2.5.1** The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers.

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

### 3.0 The Capital Prudential Indicators 2021/22 – 2023/24

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

#### 3.2 Capital expenditure

3.2.1 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The table below shows planned expenditure in the capital programme.

Capital expenditure £000	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non-HRA	2,046	2,299	7,527	14,047	13,727
HRA	4,006	2,552	11,648	15,498	7,485
Commercial activities/ non-financial investments *	6,146	2,942	15,879	15,969	12,926
<b>Total</b>	<b>12,198</b>	<b>7,793</b>	<b>35,054</b>	<b>45,514</b>	<b>34,138</b>

*\* Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.*

3.2.2 Other long-term liabilities - The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

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

Financing of capital expenditure £000	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital receipts	463	395	2,408	1,755	1,638
Capital grants	1,847	986	1,624	10,896	7,056
Capital reserves	0	0	90	83	41
Revenue	3,637	3,420	6,477	6,064	3,942
<b>Net financing need for the year</b>	<b>6,251</b>	<b>2,992</b>	<b>24,455</b>	<b>26,716</b>	<b>21,461</b>



3.2.4 The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

<b>Commercial activities / non-financial investments £000</b>	<b>2019/20 Actual</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>
Capital Expenditure	6,146	2,942	15,879	15,969	12,926
Financing costs	0	0	39	96	103
<b>Net financing need for the year</b>	<b>6,146</b>	<b>2,942</b>	<b>15,918</b>	<b>16,065</b>	<b>13,029</b>
Percentage of total net financing need %	98.3%	98.3%	65.1%	60.1%	60.7%

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

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

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

3.3.3 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £2.532m of such schemes within the CFR.

3.3.4 The Council is asked to approve the CFR projections below:

<b>£000</b>	<b>2019/20 Actual</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>
<b>Capital Financing Requirement</b>					
CFR - non housing	7,277	9,414	11,874	13,149	18,887
CFR - housing	40,431	39,607	43,406	51,202	52,398
CFR - Commercial activities / non-financial investments	8,404	9,564	25,263	39,959	38,301
<b>Total CFR</b>	<b>56,112</b>	<b>58,585</b>	<b>80,543</b>	<b>104,310</b>	<b>109,586</b>
<b>Movement in CFR*</b>		<b>2,473</b>	<b>21,958</b>	<b>23,767</b>	<b>5,276</b>

*\*The movement in CFR will not directly match the Net Financing Need (see 3.2.3) due to the annual MRP charge reducing the balance in line with each*



*asset's expected life. The CFR is also reduced when loan repayments are received from 3 Rivers Developments Ltd, so that only outstanding loan balances are included within the CFR.*

## 4.0 Borrowing

4.1 The capital expenditure plans set out in section 3 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### 4.2 Current portfolio position

4.2.1 The overall treasury management portfolio as at 31 March 2020, with forward projections, is summarised below. The table shows the actual external debt (the treasury management operations) against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

£000	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
<b>External Debt</b>					
<b>Debt at 1 April</b>	<b>40,718</b>	<b>38,937</b>	<b>37,104</b>	<b>46,234</b>	<b>70,310</b>
Expected change in Debt	-1,781	-1,833	9,130	24,076	8,063
<b>Other long-term liabilities (OLTL) at 1 April</b>	<b>311</b>	<b>980</b>	<b>2,532</b>	<b>2,404</b>	<b>2,004</b>
Expected change in OLTL	669	1,552	-128	-400	-321
<b>Actual gross debt at 31 March</b>	<b>39,916</b>	<b>39,636</b>	<b>48,638</b>	<b>72,314</b>	<b>80,056</b>
Capital Financing Requirement	56,114	58,586	80,543	104,310	109,586
<b>Under / (over) borrowing</b>	<b>16,198</b>	<b>18,950</b>	<b>31,905</b>	<b>31,996</b>	<b>29,530</b>

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

4.2.3 The Deputy Chief Executive (S151) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### 4.3 Treasury Indicators: limits to borrowing activity

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

Operational boundary £000	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	57,000	79,000	103,000	108,000
Other long term liabilities	3,000	3,000	3,000	2,000
Total	60,000	82,000	106,000	110,000

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

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

Authorised limit £000	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	62,000	84,000	108,000	113,000
Other long term liabilities	7,000	7,000	7,000	6,000
Total	69,000	91,000	115,000	119,000

### 4.4 Prospects for interest rates

**4.4.1** The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Bank Rate View	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB Rate	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%	0.90%	0.90%	0.90%	1.00%	1.00%	1.00%	1.00%
10yr PWLB Rate	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.20%	1.30%	1.30%	1.30%	1.30%
25yr PWLB Rate	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.80%
50yr PWLB Rate	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%	1.50%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%

**4.4.2** The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate

unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged.

4.4.3 A more thorough economic outlook is detailed in appendices 2 and 3.

## **4.5 Borrowing strategy**

4.5.1 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 level of internal borrowing will increase through 2021/22 to help mitigate the impact to Council finances of low interest rates on investments (see 5.5 investment strategy for more detail). This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

4.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Deputy Chief Executive (S151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *If it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing would be postponed.*
- *If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*
- The Council will consider all external loan options available in the market including Public Works Loans Board, Banks, Other Local Authorities and the Municipal Bond Agency. The term and repayment profile of any loans will be determined by the periods we need finance. The level of borrowing will stay within the limits.

4.5.3 Any decisions will be reported to the Cabinet at the next available opportunity.

## **4.6 Policy on borrowing in advance of need**

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

- 4.6.2 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.

#### **4.7 Debt rescheduling**

- 4.7.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the penalties currently being applied to premature repayments are prohibitive.
- 4.7.2 If rescheduling is done, it will be reported to the Cabinet at the earliest meeting following its action.

#### **4.8 New financial institutions as a source of borrowing and / or types of borrowing**

- 4.8.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:
- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate)
  - Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry”)
  - Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time)
- 4.8.2 The degree to which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

#### **4.9 Approved Sources of Long and Short term Borrowing**

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
Municipal Bond Agency	●	●
Local Authorities	●	
Banks	●	●
Finance Leases	●	●

### **5.0 Annual Investment Strategy**

#### **5.1 Investment policy – management of risk**

- 5.1.1 The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).
- 5.1.2 The Council’s investment policy has regard to the following: -

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

- 5.1.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield (return).
- 5.1.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -
- 5.1.5 Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- 5.1.6 **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, which the Council will achieve through engaging with its advisors to maintain a monitor on market pricing.
- 5.1.7 **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 5.1.8 The Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. See Appendix 4 for a list.
- 5.1.9 **Lending and transaction limits** (amounts and maturity) for each counterparty will be set through applying the matrix table in paragraph 5.2.6.
- 5.1.10 The Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 5.5.11).
- 5.1.11 Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 5.4.2).
- 5.1.12 The Council has engaged external consultants (see paragraph 2.5.1), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.
- 5.1.13 All investments will be denominated in sterling.
- 5.1.14 As a result of the change in accounting standards for 2019/20 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at

the end of the year to the General Fund. (In November 2018, the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1 April 2018.)

5.1.15 However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see section 5.6). Regular monitoring of investment performance will be carried out during the year.

5.1.16 The above criteria are unchanged from last year.

## 5.2 Creditworthiness policy

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

5.2.2 The Deputy Chief Executive (S151) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

5.2.3 Credit rating information is supplied by Link Asset Services, our treasury advisors, 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 the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty with the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

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

- Banks 1 - good credit quality – the Council will only use banks which:
  - i. are UK banks; and/or
  - ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term Fitch rating of AAA



and have, as a minimum, a credit rating of F1 (Fitch), with regard for Moody's and Standard & Poor's credit ratings (where rated).

- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. These banks can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Building societies – The Council will use all societies which:
  - iii. Meet the Fitch rating for banks outlined above; and
  - iv. Have assets in excess of £1bn;
- Money Market Funds Fitch CNAV AAmmf/AAA
- Money Market Funds LNAV AAmmf/AAA
- Money Market Funds VNAV AAmmf/AAA
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, Police, Fire, parish councils and other public bodies

**5.2.5 Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria 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 will be applied to compare the relative security of differing investment opportunities.

**5.2.6 Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Short term Rating	Money and/or % Limit	Transaction Limit	Time Limit
The Council's bank* (currently NatWest)	F1	£5m + balance of grant funds	n/a	n/a
Banks 1 higher quality	F1	£5m	£5m	2yr
Banks 1 medium quality	n/a	n/a	n/a	n/a
Banks 1 lower quality	n/a	n/a	n/a	n/a
Banks 2 – part nationalised	F1	£5m	£5m	1yr
Limit 3 category – Council's banker (not meeting Banks 1)	F2/F3	£5m (call account)	£5m (call account)	1 day
Other institutions limit (including	n/a	n/a	n/a	n/a

subsidiaries)				
<b>DMADF</b>	<b>UK sovereign rating</b>	<b>unlimited</b>	<b>unlimited</b>	<b>unlimited</b>
<b>Local authorities &amp; other public bodies</b>	<b>N/A</b>	<b>unlimited</b>	<b>unlimited</b>	<b>unlimited</b>
<b>Other Bodies**</b>	<b>N/A</b>	<b>£3m</b>	<b>£3m</b>	<b>unlimited</b>
	<b>Fund Rating</b>	<b>Money and/or % Limit</b>	<b>Transaction Limit</b>	<b>Time Limit</b>
<b>Money Market Funds - CNAV</b>	<b>AAAmmf/AAA</b>	<b>£2m</b>	<b>£2m</b>	<b>liquid</b>
<b>Money Market Funds - LVNAV</b>	<b>AAAmmf/AAA</b>	<b>£2m</b>	<b>£2m</b>	<b>liquid</b>
<b>Money Market Funds - VNAV</b>	<b>AAAmmf/AAA</b>	<b>£2m</b>	<b>£2m</b>	<b>liquid</b>

*\*This is a new limit to allow the continued administration of business grant funds – see 5.3 for further details.*

*\*\*Relates to financial investments only – non-financial investments, such as commercial loans or purchases of income yielding assets, are covered in the Capital Strategy.*

5.2.7 The proposed criteria for specified and non-specified investments are shown in Appendix 4 for approval.

#### 5.2.8 Creditworthiness

5.2.9 Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30/06/2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for expected credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on actual levels of credit losses. This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.



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

### 5.3 Change to the Council's bank limit

5.3.1 Towards the end of March 2020, approval was given by the Deputy Chief Executive (S151) and the Cabinet lead for Finance to breach the £5m counterparty limit with the Council's banking provider, NatWest, for an initial period of three months. This was to allow the administration of the business grant schemes announced by Government as part of the Covid-19 response, and to ensure sufficient funds were held whilst cash flows remained volatile. The Council received £22.732m on 1 April 2020 to fund these schemes, which ended on 28 August 2020 leaving £2.548m unspent. This continues to be held in the Council's NatWest account until repayment is required.

5.3.2 Further approval was given at the end of June for a temporary counterparty limit of £10m with NatWest for 3 months, which was extended at the start of October for a further 3 months. This allowed the administration of new business grant funds during England's second lockdown and local tiered restrictions during November & December, with £3.108m and £0.436m received respectively.

5.3.3 At the start of January a new round of business grant funds were announced to get businesses through the most recent lockdown, with this Council receiving a total of £7.307m to fund the schemes. With the grant funds from November & December still ongoing, this increased the total of grant funds being held to £12.108m, and so new temporary approval was given to replace the £10m counterparty limit with NatWest to £5m plus the balance of any grant funds being administered by the Council.

5.3.4 **Recommendation 2 proposes that this current flexible limit of £5m plus the balance of grant funds for the Council's bank, NatWest, be added to the Council's authorised counterparty limits in 5.2.6 above.** This allows the continued administration of current and future business grant funds, which are expected to continue well into 2021/22, whilst limiting the Council's own funds held with NatWest to £5m and so keeping financial risk at an acceptable level.

### 5.4 Other limits

5.4.1 Due care will be taken to consider the country, group and sector exposure of the Council's investments.

5.4.2 **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AAA. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

5.4.3 **Other limits.** In addition:

- no more than 30% of overall investment balances will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies; and

- the Council will not hold more than £5m with any banking group.

## **5.5 Investment strategy**

### **5.5.1 In-house funds**

5.5.2 Over recent years, the Council has typically held upwards of £20m in short term investments with the objective of managing cash flows whilst earning a return at the same time. Before the Covid-19 pandemic hit in Q4 2019/20, interest rates had been increasing gradually, with some short term investments earning over 1% and generating a return for the Council of £238k in 2019/20. Since then, interest rates have plummeted, and with only a very limited recovery forecast during 2021/22 the expected annual return on current levels of short term investments is circa £20k. With significant levels of capital expenditure expected during 2021/22, it is recommended that the Council maximises its use of internal borrowing rather than seeking to fund projects through new external borrowing.

5.5.3 Retaining cash balances (short term investments + current account [excluding Covid-19 grant funds]) of £10m would be enough to ensure a regular turnover in short term investments to manage the fluctuations in cash flows. Therefore, internal borrowing will be used to finance capital expenditure where cash balances remain above £10m, with external borrowing only sought to keep balances above this limit. With current interest rates, this could result in net savings of around £66k per annum versus maintaining cash balances at current levels.

5.5.4 As cash balances reduce through 2021/22, there will be a need to reduce the average maturity on investments to ensure a regular turnover of maturities, which will be matched with the Council's large cash outflows. This will mean the primary consideration for investments will be the core balance and cash flow requirements, with the outlook for short-term interest rates only considered where significant changes are expected. Greater returns are usually obtainable by investing for longer periods, however this needs to be balanced with the Council's cash requirements.

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

### **5.5.5 Investment returns expectations**

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

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

2020/21	0.10%
2021/22	0.10%

2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Later years	2.00%

5.5.8 The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population.

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

5.5.10 **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.

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

Upper limit for principal sums invested for longer than 365 days	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)
Principal sum invested for longer than 365 days but not exceeding 2 years.	5	5	5

5.5.12 For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits (overnight to 365 days) in order to benefit from the compounding of interest.

#### 5.5.13 **Negative investment rates**

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

5.5.15 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.

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

## **5.6 Investment performance / risk benchmarking**

5.6.1 The Council will use an investment benchmark to assess the performance of its investment portfolio of 7 day LIBID.

## **5.7 End of year investment report**

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

## **5.8 Commercial and Non-Financial Investments**

5.8.1 **Property Investments.** A limit of £5m will be applied to the use of non-specified investments. This principally relates to property funds, which is within the Local Authorities' Property Fund via CCLA.

5.8.2 **Non-Financial Investments.** On the 30<sup>th</sup> March 2017, Cabinet approved the establishment of a Special Purpose Vehicle – 3 Rivers Developments Limited and that the Council could lend to 3 Rivers Developments Ltd. This company is a subsidiary of Mid Devon District Council and has the sole purpose of property development.

5.8.3 There is no cap on the amount of money that can be loaned to 3 Rivers Developments Ltd. However, for each new project the company takes on, there is an individual loan agreement signed by the S151 Officer prior to any lending. All project spending / borrowing requirements are approved annually by Cabinet as part of the company's Annual Report/Business Plan.

5.8.4 Please refer to the Capital Strategy for a more detailed programme and borrowing streams.

## APPENDICES

1. Prudential and treasury indicators and MRP statement
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the Section 151 Officer
8. Current list of eligible counterparties
9. Treasury Management Practices (TMPs)

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## APPENDIX 1

### 1.0 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2021/22 – 2023/24

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

#### 1.1 Capital expenditure

See section 3.2 for the breakdown of capital expenditure.

#### 1.2 Affordability prudential indicators

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

##### Ratio of financing costs to net revenue stream

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

%	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non-HRA	-0.13%	2.65%	8.41%	7.46%	8.40%
HRA	15.54%	15.01%	15.10%	14.49%	14.12%

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

#### 1.3 Minimum Revenue Provision (MRP) Policy Statement

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities & Local Government *Statutory Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently updated in 2018.

The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The Council is recommended to approve the following MRP Statement:

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

- **Based on CFR** – MRP will be based on the CFR.

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

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

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

These options provide for a reduction in the borrowing need over approximately the asset's life.

Finance leases will have their capital financing applied on a straight line basis over the life of the lease contract.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

The MRP requirement for a finance lease or PFI contract is deemed to be equal to the element of the charge/rent that goes to write down the balance sheet liability.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan.

Capital expenditure incurred during 2021/22 will not be subject to a MRP charge until 2022/23.

#### **1.4 MRP Overpayments**

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2020, the total VRP overpayments were £0m.

## APPENDIX 2

### 2.0 INTEREST RATE FORECASTS 2021-2024

#### Link Asset Services Interest Rate View

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Bank Rate View	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB Rate	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%	0.90%	0.90%	0.90%	1.00%	1.00%	1.00%	1.00%
10yr PWLB Rate	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.20%	1.30%	1.30%	1.30%	1.30%
25yr PWLB Rate	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.80%
50yr PWLB Rate	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%	1.50%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16<sup>th</sup> December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged.

#### Gilt yields / PWLB rates

There was much speculation during the second half of 2019 that bond markets were in a bubble that was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc.

The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

Gilt yields had already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up in March, we have subsequently seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in



western economies, and moved cash into safe haven assets such as government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

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

### Investment and borrowing rates

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- **Borrowing interest rates** fell to historically very low rates as a result of the Covid-19 crisis and the quantitative easing operations of the Bank of England. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019 required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. It also introduced the following rates for borrowing for different types of capital expenditure: -
  - **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
  - **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- Because of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.
- On 25/11/2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The new margins over gilt yields are as follows:
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)

- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

## APPENDIX 3

### 3.0 ECONOMIC BACKGROUND

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 05/11/2020. However, it revised its economic forecasts to take account of a second national lockdown from 05/11/2020 to 02/12/2020 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out.
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
  - The economy would recover to reach its pre-pandemic level in Q1 2022.
  - The Bank also expected there to be excess demand in the economy by Q4 2022.
  - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the “inflation risks were judged to be balanced”.
- There was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months.
- If **inflation** rises to 2% in the next couple of years, it is unlikely the MPC will raise Bank Rate until they can clearly see that level of inflation is going to be persistently above target. There could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy.
- Household saving rates having been exceptionally high since the first Covid-19 lockdown in March, so there is plenty of pent-up demand and purchasing power. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5<sup>th</sup> November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.
- There will still be some **painful longer term adjustments** as, for example, office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also

likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

- **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31/12/2020, the final agreement on 24/12/2020, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis.
- **EU.** In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by “only” 4.4%.
- With inflation expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use.
- **World growth.** World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.
- Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products. It is achieving this by massive financial support (i.e. subsidies) to state owned firms, government directions to other firms, technology theft and restrictions on market access by foreign firms. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.
- Central banks are likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.



## APPENDIX 4

### 4.0 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

**Specified Investments:** All investments with a high level of credit quality subject to a maturity limit of one year.

**Non-Specified Investments:** Any investments that do not meet the specified investment criteria. These may be of a lower credit quality, for periods in excess of one year, or are more complex instruments which require a greater consideration by members and officers before being authorised for use. A maximum of £5m will be held in aggregate in non-specified investment.

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

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

	Minimum credit criteria	Max % of total investments / £ limit per institution	Max. maturity period
DMADF – UK Government	N/A	100%	Any
UK Government gilts	UK sovereign rating	100%	Any
UK Government Treasury bills	UK sovereign rating	100%	Any
Money Market Funds CNAV	AAAmf/AAA	100%	Liquid
Money Market Funds LNAV	AAAmf/AAA	£2m	Liquid
Money Market Funds VNAV	AAAmf/AAA	£2m	Liquid
Local authorities	N/A	100%	Any
Term deposits with banks and building societies	F1 (Fitch) / £1bn asset base for building societies	£5m	2 Years

Term deposits with Non-UK banks and building societies	Sovereign Fitch rating of AAA	£3m	1 Year
Gilt funds	UK sovereign rating	100%	Any
Property funds	LA Property Fund	£5m	Ongoing

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

**Non-specified investments.** A maximum of £5m will be held in aggregate in non specified investments.

## **APPENDIX 5**

### **5.0 APPROVED COUNTRIES FOR INVESTMENTS**

AAA

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

The sovereign ratings shown above are at 5 January 2021 from Link.



## **APPENDIX 6**

### **6.0 TREASURY MANAGEMENT SCHEME OF DELEGATION**

#### **(i) Full Council**

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

#### **(ii) Cabinet**

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

#### **(iii) Cabinet**

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

#### **(iv) Delegation from the Deputy Chief Executive (S151) to the nominated post(s) for the taking of the investment decisions:**

- Group Manager for Finance (Deputy S151)

## APPENDIX 7

### 7.0 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

#### The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe for example 25+ years;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

- *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

## APPENDIX 8

### 8.0 CURRENT LIST OF ELIGIBLE COUNTERPARTIES

#### Counterparty Lending List as at 15/01/2021:

##### UK Banks

Bank	Fitch Credit Rating Short Term	Moody's Rating Short Term	S&P Rating Short Term
HSBC Bank plc	F1+	P-1	A-1
Bank of Scotland Plc	F1	P-1	A-1
Barclays Bank plc	F1	P-1	A-1
Lloyds Bank Plc	F1	P-1	A-1
Goldman Sachs International	F1	P-1	A-1
Standard Chartered Bank	F1	P-1	A-1
Santander UK plc	F1	P-1	A-1
Sumitomo Mitsui Banking Corp Europe	F1	P-1	A-1
UBS	F1+	P-1	A-1
<b>Nationalised/Part Nationalised Banks</b>			
Royal Bank of Scotland Plc	F1	P-1	A-1
National Westminster Bank	F1	P-1	A-1

##### Building Societies

Group Asset Ranking		Society Assets £m	Fitch Short Term	Year end
1	Nationwide	238,301	F1	Apr-19
2	Coventry	46,071	F1	Dec-18
3	Yorkshire	43,055	F1	Dec-18
4	Skipton	23,204	F1	Dec-18
5	Leeds	19,390	F1	Dec-18

##### Note:

The above lists do not include Non-UK banks or building societies as, although being part of the Investment Strategy since 2019/20, no suitable counterparties have been found that offer competitive interest rates compared to UK banks and building societies.

## **APPENDIX 9**

### **9.0 TREASURY MANAGEMENT PRACTICES (TMPs)**

CIPFA lists 12 TMPs that the council are recommended to adopt. The Deputy Chief Executive (S151) will have delegated approval over the TMPs. Any recommendations from the Deputy Chief Executive (S151) will be submitted to Cabinet for review.

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## **Cabinet**

### **18 February 2021**

## **Capital Strategy 2021/22**

**Cabinet Member:** Councillor Andrew Moore, Cabinet Member for Finance  
**Responsible Officer:** Deputy Chief Executive (S151), Andrew Jarrett

**Reason for Report:** To agree the proposed Capital Strategy for 2021/22.

**RECOMMENDATION(S) that Cabinet recommend to Council that:**  
**The proposed Capital Strategy for 2021/22 is approved.**

**Relationship to the Corporate Plan:** A strategic approach to Asset Management supports our Corporate Plan priorities of business retention; growth and development. Maximising our return from all associated treasury activities enables the Council to support current levels of spending in accordance with our Corporate Plan.

**Financial Implications:** Good financial management and administration underpins the entire strategy.

**Legal Implications:** Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

**Risk Assessment:** The S151 Officer is responsible for the administration of the financial affairs of the Council. A co-ordinated approach to Asset Management and Financial Planning will help mitigate the risks associated with holding and utilising assets. Financial risk is mitigated by sound Treasury Management practices and defined limits.

**Equality Impact Assessment:** No equality issues identified for this report.

**Impact on Climate Change:** The Council has committed to a net zero carbon policy by 2030. Elements of the capital programme contribute to the achievement of this objective as highlighted below.

### **1.0 Overview**

- 1.1 The capital strategy for 2021/22, gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.2 The strategy is designed to be a user-friendly document which can direct stakeholders to the relevant documents relating to Treasury decisions; Asset Management and the Capital Programme for the coming years. It provides a

link between these activities and reiterates the need for these to be co-ordinated to support the objectives of the Corporate Plan.

## 2.0 Introduction

- 2.1 The capital strategy was first published in 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance Members' understanding of these sometimes technical areas. The aim of the strategy is to ensure that elected Members fully understand the overall policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

## 3.0 Capital Expenditure and Financing

- 3.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy/build assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £20k are not capitalised and are charged to revenue in year.
- 3.2 The detail of our approach to capitalisation is shown in our Accounting Policies in the Statement of Accounts that we produce each year.  
<https://www.middevon.gov.uk/media/351593/annual-accounts-2019-20.pdf>
- 3.3 In 2021/22, the Council is planning capital expenditure of £35.054m as summarised below:

*Table 1: Prudential Indicator: Estimates of Capital Expenditure*

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Adjusted capital programme* £m	2022/23 Adjusted capital programme* £m	2023/24 Adjusted capital programme* £m
Non-HRA	2.046	2.299	7.527	14.047	13.727
HRA	4.006	2.552	11.648	15.498	7.485
Commercial activities/ non- financial investments **	6.146	2.942	15.879	15.969	12.926
<b>Total</b>	<b>12.198</b>	<b>7.793</b>	<b>35.054</b>	<b>45.514</b>	<b>34.138</b>

*\*The "Adjusted capital programme" includes the capital programme plus estimated slippage from previous years.*



*\*\*Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.*

- 3.4 The main projects in the capital programme in 2021/22 include the following General Fund Schemes: £2.684m Cullompton Town Centre Relief Road (HIF Funded); £2.175m Crediton NHS hub building; various 3 Rivers Developments Limited projects (£6.153m) largely subject to approval of the 3RDL business plan which will be presented to Cabinet 18 February; 3RDLs Riverside Development £2.976m; £4.575m Post Hill (75 Affordable Homes); and HRA Schemes: £3.168m for major repairs to Housing Stock and £2.0m for Council House building schemes.
- 3.5 The Council has committed to a policy of achieving net zero carbon emissions by 2030. Employment of a Climate Change Co-ordinator is facilitated in the revenue budget to progress projects and opportunities to achieve this objective. Further, the capital programme includes £1.050m of expenditure on schemes directly linked to combating climate change. £250k has been allocated within the HRA to improve housing stock energy efficiency. There is also the hydro mills electricity generation project at Tiverton Weir costing £800k. Providing green electricity for use at the Council's Phoenix House offices; this project will also generate budget savings along with feed in tariff revenue.
- 3.6 Further, the Council welcomes recent confirmation of £311k grant funding from BEIS to support decarbonisation projects.
- 3.7 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.
- 3.8 **Governance:** Service managers bid annually to include projects in the Council's capital programme. Bids are collated by Finance who calculate the financing cost (which can be nil if the project is fully externally financed). The relevant PDGs appraise all bids based on a comparison of service priorities against financing costs and makes recommendations to Cabinet. The final capital programme is then presented to Cabinet in February and to Council the same month each year.
- For full details of the Council's capital programme see report on 04/02/21 Cabinet Agenda.
- 3.9 All capital expenditure must be financed, whether from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Adjusted capital programme * £m	2022/23 Adjusted capital programme * £m	2023/24 Adjusted capital programme * £m
PWLB Borrowing/Internal Borrowing	6.251	2.992	24.455	26.716	21.461
New Homes Bonus	0.194	1.033	1.441	0.863	0.179
Housing Maint Fund	0.746	0.158	1.109	2.536	1.128
Capital Receipts Reserve	0.463	0.395	2.408	1.755	1.638
Other Housing EMRs	2.097	1.793	3.663	2.590	2.585
Capital Grants Unapplied	0.981	0.447	0.799	0.581	0.666
Housing Infrastructure Fund (HIF)	0.132	0.538	0.825	10.315	6.390
Homes and Communities Agency Grant (HCA)	0.734				
Other GF EMRs	0.600	0.437	0.354	0.158	0.091
<b>TOTAL</b>	<b>12.198</b>	<b>7.793</b>	<b>35.054</b>	<b>45.514</b>	<b>34.138</b>

\*The "Adjusted capital programme" includes the capital programme plus estimated slippage from previous years.

- 3.10 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is as follows:

Table 3: Planned MRP payments - £ millions

	2019/20 Actual £m	2020/21 Budget £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
GF – MRP/ Revenue	0.419	0.746	0.781	0.795	0.819
HRA –	0.954	0.963	0.974	0.974	1.004

MRP/Revenue					
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- The Council's full MRP / loans fund repayments statement is shown in Appendix 1 of the Treasury Management Strategy Statement

- 3.11 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP / loans fund repayments and capital receipts used to replace debt. The CFR is expected to increase by £21.957m during 2021/22. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

*Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions*

	<b>31/03/2020 actual £m</b>	<b>31/03/2021 forecast £m</b>	<b>31/03/2022 budget £m</b>	<b>31/03/2023 budget £m</b>	<b>31/03/2024 budget £m</b>
General Fund services	7.277	9.414	11.874	13.149	18.887
Council housing (HRA)	40.431	39.607	43.406	51.202	52.398
Commercial activities/non-financial investments	8.404	9.564	25.263	39.959	38.301
<b>TOTAL CFR</b>	<b>56.114</b>	<b>58.586</b>	<b>80.543</b>	<b>104.310</b>	<b>109.586</b>

NB. Of the £22m increase, £9.129m relates to projects undertaken by 3RDL. There is an additional £2.175m relating to the Crediton NHS hub and £4.575m relating to the development of 75 affordable homes at Post Hill.

## 4.0 Treasury Management

- 4.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 4.2 Due to decisions taken in the past, at 31/03/21 the Council is forecast to have £39.636m borrowing (inc finance leases) at an average interest rate of 2% and £23m treasury investments at an average rate of 0.05%.

- 4.3 Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.15%) and long-term fixed rate loans where the future cost is known but higher (currently 0.81 to 1.51%).
- 4.4** Projected levels of the Council's total outstanding debt (which comprises borrowing, and leases are shown below, compared with the capital financing requirement (see above).

*Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions*

	<b>31/03/2020 actual £m</b>	<b>31/03/2021 forecast £m</b>	<b>31/03/2022 budget £m</b>	<b>31/03/2023 budget £m</b>	<b>31/03/2024 budget £m</b>
Debt (incl. leases)	39.916	39.636	48.638	72.314	80.056
Capital Financing Requirement	<b>56.114</b>	<b>58.586</b>	<b>80.543</b>	<b>104.310</b>	<b>109.586</b>

- 4.5** Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5, the Council expects to comply with this in the medium term.
- 4.6 Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

*Table 6: Prudential Indicators: Authorised limit and operational boundary for external debt in £m*

	<b>2020/21 limit £m</b>	<b>2021/22 limit £m</b>	<b>2022/23 limit £m</b>	<b>2023/24 limit £m</b>
Authorised limit – borrowing/lease	69.0	91.0	115.0	119.0
Operational boundary – borrowing/lease	60.0	82.0	106.0	110.0

- Further details on borrowing are in pages 7 to 10 of the Treasury Management Strategy.

**4.7 Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

4.8 The Council's policy on treasury investments is to prioritise security and liquidity over yield, to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the Government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

*Table 7: Treasury management investments in £millions*

	<b>31/03/2020 actual £m</b>	<b>31/03/2021 forecast £m</b>	<b>31/03/2022 budget £m</b>	<b>31/03/2023 budget £m</b>	<b>31/03/2024 budget £m</b>
Near-term investments	20.0	18.0	8.0	8.0	8.0
Longer-term investments	5.0	5.0	5.0	5.0	5.0
<b>TOTAL</b>	<b>25.0</b>	<b>23.0</b>	<b>13.0</b>	<b>13.0</b>	<b>13.0</b>

➤ Further details on treasury investments are in the treasury management strategy.

**4.9 Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Deputy Chief Executive (S151) and staff, who must act in line with the treasury management strategy approved by Full Council annually. Reports on treasury management activity are presented to Cabinet three times per year.

## **5.0 Investments for Economic Development Purposes**

5.1 The Council makes investments to assist local public services, including making loans to other public sector bodies and the Council's subsidiary to promote economic development and provide an income stream. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it is still planned for such investments to generate a profit after all costs, and after conducting all appropriate due diligence.

5.2 In 2019/20 the Council approved a loan to fund a GP Surgery/NHS Hub in Crediton which is expected to be facilitated in 2021/22. Not only will this provide the Council with a return on its loan, it will also provide an important,

modern NHS Hub in Crediton, replacing two existing GP Surgeries and offering further NHS services to the public.

- 5.3 **Governance:** Decisions on investments of this type are made by the relevant service manager in consultation with the Deputy Chief Executive (S151) and must meet the criteria and limits laid down in the Treasury Management Strategy Statement (TMSS). Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

## 6.0 Commercial Activities

- 6.1 With Central Government financial support for local public services declining, the Council invests in Commercial Property for financial gain and for Economic Development purposes. It lends to its subsidiary 3 RDL to develop land and commercial income generating projects. We charge interest on loans to 3 RDL at a commercial rate.
- 6.2 With economic development being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include the timing of debt repayments; development market values; development costs and profitability of the subsidiary. These risks are managed by due diligence of business cases. Although there is no cap on the level of lending between the Authority and the subsidiary, advance approval of the level of lending is required from Cabinet before the start of each financial year, with reference to the company's Annual Business Plan.
- 6.3 **Governance:** Decisions on commercial investments are made by the Deputy Chief Executive (S151) in conjunction with the Leadership Team, in line with the criteria and limits approved by Council in the Treasury Management Strategy Statement (TMSS). Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved alongside the capital programme.
- 6.4 The Council also has commercial activities in retail properties, which expose it to normal commercial risks. The over-arching ethos behind these activities is economic regeneration and retention of premises within the town centre rather than the income stream.

## 7.0 Asset Management

- 7.1 In order to ensure we are allocating our resources in the most effective way, we maintain an Asset Management Plan (AMP). The AMP sets out the Council's approach to the Strategic Management of its land and building assets. It has been developed in consultation with the Senior Officers and members of the Council who form the Capital Strategy Asset Management Group (CSAG). The AMP seeks to ensure that assets are used in the most effective and efficient way to support the delivery of the Corporate Plan.

- 7.2 The AMP is under routine review and an updated version will be forwarded to Cabinet for consideration on 4 March. In the meantime, the current version can be found here:

<https://www.middevon.gov.uk/media/343202/20160707amp-2016-2020-cabinet-2.pdf>

- 7.3 The AMP enables us to consider the best use of our assets by identifying those that require investment in planned maintenance; those that we should consider disposal of; those that could generate additional income from leasing out etc. These considerations will then inform our capital programme and funding decisions.

- 7.4 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council expects to receive £0.900m of capital receipts (net of Pooling) in the coming financial year as follows:

*Table 8: Capital receipts in £ millions*

	2019/20 actual £m	2020/21 forecast £m	2021/22 budget £m	2022/23 budget £m	2023/24 budget £m
Asset sales	2.038	0.750	0.900	0.900	0.900
Loans repaid	0	0	0	0	0
<b>TOTAL</b>	<b>2.038</b>	<b>0.750</b>	<b>0.900</b>	<b>0.900</b>	<b>0.900</b>

- Further details of planned asset disposals are in the capital programme.

## 8.0 Liabilities

- 8.1 In addition to debt of £39.636m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £58.765m 2019/20).

- 8.2 **Governance:** The risk of liabilities crystallising and requiring payment is monitored by Finance and Legal. Any new material liabilities would be reported to Full Council for approval/notification as appropriate.

## 9.0 Revenue Budget Implications

- 9.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing

costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.



*Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream*

%	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non-HRA	-0.13%	2.65%	8.41%	7.46%	8.40%
HRA	15.54%	15.01%	15.10%	14.49%	14.12%

- Further details on the revenue implications of capital expenditure are found in the Revenue Budget report.

**9.2 Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Deputy Chief Executive (S151) is satisfied that the proposed capital programme is prudent, affordable and sustainable because the Council has adequate means of financing and repaying any required borrowing.

## **10.0 Knowledge and Skills**

10.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Deputy Chief Executive (S151) is a qualified accountant with 17 years' of experience and the Group Manager for Corporate Property and Commercial Assets is experienced across the full range of Property responsibilities. In addition, the Council employs ten finance staff who hold one or more of the following qualifications CIPFA, ACA, CIMA, ACCA and AAT.

10.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Asset Services as treasury management advisers and Ichabod Industries as technical advisers on accountancy matters. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

## **11.0 Conclusion**

11.1 The capital programme for 2021/22 is £17.705m. This is adjusted for slippage carried forward from previous years such that approved capital expenditure in the year is expected to be £35.054m. Slippage occurs due to the size and complexity of capital projects and it can be expected that some projects will similarly slip into future years. Of course, the inactivity caused by Covid precautions has compounded these delays in the current year.

11.2 The capital programme embraces a broad range of expenditure including operational assets which will be used for more than one year; assets owned

by other bodies, and loans and grants to other bodies enabling them to buy/build assets.

- 11.3 Funding for this programme may include borrowing although this is a temporary form of finance as debts must be repaid and so replaced by other means of financing, usually from revenue in the form of the MRP. Borrowing strategy is determined by the need to keep costs low and certain whilst allowing flexibility should plans change.
- 11.4 The TMSS details the approach that the Council will take to ensuring it has sufficient cash available to meet the Council's spending needs. Surplus cash may be invested although revenue cash surpluses are also offset against capital cash shortfalls to reduce overall borrowing.

**Contact for more Information:** Ian Chilver, Group Manager for Financial Services [ichilver@middevon.gov.uk](mailto:ichilver@middevon.gov.uk) and Andrew Jarrett, Deputy Chief Executive (S151) [ajarrett@middevon.gov.uk](mailto:ajarrett@middevon.gov.uk)

**Circulation of the Report:** Leadership Team and Cabinet Member for Finance

## MID DEVON DISTRICT COUNCIL

**MINUTES** of a **MEETING** of the **SCRUTINY COMMITTEE** held on 15 February 2021 at 2.15 pm

### **Present**

#### **Councillors**

F W Letch (Chairman)  
G Barnell, W Burke, L J Cruwys,  
Mrs C P Daw, J M Downes, R L Stanley,  
B G J Warren, E J Berry, Mrs S Griggs,  
S J Penny and A Wilce

### **Also Present**

#### **Councillor(s)**

S J Clist, R M Deed, R Evans, B A Moore, C R Slade and  
Mrs N Woollatt

### **Also Present**

#### **Officer(s):**

Stephen Walford (Chief Executive), Andrew Jarrett (Deputy Chief Executive (S151)), Jill May (Director of Business Improvement and Operations), Kathryn Tebbey (Head of Legal (Monitoring Officer)), Lisa Lewis (Corporate Manager for Business Transformation and Customer Engagement), Matthew Page (Corporate Manager for People, Governance and Waste), Catherine Yandle (Operations Manager for Performance, Governance and Health & Safety), Maria De Leiburne (Legal Services Team Leader), Nicola Cuskeran (Senior H R Business Partner), Vicky Lowman (Environment and Enforcement Manager), Deborah Sharpley (Solicitor), Clare Robathan (Scrutiny Officer) and Carole Oliphant (Member Services Officer)

## **148 APOLOGIES AND SUBSTITUTE MEMBERS (0.03.55)**

There were no apologies or substitute Members

## **149 REMOTE MEETINGS PROTOCOL (0.04.10)**

The Committee had before it, and **NOTED**, the \*Remote Meetings Protocol

Note: \*Protocol previously circulated and attached to the minutes

## **150 DECLARATIONS OF INTEREST UNDER THE CODE OF CONDUCT (0.04.17)**

Members were reminded of the need to make declarations of interest when appropriate.

## **151 PUBLIC QUESTION TIME (0.04.37)**

Alderman Nation, a local resident, referring to item 9 on the agenda stated:

'I'd like to ask some questions please, I suppose more of the Chairman of the Working Group of Governance, Cllr Moore, than of the Scrutiny Committee. I would hope that the Scrutiny Committee would put these questions to Cllr Moore.

Between 27th January last year and 28th January this year the Governance Working Group held 6 secret meetings which I had to make for FOI requests to get minutes of those meetings. I am wondering is this conducive of an open democratic government? I would like to know as well why the Working Group has decided that the fundamental structure of governance does not require attention as it says in one of the most recent reports. They have totally failed to consider the pros and cons of returning to a committee structure and I would like to know why that is.

The wish of the public and many councillors to prevent the Cabinet acting contrary to their clear wishes will continue unfettered if the Working Groups proposals are enacted. Is this really what the Council wanted when they voted for a review of governance?

I think the proposal to scrap the PDG's in favour of two Scrutiny committees portrays the real wishes of the controlling councillors to clearly, purely control the Leader of the Council. PDG's were supposed to develop policy, if they are scrapped all backbenchers will be doing will to scrutinise actions of Cabinet. It does nothing to increase their powers at all.

The changes proposed do not challenge the outright power of the Cabinet. The Working Group has failed to address the concerns to the public and the Council and I hope Scrutiny Committee will ask Cllr Moore why that is and what their true intentions are.'

The Chairman advised that the questions would be addressed at the item.

## 152 **MEMBER FORUM (0.08.11)**

Cllr G Barnell stated:

At the last meeting of the Scrutiny Committee on 18th January the Leader, Cllr Deed, gave an undertaking that the forthcoming 3RDL Business Plan would be the subject of pre scrutiny by this committee at today's meeting. He gave a further undertaking that the Business Plan would return to Cabinet on 18th February, the forward plan confirms that, for further consideration before proceeding to Council on 24th February for a decision.

In accordance to the legislation on how local government business should be conducted, the Cabinet agenda report on the 3RDL Business Plan was published publicly a week before the Cabinet on 4th February together with the Plan which was circulated to Members only. The recommendation in the report was that Cabinet recommend the Business Plan and this was consistent both with Cllr Deed commitment to the Scrutiny Committee on the 18th and formal notice of Mid Devon key decisions which stated that the Cabinet be asked to consider the Business Plan.

The report and its recommendations remained unchanged prior to the Cabinet meeting on 4th February and during the meeting until the item was called for discussion, it stayed the same until the item was called. After the item had been

called, the Leader announced that the recommendation was to be changed very significantly, he removed the word recommends and replaced it with the word approves. This amendment immediately changed the entire purpose of the report and the consequences of the subsequent Cabinet discussion and the Cabinet proceeded to approve the Business Plan and significant loan amounts to 3RDL.

The questions are these:

1. The change of one word in the reports recommendation entirely changed the purpose of the report. It effectively became a new report. Is it lawful and/or constitutional for a report to be considered by Cabinet without prior notice?
2. Is it lawful or constitutional for a key decision to be made on a report to Cabinet without prior notice of its intention to consider making one?
3. Was the decision by Cabinet on 4th February to approve the 3RDL Business Plan and very significant loans, was that decision lawful and constitutional?

The events described above point to a strong possibility that the Leader of the Council set out to deliberately mislead the Scrutiny Committee and the wider membership of Mid Devon and also members of the public. To mislead them about purpose of intent of 3RDL Business Plan on 4th February. This could be seen as an attempt to avoid scrutiny of the business plan and to push through Cabinet approval at the earliest opportunity. Given the prima facie evidence that the Leader may have mislead Scrutiny Committee, together with the membership and the public, will the Monitoring Officer carry out an investigation into the matter of possible misconduct. In this conduct I would refer her to the Nolan principles of integrity, accountability, openness, honesty to which I might add leadership.

The Monitoring Officer explained that she would replying in detail and in writing which would be circulated to the Committee.

The Leader accepted that as the charges against him by Cllr Barnell as to his motives and conduct were serious he would not respond but leave a response to the Monitoring Officer.

#### **153 MINUTES OF THE PREVIOUS MEETING (0.13.59)**

The minutes of the meeting held on 18<sup>th</sup> January 2021 were approved as a correct record.

#### **154 DECISIONS OF THE CABINET (0.16.27)**

The Committee **NOTED** that none of the decisions made by the Cabinet on 4<sup>th</sup> February 2021 had been called in.

#### **155 CHAIRMAN'S ANNOUNCEMENTS(0.16.37)**

The Chairman announced that he was going to be attending a meeting with the Leader, the Chief Executive and the Chairman of the Planning Enforcement Working Group to find a way forward.

## 156 MEETING MANAGEMENT

The Chairman indicated that he would take item 11 as the next item of business.

## 157 3 RIVERS DEVELOPMENTS LTD BUSINESS PLAN (0.18.06)

Member discussed the 3 Rivers Development Ltd (3RDL) Business Plan.

Consideration was given to:

- The decision to approve the Business Plan and recommend it to Council had already been made
- The St Georges site was due for completion in March 2022 and marketing would commence when the site was nearing completion as it could not be occupied until the whole development was completed
- 3RDL needed Members support
- The possible use of social media to promote the Company and to respond to negative posts
- The relationship between the Scrutiny Committee and the Audit Committee to scrutinise 3RDL and any associated risk to the Council

In response to a question asked about the role of pre scrutiny of business cases for 3RDL the Monitoring Officer explained that the Scrutiny Committee had enhanced rights and that she would provide a written response to Members.

The Cabinet Member for Finance explained that a business case for each site would be presented to the Cabinet by 3RDL and that each would be considered on its own merits. He reminded Members of the agreed process between Scrutiny Committee and Audit Committee and that the Audit Committee should have visibility of financial risks.

Members stated their frustration at 3RDL and felt that it was not the Scrutiny Committee's function to support the company but to show the public that they were robustly analysing it.

The Chairman of the Audit Committee stated that if Members had concerns about the financial risks of 3RDL then those concerns should be brought to the Audit Committee.

In response to a question asked, the Deputy Chief Executive (S151) explained that all lending to 3RDL had come from short term lending from the Council's reserves and was not directly from Council tax income. That £1.2m had been received from the company to date which was the equivalent to running the Council's 3 leisure centres for a year. He informed Members of the Treasury Management Strategy which was due to be presented to the Cabinet.

The Committee had further discussions and **AGREED** that:

- The 3 Rivers Development Limited - Business Case and Appraisal for the 9 dwellings at Bampton be brought before the Scrutiny Committee before being considered by the Cabinet

(Proposed by Cllr G Barnell and seconded by Cllr A Wilce)

**Reason for the decision:** To pre scrutinise the business case for the Bampton development

Notes:

- i.) Councillor R L Stanley declared a Disclosable Pecuniary Interest with regard to his involvement with 3 Rivers Developments Limited and left the meeting for the discussion and vote thereon
- ii.) Cllrs E J Berry, W Burke and Mrs C P Daw requested that their vote against the decision be recorded
- iii.) \*Report previously circulated and attached to the minutes

## 158 **UPDATE ON THE GOVERNANCE WORKING GROUP (1.12.07)**

The Chairman of the Governance Working Group provided an update to Members and stated:

The Full Council meeting on 6 January 2021 ratified the Governance Working Group's way forward based on the 7 key conclusions from Group's activities to that date, notably including the outcome of internal and external consultation events. This report provides an update on work since that date.

A further meeting was held by the Working Group on 28 January 2021 at which the Monitoring Officer presented a paper providing options for discussion based on the agreed way forward. These were:

1. To continue with the current arrangements but enhance the scrutiny process; or,
2. To replace the 4 Policy Development Groups plus a Scrutiny Committee with one or more Overview & Scrutiny Committees.

After discussion it was agreed that a more detailed proposal be provided by Officers in consultation with the LGA for the second option. This was to look at 2 Overview & Scrutiny Committees addressing Corporate and Community topics respectively. The inclusion of a Programming Board to manage the work between the 2 Committees plus a Joint Overview & Scrutiny meeting to consider items of joint interest would also be developed. Working Groups could continue in the guise of Task & Finish Groups to support the work of the Committees.

This approach was considered to be worth exploring in more detail, as it appeared to offer the opportunity to improve Member involvement, improve cross-discipline working without unnecessary overlap, and enhance decision making through early engagement in the process. It was also thought that routine policy updates might become Cabinet Member responsibilities to allow the Committees to focus on matters of more criticality.



Member support for a new approach was recognised as crucial. Subsequent to the meeting the Monitoring Officer has started work and will contact the Chairs of Scrutiny Committee, Audit Committee and the 4 Policy Development Groups for input in due course.

As planned, the Working Group is scheduled to meet again on 2 March 2021 where more detailed proposals will be discussed. All Members are welcome to contribute to that meeting. The aim remains to bring a recommendation to an Extraordinary Full Council meeting on 17 March 2021.

The Chairman of the Governance Working Group stated that he would provide a written response to the public questions raised.

Consideration was given to:

- The working group considered public engagement in the process to have been adequate
- Members thoughts that it was clear from public consultation that there was no real appetite for huge constitutional change to the authority's governance arrangements
- Some Members views that the Working Group had made no serious attempt to reverse the Strong Leader and Cabinet System

A member of the Working Group explained that he had not initially gone into the review with an open mind and was convinced that a return to a committee structure was the way to go initially. However, during the work of the Working Group many alternatives had been explored and that he felt that option 2 could control the Cabinet in the proposed structure.

## 159 ESTABLISHMENT ANNUAL UPDATE (1.39.07)

The Committee had before it, and **NOTED**, a \*report of the Corporate Manager for People, Governance and Waste presenting the Establishment annual update.

The officer outlined the contents of the report and stated that it included updates on the key establishment indicators of sickness and agency expenditure, turnover and the impact of COVID-19 on our workforce.

He explained the work that had been ongoing on the engagement, development and wellbeing of the workforce and priorities for the coming year.

In response to questions asked the Corporate Manager for People, Governance and Waste provided the following responses:

- Turnover was higher than the Council would have liked but there had been some challenges including proactive headhunting by another authority, restructuring and some challenging staffing issues to address
- Forecast sickness absence was running at 6 days lost per FTE employee which compared favourably to both the private sector and public sector
- When advising on people issues such as employee relation issues, retention and development that the impact on both the operational and financial performance had to be considered e.g. timescales, expenditure



- A new staff survey would be launched in the autumn

There was a general discussion with regard to how the workforce had changed and adapted during the pandemic and that some staff had particularly enjoyed working from home and had been more productive.

The Chief Executive reassured Members that the authority was looking at the new normal and how it transitioned in the future. He explained that the initial approach to working from home had been a make do and mend approach which had developed over time and that the infrastructure would need to be investigated moving forward.

Notes:

- i.) Cllr S J Penny left the meeting at 4.05pm
- ii.) \*Report previously circulated and attached to the minutes

## 160 **AMENDMENT(S) TO THE CONSTITUTION (1.54.16)**

The Monitoring Officer provided a verbal update to Members and stated that subject to 17.3 (b) of the Constitution, changes to the Constitution would only be approved by the full Council following discussion by the Standards Committee.

The Monitoring Officer had the authority to make changes if it was:

1. A minor variation; or
2. Required to be made to remove any inconsistency or ambiguity; or
3. Required to be made so as to put into effect any decision of the Council or its committees or the Cabinet.

She informed Members that all changes to the constitution were recorded at the back of the published document.

The Monitoring Officer further explained that she had given instructions that the book of motions be amended to show if the motion had been carried and if a constitutional change was required and made. All constitutional changes would be reported to the Standards Committee.

## 161 **PUBLIC SPACES PROTECTION ORDER (2.10.19)**

The Committee had before it, and **NOTED**, a \*report of the Legal Services Team Leader providing the process for the Public Spaces Protection Order (PSPO).

The officer provided a further update and confirmed that all maps had been sent to the Town and Parish Council's in order that their accuracy could be verified.

The Legal Services Team Leader explained to Members that the legislation was in place but this was not enforceable without an adopted PSPO in place.

She explained the lessons learned and the following processes moving forward:

- The Town and Parish Council's would be used to validate maps as they had the local knowledge

- There would be longer project management lead times to enable the process to go through its different stages in a timely manner
- Members to be involved to review any future drafts of a PSPO before it is sent to the PDG's for review and approval

The Cabinet Member for the Environment stated that he could not comment on why the process had taken so long as he had only taken over the portfolio in September. He reassured Members that he was now heavily involved in the process and would ensure that necessary and relevant enforcement was in place.

The Committee then **RECOMMENDED** to the Cabinet Member for the Environment that:

a) arising from the lessons learned, a procedure is put in place to ensure that all future renewals or reviews of PSPOs (or similar enforcement legislation) goes through each necessary stage or process required to ensure the effective and lawful application of that legislation

b) the responsible Cabinet Member to ensure that, once the PSPO (Dogs) is enforceable, there is sufficient officer resource committed to actively enforcing it.

(Proposed by Cllr A Wilce and seconded by Cllr B G J Warren)

**Reason for the Decision:** To ensure that there are robust processes in place for the implementation of a Public Spaces Protection Order

#### Notes

- i.) Cllr B G J Warren declared a personal interest as Chairman of the Environment PDG and Willand Parish Council
- ii.) \*Report previously circulated and attached to the minutes

### 162 **WHISTLE BLOWING 6 MONTH UPDATE (2.44.21)**

The Director of Business Improvement and Operations explained to the Committee that there had been no whistleblowing instances in the previous 12 months.

### 163 **PERFORMANCE AND RISK (2.56.03)**

The Committee had before it, and **NOTED**, the \*Performance and Risk report of the Operations Manager for Performance, Governance and Health & Safety.

The Director of Business Improvement and Operations noted the following questions from Members and stated she would provide a written response:

- Under Homes PDG why had the Emergency Repairs Completed on Time, the Urgent Repairs Completed on Time, Routine Repairs Completed on Time and the Repair Jobs When an Appointment was Kept targets been reduced?
- Why was the measure for the % of rents collected not included
- Under Homes PDG Members requested updated targets for Deliver Housing
- Under Corporate Plan PI why did the figures for % total NNDR collected – monthly go from red to pink but the figures were higher?

Members requested that their thanks to the waste and recycling officers be recorded.

Notes:

- i.) Cllr R J Stanley left the meeting at 17.19pm
- ii.) \*Performance and Risk report previously circulated and attached to the minutes

164 **FORWARD PLAN (2.58.58)**

The Committee had before it, and **NOTED**, the \*Forward Plan.

Note: \*Forward Plan previously circulated and attached to the minutes.

165 **MENOPAUSE WORKING GROUP (3.01.46)**

The Committee had before it the \*report of the Scrutiny Officer presenting the final report of the Scrutiny Committee Menopause Working Group.

The Chairman of the Working Group thanked Members, staff and officers for the work that had been done on the Working Group.

Therefore it was **RECOMMENDED** to the Head of Paid Service:

1. That MDDC introduces 'Wellbeing Ambassadors'. These will be members of staff who will be supported by relevant training to be able to provide advice to employees on a range of issues, including menopause, mental health and other workplace issues. Ambassadors should have clear knowledge about where to signpost staff for further support if necessary.
2. That a review of support available to staff with menopause symptoms takes place. This could include whether desk fans are too large and how to ensure all staff know how to regulate the temperature in meeting rooms. Consideration should also be given to ensuring understanding needs of staff not working in an office space, and whether the current unisex toilets could be changed.
3. That MDDC has an awareness raising campaign on the menopause to normalise the issue and make staff aware of the support available. This could be through posters, internal communications and utilisation of the Wellbeing Ambassadors.
4. That a MDDC work place policy on the menopause is drawn up, agreed and promoted to all staff. The policy should help signpost support and links to other relevant policies as well as include clarity around: options available for staff experiencing symptoms; how to log time taken off; options for flexible working including the ability to work out of hours if needed.
5. That all line managers receive menopause in the workplace training. This will help ensure line managers are clear about the symptoms and impact of the

menopause, as well as the support available to staff. A booklet for staff and line managers should also be produced as guidance on options available.

6. That an online forum is set up, for staff and/or line managers as a safe space to discuss with other employees problems and issues they are having

(Proposed by the Chairman)

**Reason for the Decision** – To enable the recommendations of the Working Group to be progressed.

Note: \*Report previously circulated and attached to the minutes

#### 166 **SCRUTINY OFFICER UPDATE (3.10.24)**

The Scrutiny Officer provided an update to Members on areas she had been working on and stated:

- Following requests at the last meeting, Members will have received information on the budget of the Tiverton Town Centre Manager; and have updates on the Council's sickness absence and the percentage of staff completing online learning. The Cabinet Member for the Working Environment and Support Services also provided information regarding office and non-office based accidents.
- Members also asked for an update on the number of complaints relating to fly tipping – Confirmation has been received that due to the way they were recorded, this has been done manually. This is currently being collated and the team has apologised for the delay.
- Members were reminded that there was a meeting with Neil Parish MP on Monday 22<sup>nd</sup> February at 10.30am. Members were thanked for their questions and were reminded that Mr Parish requested questions in advance and that the deadline had now passed.
- The Chairman of Scrutiny and Audit hoped to have a meeting with Cllr Moore and Cllr Evans to discuss how to take forward some of the discussions that had taken place in the 3RDL briefing a few weeks ago.

#### 167 **IDENTIFICATION OF ITEMS FOR THE NEXT MEETING (3.12.22)**

The Scrutiny Officer was asked to provide a written update to Members of the Committee on the status of rural broadband.

(The meeting ended at 5.39 pm)

**CHAIRMAN**